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A Budget without a Treasury – a European Challenge

Gábor IVÁN

The European Union is no Free Lunch: Reconsidering the Eastern Enlargement of the EU from an Intergovernmental Perspective

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Relationship of a Special Significance? A Chinese Direction in Hungary's Foreign Policy under Viktor Orbán

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The Social Aspects of the Global Crisis in Serbia

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The European Union, NATO, and the "Arab Spring"

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Editorial

This is the first issue of the Croatian International Relations Review (CIRR) published electronically and with open access. Over the previous seventeen years, the CIRR has been available only to subscribers in print-form. In order to reach a broader audience, the decision has been made to change the publication's format; printing costs and environmental concerns have added weight to this decision. The CIRR is the only English-language journal of this nature in Croatia.

Thematically, the current issue focuses on various aspects of the crisis in the European Union. The first article explains how the EU budget has evolved from its policy-driven origins to the one that drives Community policies. Some of the more pertinent questions addressed here include: what lies behind the budget-driven policies? How does this reflect on the Union's capacity to advance its long-term goals? How, and if at all, can the common budget's autonomy be ensured? Can a commitment to secure autonomous budget resources further probe the Member States' willingness for fiscal and political integration? Although no definite answers can be given at this moment, the author concludes that securing independent EU budget resources may be instrumental in solving the deep economic crisis.

How the expected benefits of EU-membership have materialized for the Central and Eastern European states? How have positive expectations weighed against the reality of EU policy-making? Drawing on a liberal intergovernmental theory, the article proposes some alternative explanations to the rational institutional and normative theories of enlargement, which have long heralded the benefits of full membership for new member states. The article delves into issues relevant to Croatia's upcoming EU membership and of interest to acceding states as well. In the end, the author underlines the need for further theoretical and empirical research on EU enlargement in order for more comprehensive conclusions to be drawn.

The third article offers a distinct perspective into what looks as the fourth pillar of Hungarian foreign policy. In addition to its three traditional foreign policy goals – Euro-Atlantic integration, good relations with neighboring states, and care for the Hungarian national minority abroad, the fourth focuses on the so-called "Eastern wind doctrine". As such, the article first provides an overview of the previous and current Hungarian governments' east bound-orientation, from Russia and the Central Asia to the

Southeast Asia and the Persian Gulf, before sharpening its focus on the evolution and present state of Hungary's economic and political relations with China. It concludes with an observation that ultimately a state's internal strength and stability are the best resource on which to base mutually beneficial partnerships.

A further contribution to this edition's thematic focus is the fourth article which analyses the economic and social challenges in post-transition Serbia. In short, the global crisis has revealed structural weaknesses within Serbia's economic and social systems. Despite initiating a series of reforms in a number of different sectors (health care, state pensions, unemployment protection, social welfare, etc.) in an effort to harmonize Serbia's domestic legislation with EU standards, their implementation has been limited. Serbia continues to fall behind the EU – a fact only aggravated by the global economic crisis.

The final article addresses the EU's capacity, with respect to its diplomatic and military resources, to respond to crises around the world such as was the Arab Spring. The article gives a brief overview of the intervention in Libya in 2011 and concludes that the EU should modify some of its policies in order to promote long-term democratic stability in the Southern Mediterranean and the Near East. EU-NATO cooperation should and can be improved following some of the steps suggested by the author at the end of the article.

The Book Review section, in this issue, looks at recent releases on international politics in transition, global trends, democratization in Eurasia, the External Action Service and the European diplomacy, and the future of the EU.

On a more personal note, we sadly report of the sudden death of one of the contributors to this issue. Professor Drenka Vuković passed away on June 10 this year. Hereby we express our deep condolences to her friends and colleagues at the University of Belgrade and abroad.

In the end, we would like to sincerely thank reviewers for their collaboration. Accepting to review an article on top of a busy agenda is not a minor task. We fully understand this and appreciate the effort. In the same way, we thank all colleagues in IMO who contribute to and assist with the CIRR being published. We particularly thank the Ministry of Science, Education and Sports for their ongoing support.

Senada Šelo Šabić,
editor-in-chief

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A Budget without a Treasury – a European Challenge

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Abstract

The financial perspective of 2000-2006 has fundamentally changed the relationship between the EU's budget and its policies. Whereas prior to this perspective, the EU maintained a policy-driven budget; in its aftermath, Community policies became budget-driven. Since then, the latter has been the prevailing tendency. The major factor behind the budget-driven policies is the strong juste retour approach, where Member States, as their primary goal in budgetary debates, attempt to optimise their net position against the Union's budget. The priority of the net position is rooted in the EU's failing own resources system. Instead of genuine own resources, three-quarters of the budget is financed by GNI-based resources. The autonomy of the common budget and the reintroduction of policy-driven budget planning could only be ensured by (1) a genuine own resources system based on the resources generated by Community policies, or (2) a specific Community tax, or a combination of the two. This raises significant questions concerning further Member State sovereignty sharing and their overall readiness for fiscal and political integration.

KEY WORDS:

budget-driven policies, policy-driven budget, own resources, net position, autonomy of the budget

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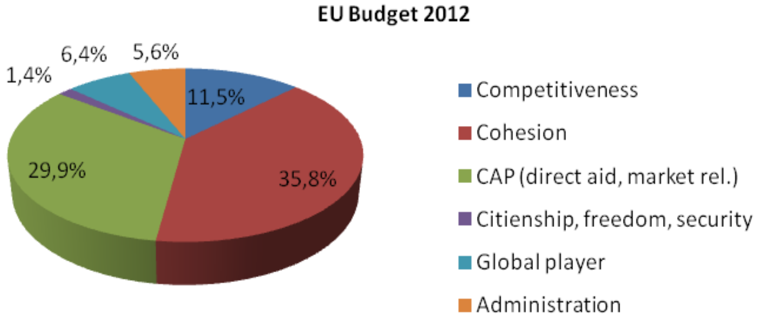
1. Introduction

The 2012 European Union budget includes 147.2 billion EUR in commitment appropriations, or rather 1.12% of the total EU GNI, and 129.1 billion EUR in payment appropriations (0.98%). To date, EU budget expenditures have been dominated by Community policies established by the Treaties: 29.9% of the EU's budget is allocated for the Common Agricultural Policy (CAP), while 35.8% is spent on cohesion policy measures. Critics of these figures have argued for more resources dedicated to competitiveness, research and innovation, education, justice and home affairs, energy security, and climate change initiatives.

Source: European Commission, "Financial Programming and Budget", http://ec.europa.eu/budget/figures/2012/2012_en.cfm



In our view, spending resources on policies that contribute to European-wide objectives stipulated in the unanimously ratified Treaties is as right as it is justified, namely the procurement of funds for policies that could help future generations combat economic, social, and ecological challenges. However, with only 1% of the joint EU GNI allotted to such policies, European citizens should not expect much. Such lackluster budget appropriates raise a number of significant questions, specifically why the EU has not allocated more resources for common objectives – measures that generate European added value. Certainly there are ways to make better use of the EU's policies. Of course, during periods of serious economic downturn, many might argue that expectations should be tempered. However, in the so-called "good old days", when economic growth seemed ubiquitous, similar short-sighted budgetary visions permeated the Community.

This article examines the key problems stemming from EU integration, and addresses whether a *sui generis* regional economic union with traces of political integration needs a common budget at all. In doing so, this article analyzes various integration theories as a means to answer the above. Following that, the article provides an overview of the budget's evolution; particular attention is given to the relationship between the EU budget and Community policies financed from it. Unfortunately, the conclusions of this section's analysis are not promising. Finally, this article shall share the views of the author, specifically that the major issue behind the EU's budgetary deficiencies derive from the organization's flawed system of resources. In other words, a budget without a Treasury will always fall short of its mission.

2. Integration Theories

Since the Communities were first established, political consensus has been achieved on the necessity of having common budgetary measures. The different budgets of the Communities, namely those of the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (Euratom) were merged into one single budget of the Communities in 1970.[1] Though much of the 1980s were characterized by bitter budgetary debates, a multiannual financial planning system was introduced in 1988, which took as its form the so-called financial perspective of 1988-1992. While the necessity of having a common budget has generally been accepted, its role within European integration processes has not been sufficiently addressed by the more advanced theories of integration.

In our view the Communities' budget has played a catalyst role in the history of Europe's economic integration. First, in looking at classical liberal integration theories, we can infer that economic integration does not necessarily raise the need for a common budget. However, develop-

1 Decision adopted by the European Council on 21-22 April 1970 (Merger Treaty, Article 20(1) as amended by Article 10 of the First Budgetary Treaty).

ment theories, neo-liberalism, federalism, neo-functionalism, institutionalism, and the optimal currency area theory provide sufficient theoretical justification that economic integration goes hand-in-hand with the ideas of common policies requiring common resources, and budget redistribution in a regional economic integration.[2]

Classical liberal integration theories (see: R. Aron; B. Hughes; J Schwarz; G. Myrdal) focus on the free movement of goods, services, capital, and labor. The co-operation of distinct economic units of comparable developmental levels does not raise the need for joint financing activities. Indeed, dismantling the barriers of the free movement of goods, services, capital, and labor did not involve significant financing from the Communities' budget.

Similarly, according to regulation theories (Tinbergen, 1965), regulation and common rules play a fundamental role in deepening European integration. However, the adoption of common regulations does not require joint financing, apart from administrative costs. The Communities' budget does not assume control over the financial regulation activities of the Member States; and the transposition of Community legislation as well relies on the national budgets of the Member States.

Thus, the role of the common budget in the integration of economic units of the same level of development cannot be explained by classical or regulation theories. A first-glance conclusion may be that deepening European integration does not necessarily involve the need for common resources. In that sense, the EU budget seems to lack theoretical reasoning within European integration. However, this assessment is superficial. The role of the common budget can be much better explained by other theories, specifically development theories, neo-liberalism, federalism, neo-functionalism, institutionalism, and the optimal currency area theory.

When assessing development theories (Palánkai, 2001), the level of development of the respective economies, economic units, and the juncture of integration should all be simultaneously taken into consideration. The different development levels of the economies are reflected by asymmetries, which heightens the need for transfers even in the early stages of co-operation. According to development theories, budgetary transfers

2 The following is a summary finding of the author's research, published in his PhD Dissertation, Iván, 2005

are necessary between the economies in order to ensure that the co-operation of countries of different development levels does not lead to situations of unilateral dependency.

According to neo-liberal theories (Kindelberger, 1966; Pelkmans, 1997), integration fosters enhanced potential and real competition. Moreover, competition mechanisms promote integrated economic structures. Competition, the convergence of productivity levels, and the evolution of the single market are the building blocks of integration theory, which result in convergence at the macro-economic level. Measures financed by the common budget, such as cohesion policy, research framework programs, infrastructure networks, internal market programs, as well as market intervention in agriculture and rural development all affect the establishment of conditions for macro-economic convergence. Therefore, the apparent lack of necessity for a common budget dissipates, while budgetary transfers promoting macro-economic convergence deepen integration.

Regarding federalist theories, European Union governments constitute a special collective political structure that serves the wealth of the Community (W. Wallace, 2000). In this system, they define political objectives, namely those specified in the Treaties and implemented by Community policies. The achievement of these objectives relies on transfers aiming at economic convergence and on mechanisms compensating those who relinquish certain national economic interests in order to meet common Community goals.

According to neo-functionalism and its spill-over theory (George and Bache, 2000), more and more functions should be delegated to integration institutions due to the diminishing capacities of the individual states. It seems rather obvious that such common institutions would be unable to carry out their mission (i.e., economic and social convergence) without budgetary means and transfers.

Conflicting interest theories (Lindberg, 1963) help explain the budgetary debates of the Member States. These disputes have always secured the necessary financing means for the Communities, more or less according to the given stage of integration. By the growing size of the budget, it has become evident that the agreements made on the EU's financial perspective aim to mitigate conflicts amongst Member States, which subsequently advances the integration process. Therefore, according to conflict theories, the common budget has played a significant role in the history of European integration.

Links can be seen between the deepening of European integration and the common budget, which can be better understood with the help of institutionalism. The "English School" of institutionalism (Bull, 1997) acknowledges the idea of co-operation in international relations if tangible profits may be gained. The EU's cohesion policy, which helps the regions and Member States in need of development aid progress toward the more advanced Member States, and the Common Agricultural Policy (CAP) are common policies where the Member States co-operate for concrete gains – financed by the common budget – that otherwise would be out of their individual reach. This is considered yet another building block to describe the role of the budget in European integration.

In the phase of integration where currency areas are established, participating states have limited room to maneuver against shocks when they lack a national monetary policy (see: P. Kenen; R. Mundell; R. McKinnon). Therefore, the European Economic and Monetary Union, as a non-optimal currency area, would need a common budget that could ensure stability by providing budgetary transfers in case of asymmetric shocks. Though unexpectedly, this assumption has proven to be true since the beginning of the current financial crisis.

Integration theories and theories of international co-operation (Kiss, 2003) help explain the link between the common budget and the integration process as mutually reinforcing factors.

Despite the fact that most integration theories underpin the necessity of a common budget in European regional economic integration, in our view, the general budget of the European Union still has a limited impact on the deepening of European integration, especially when compared to its potential arising from the relatively wide-range of Community policies. Prior to addressing this issue, the next section will examine the main evolutionary stages of the relationship between the common budget and Community policies.

2. Evolution of the Relationship between the Budget of the Communities and Community Policies

The current debate centering on the proposal by the European Commission for Multiannual Financial Framework, "A Budget for Europe 2020" (European Commission, 2011a) is a top-down discussion. The prevailing intention is to establish first the ceiling of the budget, and then define the content of the Union's policies under the named budgetary constraints. This Council debate leads to budget-driven policies, hardly a new phenomenon in the EU. In fact, one might suggest that the establishment of budgetary ceilings has become the primary substance of multiannual planning under the responsibility of the Member States. While it is accepted that the agreed upon Multiannual Financial Framework delineates the ceiling of the EU's budget, a more logical and meaningful approach would first establish an agreement on the EU's current common objectives and necessary measures (in other words, defining EU policies), and second establish the adequate budgetary ceilings – a system not without precedent in the history of European integration.

The current proposal of the European Commission clearly follows the line first seen in the Agenda 2000 proposal (European Commission 1997). To illustrate, the following presents an overview of the common European budget's evolution. (Iván, 2006):

1. 1957-1969: Individual budgets of the three Communities (ECSC; EEC; Euratom);

2. 1970-1987: Annual common budget (General Budget of the Communities);

3. 1988-1999: Policy-driven multiannual financial perspectives;

4. 2000-2013(-2020): Budget-driven Community policies under multiannual financial frameworks

1. 1957-1969: Individual budgets of the three Communities (ECSC, EEC, Euratom)

During the first decade of European integration, the common objectives established by the three Treaties were supported by a shared political will between the Member States. The limited individual budgets of the three Communities did not create deep conflicts amongst the founders. On the whole, separate budgets served the financing of joint measures.

2. 1970-1987: Annual common budget (General Budget of the Communities)

The First Budgetary Treaty[3] established a single general budget for the Communities in 1970. The common budget was much more transparent and budgetary effectiveness largely improved. However, the oil crisis of the 1970s, combined with the enlargement of the Communities and the United Kingdom's continuous claim that it receive a substantial rebate from the common budget, annually led to unsustainable and long-winded budgetary debates. In fact, the European Parliament three-times refused the annual budget proposal (1979, 1982, and 1985). Germany twice refused financing its portion of the UK's rebate (1981 and 1982). The annual budgetary procedure proved to be insufficient in providing a stable and reliable budgetary framework for Community policies.

3. 1988-1999: Policy-driven multiannual financial perspectives

Jacques Delors, then President of the European Commission, initiated a change to the annual budgetary proceedings. In his assessment, the annual budgetary debate did not provide the necessary stability for the multiannual programs, and the debate of year *n* had just finished when the Commission was obligated to present the proposal for the year *n+1*; as such, there was almost no reprieve for the Member States in the budgetary debate. The Commission then proposed to establish a multiannual financial framework, termed "financial perspective" until 2006. Multiannual planning defined the priorities, headings, and ceilings of the Communities' budget.

3 See footnote No. 2.

The first multiannual financial perspective, the "Delors I Package" spanning the period 1988-1992, was agreed upon by the Council, the Commission, and the European Parliament in an Inter-institutional Agreement. This five-year period gave way to a spectacular evolution of EU common policies. The Delors I financial perspective re-established the balance of the common objectives and the interests of the Member States. The common budget became policy-driven; in other words, the evolution of Community policies largely defined the financial framework. The same characteristics were valid for the Delors II financial perspective in the period 1993-1999, which by then had already been established for seven years (the same length of time for all of the following frameworks).

With the adoption of the first financial perspective, the principle of budgetary discipline was also agreed upon:[4] the Communities' expenditures, in a controlled manner, should have served both the objectives of the single market defined in the Single European Act, as well as the objectives of social and economic cohesion. This interpretation signifies the acceptance of the primary role of Community policies, alongside the provision for not allowing any uncontrolled expenditure increases outside the agreed upon Community policy objectives.

The internal market, regional policy, the Economic and Monetary Union, the reform of the CAP in 1992, research and development, and the Trans-European Networks played a significant role in the evolution of commitment appropriations within the budget during the periods 1988-1992 and 1993-1999. There was a strong link between Community policies and the commitment appropriations of the common budget.

4. 2000-2013(-2020): Budget-driven Community policies under multiannual financial frameworks

The financial perspective of 2000-2006 has drastically affected the relationship between the budget and Community policies. The debate on the Agenda 2000 proposal led to the end of a policy-driven budget; Community policies have now become budget-driven. The multiannual financial framework of 2007-2013 has continued this tendency, which more than likely will remain the dominant model for the next framework, 2014-2020.

4 88/377/EEC Decision, OJ L. 185, 1988.

In 1997, at the beginning of the debate on the third financial perspective, it was not yet clear what factors would determine the financial framework beginning in 2000: the Community policies or the net positions. Discussions on the Agenda 2000 were not only framed by the positions of the larger Member States, as had had happened previously, but also by two distinct groups of countries: the net payers and the net beneficiaries.

The debate on the Agenda 2000 once again explicitly unveiled the Member States' interests. During the years 1998-1999 it became evident that the negotiating position of the Member States was governed by their net budgetary position against the EU's budget. Such an approach turned out to be dominant, and continues to flourish today. The priority of the net position, namely the overriding role of the *juste retour* principle, has resulted in a serious misinterpretation of the benefits of European integration (which is the most serious criticism against the short-sighted net position).

The political objective of expenditure "stabilization" presented by the net payers during the Agenda 2000 debate was nothing more than a well-designed maneuver to improve their net budgetary position. The relationship between the Communities' budget and Community policies has fundamentally changed since the adoption of the financial perspective for 2000-2006. The result of the political negotiation for the 2000-2006 financial framework is that the budget has become dominant vis-à-vis Community policies. The net position became more important than the appropriate financing of common policies; the Union's policies, in short, became budget-driven.

In addition, it is worth noting that the EU's historic 2004 enlargement also directly impacted the financing of Community policies. The final phase of accession negotiations concerning the budget and other related chapters were largely determined by the position taken by the EU-15 in the negotiations of the Agenda 2000, which as noted above, gave priority to budgetary constraints. In our view, strangely enough, even the acceding countries contributed to the primacy of the budget over common policies by having set their net position objective as a political benchmark of the negotiations' success.

The current financial framework (2007-2013) originally intended to highlight policies of sustainable growth and competitiveness. There was a short-lived hope that Community policies could regain some of their importance for the multiannual budgetary planning. However, it quickly became evident that it would be difficult to continue financing the "historical" Community policies and simultaneously start financing the new challenges of competitiveness, energy infrastructure, security and justice, and neighborhood policy – the total of which would fall below 1% of the total EU GNI. The Commission was successfully innovative in renaming the main headings of the previous financial framework of 2000-2006, but its proposal, to a large extent, continued to finance very similar measures. Cohesion Policy, formerly a main heading, was converted into a sub-heading under Sustainable Growth. Even the Common Agricultural Policy became hidden under the broad title of Preservation and Management of Natural Resources.

Financial Framework 2007-2013[5]

(EUR bilion – 2004 prices)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	**51.267**	**52.415**	**53.616**	**54.294**	**55.368**	**56.876**	**58.303**	**382.139**
1a. Competitiveness for Growth and Employment	*8.404*	*9.097*	*9.754*	*10.434*	*11.295*	*12.153*	*12.961*	*74.098*
1b. Cohesion for Growth and Employment	*42.863*	*43.318*	*43.862*	*43.860*	*44.073*	*44.723*	*45.342*	*308.041*
2. Preservation and Management of Natural Resources	**54.985**	**54.322**	**53.666**	**53.035**	**52.400**	**51.775**	**51.161**	**371.344**

5 Interinstitutional Agreement, 2006

of which: market related expenditure and direct payments	*43.120*	*42.697*	*42.279*	*41.864*	*41.453*	*41.047*	*40.645*	*293.105*
3. Citizenship, freedom, security and justice	**1.199**	**1.258**	**1.380**	**1.503**	**1.645**	**1.797**	**1.988**	**10.770**
3a. Freedom, Security and Justice	*600*	*690*	*790*	*910*	*1.050*	*1.200*	*1.390*	*6.630*
3b. Citizenship	*599*	*568*	*590*	*593*	*595*	*597*	*598*	*4.140*
4. EU as a global player	**6.199**	**6.469**	**6.739**	**7.009**	**7.339**	**7.679**	**8.029**	**49.463**
5. Administration*	**6.633**	**6.818**	**6.973**	**7.111**	**7.255**	**7.400**	**7.610**	**49.800**
6. Compensations	**419**	**191**	**190**					**800**
Total commitment appropriations	*120.702*	*121.473*	*122.564*	*122.952*	*124.007*	*125.527*	*127.091*	*864.316*
as a percentage of GNI	*1,10%*	*1,08%*	*1,07%*	*1,04%*	*1,03%*	*1,02%*	*1,01%*	*1,048%*

Total payment appropriations	**116.650**	**119.620**	**111.990**	**118.280**	**115.860**	**119.410**	**118.970**	**820.780**
as a percentage of GNI	*1,06%*	*1,08%*	*1,07%*	*1,04%*	*1,03%*	*1,02%*	*1,01%*	*1,00%*
Margin available	*0,18%*	*0,18%*	*0,27%*	*0,24%*	*0,28%*	*0,27%*	*0,30%*	*0,24%*
Own Resources Ceiling as a percentage of GNI	*1,24%*	*1,24%*	*1,24%*	*1,24%*	*1,24%*	*1,24%*	*1,24%*	*1,24%*

** The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of € 500 million at 2004 prices for the period 2007-2013.*

The next financial framework debate is only now approaching its end. The proposal of the European Commission and the discussions in the Council make it undoubtedly clear that the budget-driven nature of the EU policies will continue to rule for the next financial framework (2014-2020).

3. The Main Reasons behind the Budget-Driven Policies Phenomenon

As noted above, the model where Community policies shaped the budget fell out of favor during the Agenda 2000 discussions. In our view, there were three major issues at the end of the twentieth-century directly impacting the relationship between the budget and EU policies.

1. The Stability and Growth Pact
2. The assumptions on the fifth enlargement of the European Union (2004)
3. The increasing role of the GNI-based own resources

1. The Stability and Growth Pact

The Stability and Growth Pact introduced a new mechanism aimed at the sustainability of public finances in the Member States. This framework established the rules of economic policy coordination, particularly in the field of national budgetary planning. As an important element of the Economic and Monetary Union, it promulgated basic regulations to prevent and correct budgetary imbalances. The Pact, coupled with the "Maastricht Criteria", the preparation of convergence, and stability programs all together were too demanding on the national treasuries. The excessive deficit procedure, which was triggered in cases of non-compliance, could even result in sanctions (questions remain as to how seriously Member States took such procedures). The Member States were (and are) paying approximately 1% of their GDP to the common budget; it should be noted that this 1% could (and can) be quite crucial in the avoidance of the excessive deficit procedures. Thus the national budgetary position took on a new meaning and dimension, while the gains and objectives of Community policies became of secondary importance in many – or perhaps, most – Member States.

2. The assumptions on the fifth enlargement of the European Union (2004)

Preparations for the EU's fifth enlargement raised deep concerns in many Member States, particularly between 1997 and 1999 during the debate on the Agenda 2000 package, which included a proposal for the financial perspective for 2000-2006. The European Commission proposal foresaw five new Member States acceding to the EU in 2002. However, the enlargement round expanded to twelve countries, ten of which acceded in 2004, and a further two in 2007.

It was clear from the beginning that all of the acceding continental countries (ten out of the twelve applicants) would be beneficiaries of the two most expensive Community policies: the Common Agricultural Policy and the Cohesion Policy. Both their incomes per capita and regional development levels were far behind the EU-15 average. Moreover, the agricultural sector tended to dominate the applicants' economies. As such, they duly expected considerable budgetary transfers. Yet the high net assumptions forecasted for financing the enlargement were quickly offset by the long transitional periods "offered" to the newcomers. Moreover, uncertainty and fear caused by the forthcoming budgetary burdens of enlargement grew steadily in Member States that had previously accepted the largest share of their own resources from the Union's budget (i.e., the net payers). Likewise, fears amongst those who had been net beneficiaries of Community policies were similar. In sum, it was frighteningly clear that the budget pie would not add weight, but rather its slices would be much thinner.

The conflict of the net payers and net beneficiaries eventually led to the "stabilization" of the EU's budget, or rather a situation where the ceiling on budget expenditures largely became frozen in spite of the needs of Community policies and those connected to enlargement. The financial perspective agreed upon in March 1999 contained two tables: one for the EU-15 and one for the needs of enlargement. The latter followed the

Commission's original assumption that enlargement would take place in 2002 and involve five new Member States. When enlargement finally took place in 2004 (and again in 2007) with a much larger number of states, it was not deemed necessary to renegotiate the financial framework. This was mainly due to two factors: the two-year delay, which saved payment appropriations in 2002 and 2003; and the long transitional periods accepted by the acceding countries for the Common Agricultural Policy and (the shorter transition periods in the case of Cohesion policy).

The focus of the net payer Member States, i.e., the "stabilization" of the budget, reflected well the needs of the Stability and Growth Pact. Stability, which was supposed to be respected by the national budgets, was to as well be applied to the EU's budget. However, this was a rather misleading interpretation, one that stemmed from the differences between the functions of the individual Member States' budgets and the Union's budget. The functions of the national budgets can only be identified to a limited extent in the EU budget. Specifically, the Union's budget does not finance public institutions, public services, social allowances, and classical justice and home affairs; further, there is no common taxation policy. The Union's budget cannot fulfill tasks of economic policy like macro-economic stabilization due to its very limited size. However, the EU budget performs transfers and provides for economic development measures, and also has limited regulatory competencies (e.g. agricultural policy). The mission of the EU's budget is to finance common objectives with the instruments of Community policies.

3. The increasing role of the GNI-based own resources

Before assessing the impact of the GNI-based own resources on the budget's evolution, it is necessary to reiterate the structure of own resources within the EU's budget. The own resources comprise the following:

- *Customs duties* are levied on imports under the Common Customs Tariff introduced in 1968.
- *Agricultural resources* are import duties charged on agricultural products imported from third-countries. The agricultural duties, earlier known as levies, were introduced in 1962, but after the transposi-

tion of the multilateral trade agreements into Community law, there is no longer any difference between agricultural duties and customs duties. Besides agricultural duties, there are also levies on the production of sugar and isoglucose for Community sugar producers.

- Customs and agricultural duties are called *traditional own resources* because they are generated by Community policies.

- *Value added tax (VAT) based resources* were introduced in 1970 because the traditional own resources were insufficient in financing the Community budget. It is calculated on the Member States VAT-base. VAT resources are collected according to a call-in rate of the VAT-base, now equal to 0.3% of it.

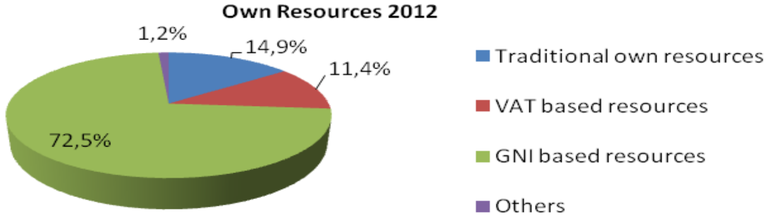
- *Gross national income (GNI) based resources* were introduced in 1988 by the Council as a fourth own resource based on the Member States' GNP. Their purpose was to help balance the budget; until then, the other resources proved to be insufficient.[6]

- *Other revenues* (providing approximately 1% of the total resources) are taxes and deductions from the staff remunerations of EU institutions, bank interest, and third-country contributions to certain Community programs, etc.

By the end of the 1990s, the share of the different own resources in the Union's budget had to a large extent changed. Until 1970, the budgets of the Communities were financed by the traditional own resources. Between 1970 and 1988, VAT-based resources played a balancing role to keep the budget in balance. This led to a growing role for VAT-based resources. During the second financial perspective, the share of the traditional own resources and the VAT-based resources began to decrease, while GNI-based resources increased. In 1996 the share of the traditional own resources was 19%; VAT-based resources accounted for 51%; and GNI-based resources almost 30% of the total budget. By 1999, these shares had changed as follows: 17%, 38%, and 45%, respectively. By the end of the third financial perspective (2006), the ratio of the traditional resources decreased to 11%; VAT-based resources to 14%; and GNI-based resources increased to 74%.

6 According to the Union's Financial Regulation, the budget should be balanced; neither deficit nor suffice is allowed.

The traditional own resources (after having retained 25% of them as collection costs) are paid monthly to the Commission's account. One-twelfth of the annual VAT-based and GNI-based resources are paid on the first working day of every month. As the two latter resources provide almost 90% of the Member States contribution, the Union's budget no longer relies on any Community policies, but rather on the payments of the national treasuries. Because of the own resources system (often referred to as "own"), there is practically no Community ownership of the revenues anymore. Moreover, own resources have become quasi-membership fees for the Member States. As a result, the contribution of the Members States has weakened the position of the general budget of the government,[7] so one can imagine the enthusiasm of finance ministers about the current "own" resources system. This situation has led to a strong *juste retour* approach, where the optimization of the net position against the Union's budget is now the number one issue for every Member State in the debate over the multiannual financial framework.



Source: The European Union's General Budget for the Financial Year 2012 (2012/70/EU, Euratom)

7 While the Member States' contribution to the EU budget is government expenditure, the funds allocated in favour of a Member State have a neutral effect on the government's budget balance because the EU funds enter the treasury's account and then paid out as expenditures for the final beneficiaries. The EU allocations only positively impact the current account balance.

4. A Key Issue for an Effective EU Budget: A Farewell to Juste Retour

The dominant debate of the Agenda 2000 continued in 2004-2005 during a discussion in the Council concerning the current financial framework for 2007-2013 (note: the same Member States conflicts are occurring today for the framework 2014-2020). The expectation that the new challenges confronting the EU, namely competitiveness, energy security, climate change, justice and security, and neighborhood policy, would again strengthen the position of the Union's policies, will most likely not come to fruition. The acknowledged necessity of the new policies will not be sufficient enough to reposition the budget-driven nature of the EU's policies. In order to liberate the common policies from the budget, the European Union would need a budget independent of the national treasuries, or rather one that is mostly sovereign (in the sense that it has its own genuine resources).

Real own resources would allow the EU to expel its simple and short-sighted net position approach. Such own resources would give the Union's budget the potential to serve directly and efficiently both the convergence and deepening policies of European construction via policy-driven Community expenditures. Moreover, economic policy functions of the budget could be enriched to improve the overall competitiveness and wealth of EU citizens.

We contend that the autonomy of the common budget could only be ensured by such a real own resources system based on resources generated by Community policies, the establishment of a specific Community tax, or a combination of the two. Until now, traditional own resources have provided a best case example; however, their current share in the revenues is becoming increasingly insignificant.

The idea of a Community tax is not a new one. When the ECSC was founded, a supranational charge was introduced and levied on coal and steel products. Later, when the European Commission issued its communications regularly before the debates of the financial perspectives, accompanied by reform proposals for the own resources system, several ideas were frequently raised by the collage. In 2004, the Commission identified three possible types of Community taxes: an energy tax, a VAT tax, and a corporate tax (European Commission, 2004b). While all three already existed in the Member States, the idea of transforming them (or transforming part of them, as was proposed in the case of VAT) into a Union tax was then and now politically unrealistic. The Member States have firmly refused any intervention into their respective taxation policies, arguing that fiscal sovereignty is an indispensable element of national sovereignty. There remains no economic or political argument on the horizon that could convince the national treasuries to accept the sharing of taxation powers with others, in spite of the depth of the financial crisis. Since the basic principles of modern international financial law were established by Gustav Lippert (Lippert, 1912), financial sovereignty has remained a superseding standpoint.

In our preference for the Community method, the most appropriate solution besides a Union tax would be the creation of own resources by virtue of Community policies, like in the case of traditional own resources. At first glance, the constraints of today's Community instruments considerably limit any possibilities to generate additional own resources. In spite of this, we envision relatively significant potential in some Community measures, namely those in the field of energy policy, climate change measures (particularly the Emission Trading Scheme), financial market regulation, and even the regulation of the telecommunication market.

Summarizing our view, despite strong national fiscal sovereignty, there is an alternative option to make GNI-based resources dominant within the current own resources system. This option would have two pillars: resources generated by Community policies; and revenues resulting from Union-wide taxation. In this model, the latter could assume the balancing role (but not its size and share) of the present GNI-based resources. This scheme would (re-)introduce the power of collecting a supranational tax, which would be a key element in the frequently discussed creation of a fiscal union.

From the point of view of our preferred two-pillar system, the 2011 proposal by the European Commission for a Council decision on the own resource system should be welcomed. The Commission has proposed the introduction of a financial transaction tax at the level of the European Union and a new VAT resource eliminating the VAT-based resources from 1 January 2018 at the latest (European Commission 2011b). Both proposals would reduce Member States' direct contributions and effectively alleviate the problem of *juste retour*. The Commission's proposal also addresses the necessary phasing-out of rebates and correction mechanisms, which may have been justified at the time of their introduction; today, however, they pose the biggest obstacle towards the achievement of budgetary transparency.

A system of real own resources would ensure the autonomy of the EU's budget. Beyond its autonomy, the appropriate size of the budget could also be addressed. In fact, we deem these two factors necessary for the future success of the European project. The choice for the Member States between the following two options, which was described almost four decades ago by Daniel Strasser, then Director of the Budget, is still valid (Strasser, 1975): a budget which is based on equal redistribution amongst the Member States, bearing in mind the optimization of the net budgetary position, or a budget with the mission of deepening European integration based on the principle of solidarity amongst the Member States.

As long as the only concern for the Member States – no matter whether they are net payers or net beneficiaries – is the improvement of their individual budgetary position, the Community instruments will remain of secondary importance.

The matter of real own resources is not simply a budgetary issue; it is a much deeper question than the mere impact it will have on the national treasuries. The more logical question concerns the next steps on the path of European integration: Is there any intention to accept own resources of a supranational nature? A debate on this topic would surely provoke further questions of sovereignty sharing and the (big) question mark of readiness for fiscal and then political integration. At the time of this article's completion, it is very likely that no answers will be illuminated within the debates on the Multiannual Financial Framework. These questions, however, could rather be answered by correcting (and not merely mitigating) the effects of the deep and elongated financial crisis caused by European integration. If the decision-makers heed the above, more progressive conditions for the Union's budget will be triggered and it will finally get what it has been missing for far too long – a Treasury of its own.

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The European Union is no Free Lunch: Reconsidering the Eastern Enlargement of the EU from an Intergovernmental Perspective

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ABSTRACT

Central and Eastern European countries (CEEC) were expected to benefit substantially from European Union (EU) membership. As full members, they would take advantage of formal decision-making powers. Furthermore, EU instruments and norms would influence distributional issues and the common market would facilitate economic convergence. However, these positive expectations, which are underpinned by rational institutional and normative theories of enlargement, have become challenged by the effects of the 2004 and 2007 enlargement rounds. Therefore, drawing on the liberal intergovernmental approach (LIG), the article proposes to test an alternative explanation. First, it is proposed that EU decision-making powers are constrained by other powers possessed by the national governments. Second, the distributional issues are determined by individual interests and relative power (dependence). Third, economic convergence depends on the ability of individual governments to influence economic processes. The meta-study of post-accession Council decision-making, as well as case studies of some of the central distributional issues from the pre- and post-accession periods, and macroeconomic trends support the proposed LIG-based explanation.

KEY WORDS:

European Union, enlargement, Central and Eastern European countries, intergovernmental theory

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1. Introduction

The European Union (EU), established by the Maastricht Treaty in 1993, sought to fill the political vacuum created by the collapse of Europe's communist regimes. Several Member States promoted the employment of enlargement mechanisms as the EU's strongest foreign policy tool (Schimmelfennig, 2003). Desperate to re-establish political and economic credibility, the Central and Eastern European Countries (CEEC) were ready to embark on the path towards 'Europeanization'. In 1993, the European Council introduced the EU's accession criteria while meeting in Copenhagen.

In contrast to the issue of 'deepening', 'widening' has been largely overlooked by the grand theories of European integration (Schimmelfennig and Sedelmeier, 2002; Faber, 2009).[9] Most of the theoretical approaches concerning eastern enlargement are underpinned by rational institutionalism, normative theory, and constructivism (Schimmelfennig 2001; 2003). Only a few studies relate to the more realist (governmental) tradition in integrations theory (e.g. Moravcsik and Vahudova, 2003). Further, Kajnč (2009) has specifically noted a lack of studies that scrutinize the effects of accession on the CEEC.

The assumption underlying the rational and normative institutional theories of enlargement was that the 'widening process' is driven by the EU's institutional and normative 'growth bias'. This assumption supported the predictions that the CEEC would substantially benefit from EU accession. First, as full members, the CEEC would acquire formal decision-making and procedural powers, which would improve their position relative to the older EU Member States and the rest of the world (Schulz and König, 2000: 656; Tsebelis and Yataganas, 2002). Second, they would benefit from EU policies and instruments (Hosli, 1999; König and Bräuninger, 2004: 421; Zimmer et al., 2005). The common normative and institutional framework would improve the outcomes they could otherwise expect with distributional issues (Schimmelfennig and Sedelmeier, 2002: 520; Dimitrova, 2002). Third, the common

9 During the 'Big Bang' enlargement process, several authors tried to address the problem of under-theorization of EU enlargement. By pointing to the under-conceptualization of dependant and independent variables, disinterest in several dimensions of the enlargement process, and the weak generalizability of the arguments, Schimmelfennig and Sedelmeier (2002: 501-4) have put forward principles for a broader, comparative analysis of 'widening', founded in the international institutional theory. However, problems still remain. In accordance with Faber (2009: 24-5), although the analytical and descriptive capacities became "highly developed" their explanatory value remains "comparatively low".

market would facilitate economic convergence (Baldwin et al., 1997).

On May 1, 2004, eight CEEC became full members; Romania and Bulgaria later acceded in 2007.[10] Although the experiences accumulated over the first years of membership are somewhat mixed, several of the original expectations now seem to have been overly optimistic. First, there is little evidence that the new Member States (NMS) are able to turn their voting and procedural rights into material gains. Terms describing the post-enlargement decision-making atmosphere in the Council of the EU often refer to a "status quo" or "business as usual" (Best et al., 2009).[11] Although four NMS have successfully completed rotating presidency terms, the opportunities to push forward their own agendas are still perceived as "limited" (Udovič and Svetličič, 2011). Unquestionably, the 'downloading' of EU standards has had a positive impact on the NMS. However, the influence of community policies and norms on the most important distributional issues, such as the Common Agricultural Policy (CAP), cohesion and structural funds, and the overall agreement on the Multi-Annual Financial Framework (MAFF), has been constrained by the interests of the largest Member States (Mrak and Rant, 2008; Lovec and Erjavec, 2012). Finally, in the initial post-accession years, the GDP of the NMS grew at a rate of 5-6% (Commission, 2009). Yet with the ensuing economic crisis beginning in 2008, growth trends have reversed. The eurozone crisis has exposed deeper structural economic asymmetries, which have surely influenced the economies located in the EU's periphery (Inotai, 2011).

Drawing on the liberal intergovernmental approach (LIG) (Moravcsik, 1998: 20; Moravcsik and Schimmelfennig, 2009: 68-9), this article offers an alternative explanation of the effects of enlargement. First, following the LIG, Community institutions merely serve the credibility of the commitments made by national governments. Thus, formal decision-making and procedural powers are constrained alongside other capacities possessed

10 Based on the recommendation of the European Commission, which was formally endorsed at the Luxemburg Summit in 1997, five CEEC countries (Poland, Hungary, the Czech Republic, Estonia, and Slovenia) and Cyprus started accession negotiations in March 1998. In December 1999, the Helsinki European Council opened accession negotiations with six others: Latvia, Lithuania, Slovakia, Malta, Bulgaria, and Romania. After negotiations stalled in 2000-2001, the June 2001 Gothenburg Summit gave a green light for the final phase of the negotiations with the CEE-8, Cyprus, and Malta. In 2002, the EU and its candidates negotiated remaining issues such as CAP, cohesion, and structural funds. Accession talks were concluded at the Copenhagen Summit in December 2002 (Bohle, 2003). The accession treaty was signed on April 16, 2003.

11 Following Best et al. (2009), the real question is not how enlargement has changed the EU, but how the EU has changed so little after bringing in ten NMS.

by the states. Second, when interests are clear, the outcomes of bargaining over distributional issues are determined by the compatibility of individual interests and relative powers, understood in terms of asymmetrical interdependence (Keohane and Nye, 1977; Moravcsik and Vachudova, 2003). Third, economic convergence depends on the ability of individual governments to influence economic processes.

The remainder of the text is structured as follows: within the section on theory, the alternative approaches towards eastern enlargement (rational institutional and normative on the one hand; and the LIG-based approach on the other) are further established and compared. Later, after briefly discussing the design of the research, we present the research results, which are organized in accordance with the related enlargement issues that have been identified (decision-making, distribution, and cohesion). We conclude with an explanation of the relevance of the results, particularly where they regard the various foreign policy strategies of the NMS.

2. Framework for the Analysis

The CEEC were considered to benefit from EU accession by acquiring formal decision-making and procedural powers through Community policies and norms influencing the distributional issues, and through the effects produced by the unrestricted access to the common market. In this section, a rational institutional and normative theories-based explanation and LIG-based explanation are assessed and compared with regard to each individual issue.

a) Formal Decision-Making Powers

Where the EU has established community competences, formal decision-making procedures are applied. The Council of the EU, commonly seen as the most important decision-making body in the EU (Steunenberg and Selck, 2006: 55; Moravcsik, 2008) reaches decisions through quality majority (QM) vote, unanimity, or simple majority (Roozendaal et al. 2011).

In practice, however, the Council strives to reach consensus. Even if the Council resorts to a QM vote, the votes allocated provide each individual member state with substantial decision-making powers (Hayes-Renshaw and Wallace, 2006: 279; Naurin and Wallace, 2008: 1). The GDPs of the NMS account for no more than a 5% share of the EU's total GDP; however, almost one-third of the total Council votes are allocated for the NMS. Thus, their bargaining position relative to older Member States (as well as non-EU countries) should be improved. In addition, functions such as the rotating Council presidency would enable the NMS to push forward their own agendas (Hayes-Renshaw and Wallace, 2006; Thomson 2008).[12]

Following LIG, the national governments authorize Community institutions to provide accountability for their commitments (Moravcsik and Schimmelfennig 2009: 70-1). Various instruments and practices still enable the relative powers possessed by the national governments to be translated into decision-making outcomes (also see: Hagemann and De Clerck-Sachsse, 2007: 1; Hosli et al., 2008: 15).[13] Thus, common decision-making can be seen as instrumental (Heyes-Renshaw and Wallace, 2006: 252; Moravcsik, 2008). Prior to, during, and after the EU enlargement rounds, Member States have argued that greater decision-making efficiency must be implemented. Formal decision-making powers, available to smaller and medium-sized Member States, have systematically narrowed (Plechanovová 2008: 4-5; Thomson, 2011: 5).[14] Upon the Lisbon Treaty's ratification, the powers of the presidency have as well shifted from the Member States to the EU. The presidency lost part of its leadership stake in the Council (now led by President of the Council Herman Van Rompuy), in addition to having to share powers related to external action with the European Parliament and the High Representative for Foreign and Security Policy (Catherine Ashton), who chairs the Foreign Affairs Council (Balázs 2011: 5).

12 Presidents carry out administrative tasks, set political priorities, mediate between other Member States and represent the Council externally. Council decisions are shown to be more favorable to the chair at the time of adoption than to other Member States (Thomson 2008).

13 This can explain why the resort to the formal vote is atypical. For example, the overview of winning coalitions, formed in the Council in the 1998 to 2004 period, demonstrates that most winning coalitions have a large combined voting weight and that minimal winning coalitions are rare (Roozendaal et al. 2011).

14 Under the current Nice Treaty rules, which will be in place until October 2013, a QM vote requires 71.3% of the total votes representing at least 62% of the population of the EU. In order to form a blocking minority, the NMS need the votes of at least one additional Member State (Baldwin and Widgren, 2004: 18). With the Lisbon Treaty (which will come into force after a 2014-2017 transition period), a QM vote requires the support of 55% of the Member States (15 Member States), representing 65% of the population. In addition, a blocking minority must consist of 35% of the population of the EU plus one Member State. The new rules were explained as a 'bait-and-switch' tactic (get the NMS in and then reduce their power) (Baldwin and Widgren, 2004: 2).

b) Community Framework and Distributional Issues

Institutional and normative setting is a framework in which political actors pursue ('maximize') their interests (Schimmelfennig and Sedelmeier, 2002: 510-12). The EU's eastern enlargement has revealed the importance of specific Community institutions and norms (Schimmelfennig 2001; 2003). The EU's distributional policies and norms would substantially improve the bargaining position of the NMS (Hosli, 1999; König and Bräuninger, 2004: 421; Zimmer et al., 2005).

Following LIG, in cases when interests are clear (when the dispersion of costs and benefits is relatively low), governments try to maximize their own interests by maximizing the interests of various domestic actors (Moravcsik and Schimmelfennig, 2009: 68, 76). In foreign policy, governments do that by enabling the redistribution of resources from the domestic groups that are positively affected by international cooperative agreements to those that are negatively affected (resulting in the so-called two-level games) (Putnam, 1988; Moravcsik, 1998: 89-90, 161). Second, in doing that, governments draw on the relative powers they possess.[15] The relative powers are measured in terms of relative dependence (Keohane and Nye, 1977). The power asymmetry between the older and newer Member States was evident. Drawing on a relative power based bargaining model, Moravcsik and Vachudova (2003: 56) have argued that the NMS would be unable to influence substantially the distributional issues. This could provoke changes in EU policies, namely pillarization.

c) Convergence

EU entry was intended to raise output and growth rates by stimulating entrepreneurship, foreign direct investment (FDI) (on the basis of rational expectations), and technology transfers (Baldwin et al. 1997: 125). The common market was expected to facilitate economic convergence.

In accordance with LIG, governments use their powers to influence the effects of the markets (Moravcsik 1998). The ability to do that depends on

15 Following Schneider (2007: 87), "the empirical findings of a probit analysis on the EU accession negotiations and outcomes of all five EU enlargement rounds support the theoretical claim /…/ that EU members impose discriminatory measures on new members to redistribute enlargement gains from new members to particularly negatively affected EU members as to render expansion pareto-efficient". Baldwin and Widgrén (2004: 6) point out to the importance that the status quo has on the bargaining setting.

the relative strength of political powers to determine the role of market forces. Second, the operation of states and markets depends on specific economic and political structures. Thus, 'free trade' policies can both increase or decrease asymmetries in power and economic development.

3. Research Design and Methods

Table 1: Issues, theory based expectations and research methods

Issue/theory-method	Rational and normative institutional	LIG	Research method
(a) Decision making	*NMS acquire formal decision making powers*	*Formal decision making powers are constrained by other powers states possess*	*Meta-analysis of 19 studies of post-accession decision making*
(b) Distribution	*Community framework (policies and norms) improves bargaining position of the NMS*	*Determined by interests, two level games and dependence asymmetries*	*Case analysis of central distributional issues from the pre-accession and post-accession period (CAP, Cohesion and structural funds, MAFF)*
(c) Convergence	*Yes*	*Depending on political and economic structures*	*Analysis of the trends in central macroeconomic indicators of the NMS for the 2004-2012 period*

In order to test the relevance of alternative theoretical approaches that attempt to explain the role of formal decision-making powers in the post-accession period, we employ a meta-analysis of the studies on post-accession decision-making in the EU Council. It must be noted that the design of some of these studies has been criticized.[16] Critics have point-

16 Most of the decision-making studies have a similar design (e.g. Hertz and Leuffen, 2008; Thomson, 2011). They are usually based on formal decision-making indicators such as the number of dissenting views, the length of procedures, and the final voting. They monitor a substantial number of legislative procedures. The studies are listed in Table 2 below.

ed to the specific characteristics of Council decision-making, such as low transparency and the often small number of dissenting views (Hagemann and De Clerck-Sachsse, 2007: 1; Plechanovova, 2011). When interpreting the results, these criticisms have been taken into account. Further, the argument that the analysis of formal decision-making procedures should be combined with an analysis of the substantial issues that are being discussed (Hosli et al., 2008: 15; Hertz, 2010: 132) has been taken into consideration while establishing other areas of empirical research, and while designing other employed research methods. For example, a substantial effort has been put toward a case study of the effects that the eastern enlargement has had on the CAP, which still accounts for a large share of community decision-making, and represents the single biggest distributional mechanism.

4. The Results

a) Small Remain Small

Table 2: The conclusions of studies on post-accession Council decision making

Study/ findings	Decisive voice of NMS	Formalization, process slow-down, increased conflict	No significant change	Status quo bias
König and Bräuninger (2004)		*X*		
Zimmer et al. (2005)	*X*	*X*		
Goetz (2005)			*X*	*X*
Golub (2007)		*Even faster*	*X*	*X*
Naurin and Lindahl (2008)		*Minor N-S (E)*		
Mattila (2006; 2008; 2009)		*Minor N-S (E), even faster*	*X*	*X*

Best et al (2009)*; Hagemann and De Clerck-Sachsse (2007); Hagemann (2008); Hosli et al. (2008); Best and Settembri (2008)		*Even faster with less opposition*	*X*	*X*
Hertz and Leuffen (2008); Hertz (2010)		*Somehow slower*	*X*	*X*
Thomson et al. (2006); Thomson and Hosli (2010); Thomson (2009; 2011)	*X*	*Minor N-S (E)*	*X*	

** Meta-study conducted by Best et al. (2009), who refer to a first wave of publications on the institutional impact of the 2004 enlargement, some of which are listed in the box (see Best et al., 2009: 14) and were, for the purposes of this study, inspected individually.*

Some of the studies suggest that the length of the procedures and the number of dissenting views regarding the distributional issues has somehow increased slightly. Some of these studies also present evidence of a clustering of the decision-making positions on the axes N-S(E)[17] (Hertz and Leuffen, 2008; Hertz, 2010; Thomson 2009, 2011). However, the significance of these indications can be questioned since it varies and is, in general, weak. Further, what should be evident from Table 2 is that the evidence that the studies provide regarding the individual operational indicators are mixed and contradictory. Many studies observe virtually no strong cleavages between the N-S(E) Member States, or any significant conflict over the distributional issues (Hagemann and De Clerck-Sachsse, 2007: 6). There is equally little evidence demonstrating that the legislative output has been decreased and/or that a decrease could be explained by the number of Member States in the Council, or with the constellations of their preferences (Hertz and Leuffen, 2008). Further, various indications suggest that procedural efficiency has in fact been enhanced (Best and Settembri, 2008: 44).

A number of conclusions can be drawn from the empirical evidence. We have already noted that there are limitations to the generalizations that can be made on the basis of the formal decision-making indications that the studies employ. Several authors suggest that we do not actually know

17 Northern-Southern (Eastern) member states

what is going on before and during Council decisions (Hagemann and De Clerck-Sachsse 2007: 5). Following Plechanovova (2011), compared to most legislative bodies in democratic political systems, occurrences of contested legislation is scarcely noticeable in EU Council decision-making. Even in those rare instances, few dissenting positions are recorded. This did not change with the 'Big Bang' enlargement. The ability of the 'procedural models' to predict results did not improve (Hertz 2010: 12), nor was there any evidence found in the practice of consensus decision-making (Mattila 2009: 844). Following the concluding remarks of the meta-study conducted by Best et al. (2009: 114-5), all major Council decisions were adopted relatively smoothly after 2004; there was no significant change in the quantity of the adopted decisions; and the Union of 27 was still under the substantial influence of national interests. In other words, it was "business as usual" for the EU (Best et al., 2009: 114).

The insignificant change in the formal procedures is an important empirical fact. Since the argument that states that the NMS would be able to draw on decision-making powers is based on the assumption that the procedures play an autonomous role, the role of the procedures, which is evidently weak, calls into question the relevance of the institutional assumptions and the procedural argument.

Schneider (2007) and Hertz (2010) argued that the older Member States would be able to accommodate the decision-making setting to serve their purposes. Both the changes in the more formal (see Baldwin and Widgren, 2004) and informal procedures and settings support this argument. Hagemann and De Clerck-Sachsse (2007), who based their analysis of post-accession decision-making on in-depth interviews with the individual decision-makers, argue that the Council meetings themselves seem more formal; however, more pre-negotiation also takes place. Furthermore, the de facto role of the Commission, the Council Secretariat, and the Presidency was strengthened; further, "the agenda has moved to the informal settings of luncheon tables and Council corridors" (Hagemann and De Clerck-Sachsse, 2007: 2; also Best et al., 2009). Studies based on specific policy aspects argue that the changes in the decision-making procedures have empowered the larger states vis-à-vis smaller and less 'comitology-experienced' Member States (e.g. Elsig 2010).

The presidency of the Council has allowed presiding Member States the ability to achieve better bargains on contested issues (Thomson, 2008). In 2008, Slovenia was the first new Member State to preside over the Council, followed by the Czech Republic in the first-half of 2009. Hungary and Poland, assuming presidencies in 2011, were the first NMS to preside over the Council in the post-Lisbon era. The cases studies of individual presidencies (Udovič and Svetličič, 2011; Balázs, 2011: 4-7, 13; Jesień, 2011: 21-3) demonstrate that the NMS were relatively successful in carrying out their representation and coordination functions. The presidencies allowed them to push forward some of their specific national agendas. However, positive conclusions are much less convincing where it regards their ability to capitalize on the presidency's function to achieve better bargain outcomes.

In addition to the formal and informal changes in procedural settings, policy substance has been changing as well. Following Thomson (2011: 50), the EU went from "being mainly about the level of integration to being mainly about regulating the single market". The changes in various EU policies have been underpinned by a philosophic shift from deepening towards negative integration and pillarization (also Best et al., 2009: 121; Moravcsik and Vachudova, 2003).

Before turning to the substantial policy issues, some conclusions can be made regarding the more formal decision-making indications. A rational institutional theory-based explanation would assume that, regardless of the policy issue, the NMS, once inside, could draw on their formal procedural powers, enabling them to push forward their own agenda. We found little empirical evidence to support such behaviour. There is also a lack of evidence showing the decisive role of NMS votes; the influence of the formal procedures is insignificant and there is a strong status quo bias present in the decision-making outcomes (Hertz 2010: 13). In sum, the empirical evidence demonstrates that the NMS have accommodated to the new decision-making setting relatively quickly (also Hertz 2010: 95). However, the evidence also demonstrates that the various non-procedural capacities possessed by the states are reflected in the more formal decision-making procedures. At best, Community institutions can be seen as weak intervening variables.

b) The Asymmetrical Two-Level Game

"We are not yet able to see ourselves as a sovereign subject of international political, economic and other relations."

(Borut Pahor, former Slovenian Prime Minister, August 2011)

The collapse of communist regimes strengthened the CEEC's dependency on the EU market. The rapprochement strategy pursued by the EU was based on the implementation of economic reforms, namely liberalization, deregulation, and privatization. The Copenhagen Criteria directly stressed the need for the NMS to be able to meet the market forces of the EU. Although in the early 1990s 'Europe Agreements' were generally oriented toward free trade; quantitative limitations were established on trade products such as textiles, steel, and agricultural products, where the CEEC had a comparative advantage (Bohle, 2003). The CEEC's strategy was based on gradualism and the continuation of state support in some economic sectors; although the limited economic resources and dependency on foreign trade and capital brought forth pressures to implement free trade policies, even in cases where differences in direct and indirect supports, enjoyed by the producers in various states, would have detrimental economic and social effects.

The agricultural sector highlights this point. Compared to the 1980s, when several CEEC exported their agricultural products to the European Community, the trade pattern reversed in the 1990s. Despite the fact that basic production factors' prices were lower,[18] due to the EU's heavily subsidized production, the import of agricultural products accounted for a substantial share of the CEEC's trade and trade deficit with the EU. Since, in the 1990s, CEEC agriculture employed 10-25% of the total labour force and contributed approximately 10-20% to the respective national GDPs (Herok and Lotze 2000) the supply of cheap food had negative consequences for the economies as a whole. In addition, it hardly helped the CEEC's agriculture overcome its structural problems. In the late 1990s, still less than 20% of Polish farmers

18 In Poland, agricultural land prices were just one-tenth of the land prices in Germany. The CEEC faced the loss of traditional markets and the collapse of its agro-food system, previously regulated and sustained via state control.

had bank accounts or used bank services (Karasinska-Fendler 2009).

In the 1990s, the collapse of the state planning system and economic reforms resulted in economic distress and the loss of social standards, in turn lowering the prices of production factors. EU accession was therefore considered a means to improve substantially the position of the CEEC since they would be granted unrestricted access to the common market and would be able to benefit from Community policies aiming at redistribution, such as the CAP, cohesion, and structural funds. At the end of the 1990s, interests groups in the EU-15 fearing the negative externalities of enlargement began to pressure their national governments to moderate its effects. Through provoking temporal or permanent migration, EU enlargement was considered to increase competitive pressures in sectors employing semi-skilled labour (the so-called "Polish Plumbers"). Farmers in the EU-15 also expected price pressures to increase with enlargement. Since CEEC farmers would be entitled to agricultural subsidies, which were still largely based on production, overall production would increase, provoking the growth of policy costs and pressures for additional decreases in agricultural product prices (Lovec and Erjavec, 2012). With CAP accounting for almost half of the Community's budget, the governments of the countries who contributed to the Community budget (the northern Member States), wanted to cap CAP funding. In addition to the recipients of CAP funds, the recipients of the structural and cohesion funds (older southern Member States), who accounted for an additional one-third of the Community budget, were as well concerned that the accession of the relatively less developed CEEC would decrease their share in the redistribution pie (Bohle, 2003).

Accession negotiations formally began in 1998-1999. The CEEC were under severe pressure to meet the standards of the EU. The acquis was "massive"; its implementation was "nonnegotiable, uniform and closely enforced". Furthermore, negotiations were in fact a "little more than a process of checking that the candidates have adopted the EU law" (Moravcsik and Vachudova, 2003: 51). The ability of the CEEC to impact the distributional issues was severely constrained. A transitional period was provisioned for the free movement of labour.[19]

19 The labor migration cannot simply be perceived as a substitute for trade. Cheap labor-based industries are highly mobile and produce little positive externalities. In contrast, emigrant remittances have greatly helped the balance of payments in some countries (in 2006, they accounted for approximately 5.5% of the GDP in Bulgaria and Romania;

The overall direct transfers that the NMS would receive from the EU were to be capped at 4% of the recipients' GDP (Moravcsik and Vachudova, 2003: 49). In 1999 the "Agenda 2000" agreement on MAFF for the period 2000-2006 established financial ceilings for the financing of various community programmes. The Agenda 2000 also introduced CAP reform, further decreasing the guaranteed prices on the community market and fixing agricultural subsidies (direct compensatory payments) to historical production levels (Garzon, 2007: 28-9). Candidates were pressured to agree on relatively low reference quantities for direct farm payments. In addition, direct payments were to be only gradually phased-in (reaching full levels only in 2013) (Lovec and Erjavec, 2012).

In 2002, after more than a year long stall in accession negotiations, during which time the older Member States attempted to settle the internal distributional issues triggered by the planned enlargement, France and Germany reached a general agreement on the 2007-2013 MAFF and on the ceilings on the funds available for various community policies such as CAP. In October 2002, the Schroeder-Chirac agreement was endorsed by the European Council. By the end of 2002, accession negotiations successfully concluded (Lovec and Erjavec, 2012).

The EU financially supported some of the costs related to the implementation of the acquis. The support that the NMS would receive under the community programs would still be substantial. However, most of the costs related to the implementation of the acquis were left to the candidate countries. The available supports would be much lower than those for previous applicants (e. g. the southern Member States). The financial arrangements effectively limited the receipts eligible to the NMS and protected those of the richer existing members (Moravsik and Vachudova, 2003: 46, 51). The pillarization of the policies would further constrain the opportunities available to the NMS.[20] Various structural issues, such as the quality of infrastructure and institutions, were not properly addressed. Under such terms, the market approach towards integration would result in relatively higher eco-

over 2% in the Baltic States; and 1.5% in Poland) (Commission, 2009). In 2009 emigrant remittances still accounted for 5% of Romania's GDP (Filipescu, 2009: 87).

20 In 2003, a year before the candidates became full members, the CAP was further reformed. The "Fischler Reform" decoupled substantial shares of supports from production and strengthened the role of supports based on rural development and specific farming practices. Greater subsidiarity in CAP objectives legitimized the re-nationalization of financial mechanisms.

nomic and social costs for the NMS.[21]

Following a period of hard political bargaining, candidates could hardly count on soft capital such as community norms. A Eurobarometer opinion poll taken in 2002, just as the EU governments were concluding the terms for the 2004 enlargement, found that 41% of EU citizens did not want to know any more information about the candidate countries; 76% did not wish to live or work in them; and 91% felt no ties of any kind to them. The radicalization of the candidates' arguments would only delay the process. Thus, they accepted the offer as the best bargain possible under the given circumstances. The accession agreement would still result in an improved net position of various interest groups (such as farmers) and countries as a whole (Schrader, 2000: 238). At the end of the day, the political elites in the NMS tried to sell the agreement as a political success.

In the post-accession period, asymmetrical dependence continued to exist. During the years immediately following accession, NMS dependency on the EU market reached historically high levels[22]; in particular, the larger NMS were highly dependent on the internal EU market (Elsig, 2010: 3). During the 2007-2013 MAFF negotiations, the group of six net contributors (Austria, France, Germany, the Netherlands, Sweden, and the UK) argued against an EU budget increase beyond 1% of the EU's total GDP. Correspondingly, budget recipients tried to preserve the allocated shares. The final agreement was closer to the position of the net contributors (Thomson 2011: 2), but also somehow preserved the funds that the individual recipients were granted through mechanisms, such as the CAP (Lovec and Erjavec 2011). The lowest common denominator agreement on MAFF took the most from the NMS, thus highlighting their relative weakness.

21 The agricultural sector once again illustrates the point. Although accession would improve the financial position of the average farmer (Schrader, 2000: 238), enlargement would also result in higher food prices. Finally, the total effects would depend on the organization and control over the parts of the agro-food chains (Herok and Lotze, 2000: 662), where the capital from the EU-15 played a substantial role.

22 For the period 2004-2006 84.6% of Czech; 73.4% of Estonian; 76.5% of Hungarian; 75% of Latvian; 64.9% of Lithuanian; 77.8% of Polish; 85.2% of Slovak; and 66.4% of Slovenian trade in goods was intra-European. The CEEC's share in EU-15 trade was, evidently, much smaller.

Table 3: Economic structure of the CEE-8/10

Member state	EU's GDP share (%)	GDP share (%) Agriculture/Industry/Services			Agri. Employ. (%)	High-tech exports (%)
Bulgaria	0,23	6,3	32,3	61,4	-	4,1
Cyprus	0,12	2,7	19,2	78	5,1	9,1
Czech	1,03	4,1	37,6	58,3	4,4	12
Estonia	0,12	3	28,5	68,5	5,5	16,8
Hungary	0,82	2,8	31,5	65,7	5,3	25,7
Latvia	0,16	3,3	22	74,7	14,6	4,7
Lithuania	0,22	5,3	33,3	61,4	16,3	5,2
Malta	0,04	2,7	22,3	74,9	2,3	-
Poland	2,5	16,1	29	54,9	17,6	3,3
Romania	0,98	7,9	35,6	56,5	-	4,2
Slovakia	0,44	2,6	33,5	63,9	5,1	4,9
Slovenia	0,27	2	34,4	63,5	9,7	5,2
NMS	6,99	4,9	29,9	65,1	8,6 (CEE10) 9,8 (CEE8)	9,7 (CEE8)
EU-15	93	2,8	27,2	70	4,8	18

Source: Elsig 2010.

Romania and Bulgaria, which entered the EU in 2007, share rather similar experiences with the CEE-8. Following Filipescu (2009: 86), less than two years after accession, and in spite of being integrated in all important EU structures, "this widespread political representation does not seem to have translated into any significant advances on the social front: there seems to have been no progress in finding solutions to the major problems for Romanians, such as social inclusion or the free movement of Romanian workers in the EU".

In 2007-2008 the CAP underwent a so-called Health Check reform. Several NMS would get the least out of the reformed policy (Lovec and Erjavec, 2011). The contemporary "greening of the CAP" is in line with the further pillarization of this policy. Seven years after enlargement, self-sufficiency shares in several food commodity groups in Member States like Slovenia had fallen to historically low levels (close to 30%). When trying to influence preparations for the 2014-2020 MAFF, Poland, holders of the rotating presidency, faced political limitations (Jesień, 2011: 21).

Community norms and institutions have clearly influenced particular issues where the interests of the new and the older Member States were less clear, or where the costs and benefits were dispersed. However, the most highly contested issues from the pre- and post-accession periods, including those concerning direct redistribution, help illustrate the role of interests and relative power (dependence), which influence bargaining outcomes. Had the two-level game been more symmetrical (as with Germany and France), NMS farmers would be able to benefit from the enlargement substantially (Moravcsik, 1998: 206-8). Instead, the eligibility of financial supports was constrained. The negotiation's outcome clearly reflected how asymmetry in mutual dependence constrained both the opportunities available to the individual interest groups involved in the two-level bargaining games, and the win-sets available to individual governments.

Finally, asymmetrical dependence also influenced the quality of governments and other political institutions. Negative integration enabled lower compensations than would be required in a multi-level system in which stronger vertical and horizontal democratic principles were in place. Thus, it further deepened the problem of the EU's democratic deficit (compare with Hagemann and De Clerck-Sachsse, 2007: 4).

c) Convergence in crisis

Through various policies, governments distorted the operation of market forces. However, the (eventually) unconstrained mobility of capital, goods, and labour was still considered to facilitate economic growth in NMS, leading to economic convergence. Following the Commission (2009), in the period 2004-2008, NMS grew at an average rate of 5.6% (against the 2.2% average growth rate of the older Member States), with Slovakia and the Baltic states reaching growth rates as high as 7–10%. It was estimated that joining the EU gave the new members an extra annual growth boost of around 1.75 percentage points over the period 2000–2008. The economies were converging.

Table 4: Growth, Relative GDP pc (EU-27 = 100), employment and inflation

	2004	2005	2006	2007	2008	2009	2010
EU-27	2.5	2.0	3.3	3.2	0.3	-4.4	2.1
	GDP pc (EU= 100)						
	63.0	63.54	64.4	65.3	65.8	64.5	64.1
	2.0	2.2	2.2	2.3	3.7	1.0	2.1
EU-15	2.4	1.8	3.1	3	0	-4.4	2.1
	113	113	112	112	111	110	110
	64.8	65.3	66.1	66.8	67.1	65.8	65.4
***Euro 17**	2.2	2.2	2.2	2.1	3.3	0.3	1.6
Bulgaria	6.7	6.4	6.5	6.4	6.2	-5.5	0.4
	35	37	38	40	44	44	43
	54.2	55.8	58.6	61.7	64.0	62.6	59.7
	6.1	6.0	7.4	7.6	12.0	2.5	3.0
Cyprus	4.2	3.9	4.1	5.1	3.6	-1.9	1.1
	89	91	91	92	99	100	99
	68.9	68.5	69.6	71.0	70.9	69.9	69.7
	1.9	2.0	2.2	2.2	4.4	0.2	2.6
Czech	4.7	6.8	7	5.1	3.1	-4.7	2.7
	78	79	80	83	81	82	80
	64.2	64.8	65.3	66.1	66.6	65.4	65.0
	2.6	1.6	2.1	3.0	6.3	0.6	1.2
Estonia	6.3	8.9	10.1	7.5	-3.7	-14.3	2.3
	57	62	66	70	69	64	64
	63.0	64.4	68.1	69.4	69.8	63.5	61.0
	3.0	4.1	4.4	6.7	10.6	0.2	2.7
Hungary	4.8	4	3.9	0.1	0.9	-6.8	1.3
	63	63	63	62	64	65	65
	56.8	56.9	57.3	57.3	56.7	55.4	55.4

Latvia	6.8	3.5	4.0	7.9	6.0	4.0	4.7
	8.9	10.1	11.2	9.6	-3.3	-17.7	-0.3
	46	48	51	56	56	51	51
	62.3	63.3	66.3	68.3	68.6	60.9	59.3
Lithuania	6.2	6.9	6.6	10.1	15.3	3.3	-1.2
	7.4	7.8	7.8	9.8	2.9	-14.8	1.4
	51	53	56	59	61	55	57
	61.2	62.6	63.6	64.9	64.3	60.1	57.8
Malta	1.2	2.7	3.8	5.8	11.1	4.2	1.2
	-0.5	3.7	3.1	4.4	4.1	-2.6	2.5
	78	78	76	76	79	82	83
	54.0	53.9	53.6	54.6	55.3	56	56.1
Poland	2.7	2.5	2.6	0.7	4.7	1.8	2.0
	5.3	3.6	6.2	6.8	5.1	1.6	3.9
	51	51	52	54	56	61	63
	51.7	52.8	54.5	57.0	59.2	59.3	59.3
Romania	3.6	2.2	1.3	2.6	4.2	4.0	2.7
	8.6	4.2	7.9	6.3	7.3	-6.6	-1.6
	34	35	38	42	47	47	46
	57.7	57.6	58.8	58.8	59.0	58.6	58.8
Slovakia	11.9	9.1	6.6	4.9	7.9	5.6	6.1
	5.1	6.7	8.3	10.5	5.8	-4.9	4.2
	57	60	63	68	73	73	74
	57.0	57.7	59.4	60.7	62.3	60.2	58.8
Slovenia	7.5	2.8	4.3	1.9	3.9	0.9	0.7
	4.4	4.0	5.8	6.9	3.6	-8	1.4
	87	87	88	88	91	87	85
	65.3	66.0	66.6	67.8	68.6	67.5	66.2
	3.7	2.5	2.5	3.8	5.5	0.9	2.1

Legend:

- First row: GDP real. Grey colour: below EU-15 average.
- Second row GDP pc PPS (EU-27= 100). Black colour: stall or decline in GDP pc gap.
- Third row: employment rate in age group 15-64. Black colour: sharper unemployment rise than in the EU-15.
- Forth row: inflation: Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs). Light grey colour: above EU-15 average. Dark grey colour: above domestic growth.

** 2010 is the last year for which the consolidated data is available for all the indicators listed. Data: Eurosta*

With the financial and economic crisis reaching a tipping point in 2008, growth trends have since reversed. Being relatively small and open economies dependant on the EU market, the NMS have essentially 'imported' the crisis. However, compared with the EU-15 average, all of the NMS, with the exceptions of Malta and Poland, faced a much higher decline in economic activity (Table 4, first row). The convergence gap, measured in terms of GDP per capita (accommodated with PPS) relative to the EU-27 average, increased for all of the NMS but Poland and Malta (Table 4, second row).

The depth of the crisis in the NMS (as well as in other peripheral countries such as Italy, Spain, Portugal, and Greece) highlighted the fragility of post-accession growth. Following Inotai (2009: 93-4), the effects produced by liberalizing trade between the EU and its candidate countries largely took place before 2002. During the period 2004-2008, accession-related positive expectations and the declining prices of money provoked domestic and foreign (capital) investment growth in the NMS. The depth of the crisis demonstrated that much of that growth was, in fact, inflated. At the advent of the crisis, foreign capital quickly diminished in NMS countries. The NMS (with Hungary being the extreme example) faced tremendous current account deficits. The private sector subsequently transferred the economic burden onto the labour market and banks. Private crediting came to a halt. In all of the NMS, unemployment grew at faster rates than in the EU-15 (Table 4, third row).[23] In order to prevent a further deepening

23 The crisis affected the market of migrant work, provoking a decline in remittances. The European Commission has

of the economic and social crisis, state authorities continued to spend by increasing public debt. Soon, they faced the reality of weakened credit ratings and the growing 'price' of money. In spite of these contractions, all countries faced considerable real prices growth (Table 4, fourth row), which pointed to problems inherent in the current market structures.

Due to unequal economic trends in various parts of the eurozone, the eurozone crisis was inevitable; however, non-eurozone NMS also felt the impact of market asymmetries.[24] The governments of the richer Member States pressured poorer members to accept fiscal austerity measures by decreasing wages and social standards in order to meet market forces (and remain in the eurozone). The alternative solution, now only beginning to be discussed, is a further multi-speed division of the EU. Poorer members have tried to bargain for some burden-sharing. Meanwhile, the depth of the crisis has begun to challenge the economic and political sustainability of the eurozone. Following Inotai (2011: 56), in Germany and France, fiscal consolidation would require 20 years of sustained growth. To match these figures, NMS growth would have to be approximately 3-5% in order to absorb the available labour (as opposed to 2% in the more developed Member States). It is not yet clear whether governments will be open to economic reforms, or even if such reforms would actually facilitate more sustainable growth levels.

5. Discussion: We Got in. Now What?

"We are all swimming in the same Central European pot … We are a stack of small and insignificant countries – and therefore we should cooperate … None of us can make big leaps alone." (Karel Scwarzenberg, Foreign Minister of the Czech Republic, in Kořán 2011: 66)

EU accession was considered a substantial benefit for the CEEC. They would gain decision-making powers; Community norms and policies would influence distributional issues; and market forces would facilitate

allowed Spain to put limitations on the inflow of workers from Romania.

24 The eurozone crisis is not the problem of a common currency per se, but rather the problem of a common market (obstacles to the mobility, problems of economic structures, institutions, unharmonized taxes and economic policies).

economic convergence. Expectations depicting the EU as a "free lunch" of sorts were underpinned by rational and normative institutional theory of enlargement (Schimmelfennig and Sedelmeier, 2002). The explanation of the accession-related issues proposed in this article is based on LIG (Moravcsik and Schimmelfennig, 2009). Our main argument is that decision-making powers are still constrained by other powers possessed by the national governments. Distributional issues are determined by individual interests and power (dependence) asymmetries. Finally, convergence depends on economic structures and the ability of individual governments to influence economic processes. The empirical evidence presented in this article supports the LIG-based explanation. In addition, the study supports the already-established argument that further theoretical and empirical effort is needed in order to reach more comprehensive explanations of EU enlargement (Faber, 2009), and as well as that various implications of EU accession have not yet been properly assessed from the perspective of the NMS (Kajnč, 2009).

The following outlines some of the practical conclusions regarding the position of the NMS that can be drawn from this research. Following Moravcsik (1998), De Gaulle once said that although he likes to share his drink with his friends, he likes to drink from his own glass. The CEEC may have considered accession as an end to traditional interstate politics, a system that would be replaced by technocratic governance embedded in Community norms. If the 'real powers' that the governments possess are still the most important determinant of cooperative decision-making, the NMS should, in order to strengthen their position, engage in a closer cooperation amongst each other and with other Member States; here they could define shared priorities and form strategic coalitions. Second, the problem of asymmetrical dependence can be tackled through diversification and a spatial dispersion of economic activities and partnerships. Strategic alliances with non-Member States can also be forged. In addition, governments should not leave the strategies related to long-term economic development to the markets. Third, convergence is still more likely if a country stays with the core group of EU Member States; although this would require strong political consent and careful long-term planning of economic reforms.

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Relationship of a Special Significance? A Chinese Direction in Hungary's Foreign Policy under Viktor Orbán[25]

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Abstract

Hungary's centre-right government has increasingly demonstrated a strong interest in strengthening both its political and economic ties with China. On the one hand, Budapest's determination results from the country's acute need to locate new sources of investment for its weakened economy. On the other, however, the movement east is strongly connected with the ruling party's distant attitude to western organizations and its perception of the rising global importance of central Europe. This article shall outline how Hungary has been implementing its more active foreign policy towards China and the likelihood of success.

KEY WORDS:

Hungary, China, Viktor Orbán, economy, central Europe

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1. Introduction

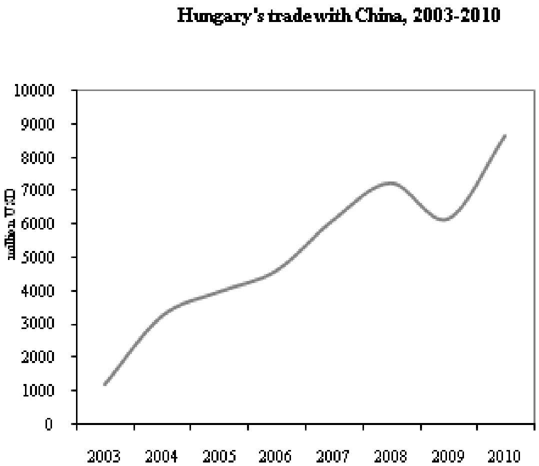
Since its formation in May 2010, the Viktor Orbán stewarded centre-right government in Hungary has made enhanced Asian ties a cornerstone of its foreign policy. The strategy for the eastern shift was first presented in a November 2010 meeting with members of the Committee on Foreign Relations. The Deputy Minister of Foreign Affairs, Zsolt Németh, explained Hungary's movement toward Asia as the result of the eastern continent's growing global significance; he noted, "The future of the world economy and politics seems to be increasingly inclined to Asia, therefore both Hungary and the European Union should consider deepening relations with this region as their primary interest" (HVG, 2010). Németh listed Japan, South Korea, and China as Hungary's primary Asian partners; however, over the last two years, Budapest's diplomatic efforts have increasingly concentrated on reinforcing its contacts with a much larger share of the continent: from northeast Asia through central Asia and Transcaucasia, to the Persian Gulf. Between 2010 and 2012 high official missions headed by the prime minister, president, the speaker of the National Assembly, and a host of government ministers have included visits to Armenia, Azerbaijan, Brunei, Georgia, Kazakhstan, Malaysia, the Philippines, Saudi Arabia, Thailand, Turkmenistan, United Arab Emirates and Uzbekistan, as well as multiple trips to Russia and China. The new weight affixed to the government's eastern interests has since provoked criticism that such a policy already enjoys an equal status with Hungary's three traditional foreign policy aims established in the beginning of the 1990s (Kałan, 2011)[27], and as well maintains a firm conceptual footing – the so-called "Eastern wind doctrine". The latter stems from Orbán's November 2010 speech, where he stated that, "Hungary is anchored in western waters, but the wind in a world economy blows from the East" (Index, 2010).

27 The three traditional priorities of Hungary's foreign policy are: European integration (and building a strong position within NATO and the EU); good relations with neighboring countries; and care for Hungarian minorities living abroad.

2. Orbán and China: No more idealism

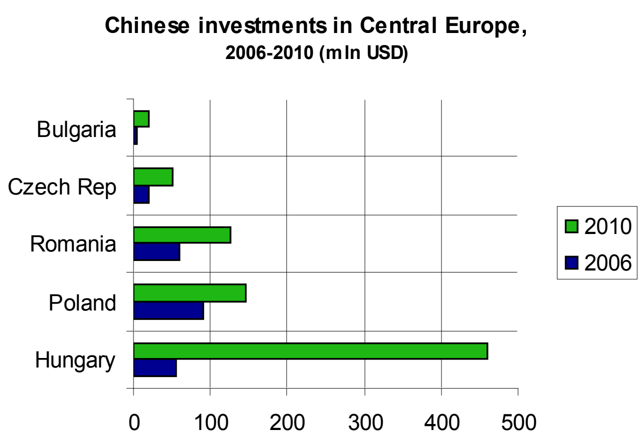
Because of its political, economic, military, and demographic potential, China is Hungary's most important Asian partner. Although it is the current Fidesz-KDNP government that placed China at the top of Hungary's foreign policy agenda, the policy is actually a revival of bilateral relations previously enacted by the left-wing governments headed by Péter Medgyessy (2002-04), Ferenc Gyurcsány (2004-09), and Gordon Bajnai (2009-10). Rapprochement began in August 2003, when Medgyessy became the first Hungarian PM since 1959 to visit Beijing. Afterward, his two successors also held official visits to China (including three visits by Gyurcsány). China has reciprocated in kind, sending both the General Secretary of the Communist Party of China, Hu Jintao (2004), as well as Vice President Xi Jinping (2009). As a result, educational contacts (a *Hungarian-Chinese Bilingual* Elementary *School opened in Budapest in September 2004*), and cultural contacts (the *Confucius Institute in Budapest was established in December 2006; a Hungarian Season exposition was held in China in 2007-08*) have significantly deepened. Among other achievements during this period include the arrival of a Bank of China branch office to Budapest (2003), and the initiation of a direct flight connection between Budapest and Beijing (2004). That same year marked the beginning of an increase in trade between the two countries. Trade volume tripled in 2004 over the previous year (from 1.2 billion USD (2003) to 3.3 billion USD in 2004). Since then, economic cooperation has grown annually, peaking in 2008 at 7.2 billion USD (KSH, 2012). Foreign direct investment (FDI) in Hungary rose in 2010 to around 460 million USD, which accounts for more than half of all Chinese investments in central Europe (CEED, 2012).

Table 1:



Source: Hungarian Central Statistical Office.

Table 2:



Source: Central and Eastern Europe Development Institute.

Rapprochement between Hungary and China in the first decade of the twenty-first century, which has periodically assumed the form of uncritical admiration from the Hungarian side[28], may be explained by both the

28 Quite typical for the Left's attitude towards China was the opinion of former-PM Gyurcsány, who wrote in 2009: "China is fascinating! I have no doubts, that in [the] next few decades the country will rise [...] In China nothing is for free. One has to pay for health system, schools... There is no one general pension system for everyone. In China there is order, at least in comparison with many European states. Everyone, with whom I spoke - whether it was supporter of communists or not - claimed that without [the] one-party system and without "market communists" there would not be neither (sic) order nor success in China".

reinforcement of China's position in global politics and Hungary's new-found attractiveness since its accession to the European Union in 2004. An additional factor stems from social and historical ties. Among all central European countries, Hungary has the largest population of Chinese diaspora. Officially, between 10,000 and 15,000 Chinese make their home in Hungary, which represents nearly 0.2 percent of the country's population[29]. Moreover, both Hungary and China retain fond memories of mutual cooperation after World War II (Szunomár 1, 2011), and recall – not insignificantly – the Asian roots of the Hungarian nation (Matura, 2011).

While the Hungarian left's pro-active attitude towards communist China was understandable, the current involvement of the centre-right Fidesz is rather surprising given the past behaviour of its leadership. In 1989, Orbán, then a young democratic activist, organized a public protest in Budapest against the *Tiananmen* Square *massacre*. Ideological differences were also among the reasons why Hungary's ties to China were considerably distant during Orbán's first term as PM (1998-02). In December 2000, the Hungarian Minister of Foreign Affairs, János Martonyi, signed a common declaration of friendly relations between the two countries (MFA, 2000); however, in that same year, the government in Budapest made several gestures which could be interpreted as confrontational. Notably, the Hungarian consulate in Shanghai was closed (Népszava, 2010), and afterwards Orbán held a half-hour meeting with the Dalai Lama in Budapest (Orbán.hu, 2000). In addition, while serving as the opposition following the 2002 parliamentary elections, Fidesz's position on China was rather unenthusiastic. Such an attitude reflected the influence of the dissident experiences of the centre-right movements during the 1990's, particularly with regard to foreign policy, which placed the promotion of human rights and civil freedoms above economic interests when determining relations with non-democratic states.

Immediately prior to the 2010 elections, Orbán began opting for more flexibility with China. During the campaign the two dominant Hungarian political parties, Fidesz and the Hungarian Socialist Party (MSzP), equally demonstrated a vaster interest in the Asian power. Ildikó Lendvai, then a leader within MSzP, was in Beijing at the beginning of March 2010, mere

29 The large number of Chinese first appeared in Hungary in the early 1990s. This was facilitated by the governments' abolition of visas for citizens of China, a policy which lasted between 1988 and 1992. Currently, the majority of Chinese live in Budapest and its surroundings, as well as in border towns: Nyíregyháza and Szeged.

weeks before the first round of elections (Gondola, 2010). One month later the left-wing government's Minister of Foreign Affairs, Péter Balázs, opened a new Hungarian general consulate in Chongqing (Népszava, 2010). Further, Orbán as the leader of the opposition in autumn and winter 2009 made two extended trips abroad: to Russia and China, respectively. As a result of the latter, political relations between Fidesz and the Communist Party of China (CPC) were officially established (Népszabadság, 2010).

The current Fidesz-KDNP government's resignation from a value-based foreign policy towards a position more characteristic of *realpolitik* is a pragmatic response to the same global trends that have made China a centre of international political and economic capital. Moreover, the pressure to shift has been vastly heightened by Hungary's unstable economic condition, and its acute need to locate new sources of investment. Notably, it was only two months after his landslide 2010 victory that Orbán decided to cease loan extension talks with the International Monetary Fund, and begin a firmer rhetoric against Hungary's political dependence on the EU. As such, stronger and – as evidenced by the trade figures between 2004 and 2010 – economically beneficial relations with China began to be considered a key opportunity for economic recovery for a weakening Hungary, which to reiterate had just previously ended discussions for more western funds. The move reveals Orbán's behaviour as a classic *realpolitik*: instead of seeking closer cooperation with an organization in the midst of a deep economic crisis, he developed contacts with an increasing global power. The latter notably did not impose any political commitments on his country and showed no interest in the domestic transformations made by his government.

3. China's hub in Central Europe? Budapest's dreams of power

Upon seizing power in 2010, Hungary's centre-right government did not want to dismiss the inroads paved by its predecessors and vigorously sought to maintain enhanced relations with China. In August 2010, the

Deputy PM, Zsolt Semjén, met in Beijing with his Chinese counterpart (Hungarian Spectrum, 2010); two months later, Orbán himself visited Shanghai to attend the closing ceremony of the World Expo, where the Hungarian pavilion received the silver medal for excellence. With regard to the World Expo, the new PM's interest was quite unexpected, since as the leader of the opposition he strongly criticized the previous left-wing government for investing too much money on the pavilion's promotion. Orbán's presence in Shanghai enabled him to set up meetings at the highest political level, as well as experience firsthand China's economic success story[30]. The intensive round of meetings during Fidesz-KDNP's first year in power was further enhanced by the Minister of National Development, Tamás Fellegi, who along with Hungarian entrepreneurs, held a series of consultations with Chinese officials, bankers, and businessmen in December 2010 and March 2011. A further symbolic sign of a change in Fidesz's policy towards China occurred when Orbán refused to meet with the Dalai Lama in September 2010 (Ballad, 2010). By the onset of 2011, China and Hungary's political relationship had strengthened so rapidly that Hungary was now considered China's third – just after Greece and Portugal – potential "foothold in Europe" (FN24, 2010).

In the ensuing year, Hungary's policy toward China continued. During *Hungary's Presidency* of the *Council* of the *European* Union (January – June 2011), the Royal Palace of Gödöllő hosted the prestigious Asia–Europe Meeting (ASEM) in June 2011 with the participation of foreign affairs ministers from many Asian states, including China. Yet the central point in bilateral contacts over the last two years occurred on 24th June, 2011, when Wen Jiabao became the first Chinese PM since 1987 to visit Hungary, The date was notable in that it was just one week prior to the end of Hungary's Presidency of the *Council* of the *European Union*. Moreover, Jiabao's trip started in Budapest, before visiting Berlin and London. One could argue that China's unique relationship with Hungary was emphasized by this order. Additionally, China and Hungary finalized several economic agreements during the visit, with the latter promising to provide a 1 billion EUR loan (Hungarian Spectrum, 2011), which further allowed Hungarian commentators to highlight the special significance of the Sino-Hungarian relationship. Stressing the importance of his Chinese guests,

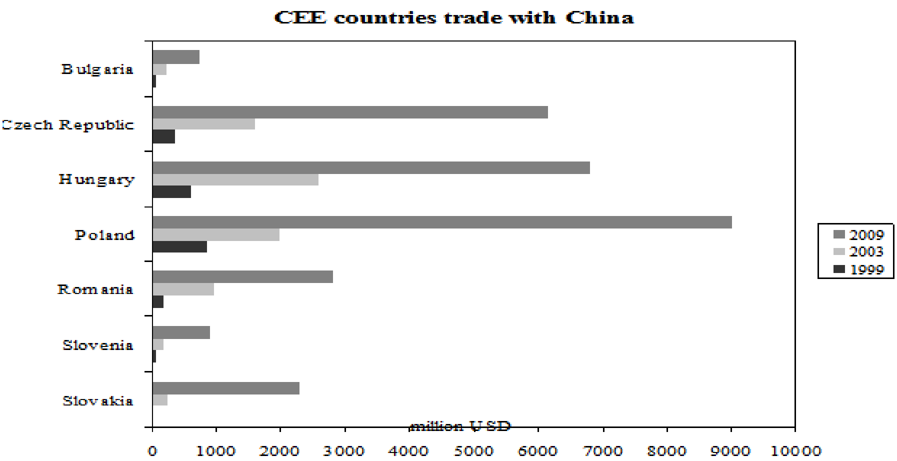
30 In Shanghai Orbán met with his Chinese counterpart, Wen Jiabao, and visited local factory of Huawei and ZTE, the largest China-based networking and telecommunications equipment suppliers.

Orbán invited his counterpart for a morning walk along the Danube and even accompanied him on the road to the airport (Szunomár 2, 2011). The host government also took care to quell all anti-Chinese protests during the visit (Politics.hu, 2011).

Such a vast increase in contacts with China was not only justified as an economic boon to Hungary, but a strategic one as well. In the vision of a post-crisis world promoted by Orbán, China is viewed as one of the new global centres, along with central Europe (defined as the area from the Baltic Sea to the Adriatic Sea), which in terms of economic importance will soon replace western European countries. In June 2011, during the China–Central and Eastern European Countries Economic and Trade Forum, also held in Budapest, the Hungarian PM praised Chinese leaders for their "loyalty to a few principles, which we here in the West have turned our backs on in recent times" (Orbán 1, 2011). Among them he listed: moderation in consumption, ennoblement of work, and reluctance to indebtedness, which was even likened to "sin". Orbán further paralleled the Chinese and Hungarian viewpoint on the global economic crisis: "China and Hungary understand the new world; we understand its new rules and simple truths. Both our countries have firmly committed themselves to a value creating, work based economy". Since then, Orbán has consistently made reference to his concept of the two new global poles, including at a meeting at the London School of Economics in November 2011 (Orbán 2, 2011).

Orbán's strategy has not only strengthened the foundation for Chinese-Hungarian economic relations, but has also enhanced the image of Hungary as a faithful partner, which could become China's gateway to central Europe. Hungary aspires to become a regional leader, which has lead to a quiet central European competition for Beijing's attention. When the Chinese state company Covec unexpectedly withdrew from a highway A2 construction project in *Poland in June 2011*, the Hungarian media linked the decision to Wen Jiabao's visit to Budapest, which took place at the same time (HVG, 2011). In January 2012, however, it was Poland, a country much less committed to China that signed an agreement on a bilateral "strategic partnership" with China. Hungary's disappointment might be understandable, since there had previously been no other country in central Europe as openly enthusiastic about increased cooperation with Beijing. Orbán is perhaps the only European leader opining that relations with China should be defined as a "new alliance of primary importance". His uncritical approach to China and public statements on the stability and security of Chinese investments in Europe aim to both draw Beijing's attention toward Hungary's loyalty, as well as enhance the overall character of Chinese diplomacy in the EU (Godement, 2011). In fact, experts have argued that Orbán's failure to mention both human rights and Tibet, and his overwhelming posturing of the two countries' shared political goals, suggests that he is something of a spokesman for China in Europe.

Table 3:



Source: Chinese Central Statistical Office.

4. Unfulfilled Relationship: The Results of Hungary's China Campaign (2010-12)

Although Hungarian leaders have presented a strong commitment to strengthened political relations with China, their efforts have not amounted to the expected economic benefits. In 2010 and 2011, the value of Hungary's trade with China amounted to 8.6 and 7.2 billion USD respectively31. While the 2010 figure represents a record high, it is actually the continuation of year-on-year growth. According to unofficial Chinese statistics, China has invested between 2 and 2.5 billion USD in Hungary over the last two years; however, half of it (1.25 billion USD) derived from one company, Wanhua Industrial Group, which in June 2010 became a strategic investor in a Hungarian chemical producer, BorsodChem, and in February 2011 acquired full control over it. In the fall of 2011, some claimed that China purchased a small number of Hungarian state bonds, but no detailed information has since been given. Twice – in June 2011 and April 2012 – Chinese leaders, Wen Jiabao and Li Keqiang, promised to provide Hungary with a loan for development projects; to date, however, the money has not been transferred.

Moreover, the major infrastructure investment plans, which were prioritized by the Hungarian government, remain unimplemented. Orbán has repeatedly encouraged Chinese investors to invest in the downtown-to-Ferenc Liszt International Airport high-speed train connection, which would initiate a close cooperation between Hungarian State Railways MÁV Zrt and the China Railway Construction Corporation. Yet the future of this project has been negatively impacted by the bankruptcy of Hungary's national airlines, Malév, in February 2012. The bankruptcy has resulted in the temporary closure of Terminal 1 and the suspension of expensive direct flights between Budapest and Beijing. Hence, a high-speed train has lost its economic importance for China. Further, with the reopening of direct flights between Warsaw and Beijing, Poland – a much larger and more economically stable country than Hungary – has signalled its willingness to cooperate with China.

Orbán also believed that China would come to the aid of Malév, which bankrupted in the wake of an EU competition law case32. Yet negotiations conducted between Hainan Airlines and the Hungarian government, with the participation of one of the most prominent businessmen in Hungary, Sándor Demjan, were not successful. While it remains unclear why China did not purchase the collapsing Malév, one of the prevailing opinions is

31 This figure is according to the Hungarian Central Statistical Office; however, it does not match Chinese data. The latter claims that the value of trade volume for 2011 was approximately 9.0 billion USD.

32 The idea of China's investment in Málev originated during the mandates of previous left-wing governments. Orbán, as PM, stirred this subject in a conversation with Wen Jiabao during his first official visit to China (Shanghai, October 2010).

that the Chinese were only interested in a majority stake acquisition, and Hungarians had doubts if such a purchase would violate EU regulations. Further adding to Hungary's infrastructure woes, the ambitious project of the Eurasian railroad line Záhony-Korgas, which would connect Hungary, Ukraine, Russia, Kazakhstan and China, will not be realized in the near future. If such an initiative were to be successfully completed, Hungary would quite literary become China's gateway to Europe. Instead, China appears more committed to the corridor China-Russia-Ukraine-Slovakia-Austria, which already is slightly more advanced. Due to a number of infrastructural difficulties, the rail line would bypasses Hungary altogether.

The modest results of the Sino-Hungarian rapprochement in 2010-12 can in part be explained by the lack of a clear Chinese strategy towards Europe. Moreover, Hungary's poor economic health and confrontational policy towards western organizations did little to improve upon the proposed partnership. One can further argue that Chinese investors prioritized countries by their ability to stave off economic crisis and remain stable, rather than those which maintained a loyal political rhetoric. In fact, the Chinese Deputy Minister of Foreign Affairs, Song Tao, remarked in Budapest in April 2012 before a visibly unsettled Orbán that it is always favourable to have a predictable and stable partner with whom to cooperate33. The pattern of China's relations with Hungary suggests that China is not interested in becoming an alternative pole for dissident EU states, but rather seeks to engage with stable and well-integrated countries. The EU may as well be concerned with the growth of bilateralism between individual Member States and large external powers; however, the Sino-Hungarian relationship reveals that it is the maintenance of good relations with other EU states that makes a country attractive to Chinese investment.

With respect to Hungary's political efforts, it should be further noted that the centre-right government has over the previous two years made several missteps as a result of its misunderstanding of Chinese politics and culture. The position of a Special Commissioner for Hungarian–Chinese Economic Relations was not only kept but upgraded within the government; however, the position was not reasonably filled34. In order to highlight

33 Speech by Song Tao at the China-Central and Eastern Europe Symposium, 12 April 2012. Own notes

34 When the left was in power there was a similar position in the government; however, these existed at much lower political levels. Over a period 2006-10 András Huszty, an economist and the former general director of Málev, was the Commissioner for Hungarian-Chinese Economic Relations and Coordination.

the importance of bilateral ties, two members of the government were in charge of relations with China: the Minister of National Economy, György Matolcsy (2010; and again since 2012), and the Minister of National Development, Támas Fellegi (2010-2011), who was even nicknamed "Mr China" by the Hungarian media (Matura, 2011). Yet surprisingly neither made Sino-Hungarian relations a priority. According to unofficial sources, the Chinese did not really know with whom they should communicate. Bilateral communication became even more strained, when for consecutive weeks the Commissioner position remained vacant after Fellegi assumed responsibility to negotiate with the International Monetary Fund (IMF). Further, Orbán's government gave little attention to the development of person-to-person contacts, a crucial priority for China, e.g. the establishment of scholarship programs for students and young researchers. Between 2010 and 2012 several economic and cultural goals were achieved35; however, their scale is nowhere near comparable to the political efforts put into strengthening bilateral relations. It is not surprising that during another visit to Beijing in November 2011, Fellegi impatiently explained that the time is right to implement projects, which until then had only been discussed (SEW, 2011).

The limited performance with regard to the above is not the only cause for modest gains made between the two countries. China's strategy towards Europe has yet to fully crystallize; Central-Eastern Europe in the near future may play a more significant role in EU-China relations. In fact, according to Wen Jiabao, the region will eventually become a "Chinese gateway" (Rodier, 2012). Just recently other central European states have also put forth efforts to generate interest from China. Such programs, however, may not necessarily be detrimental for Hungary as it is more practical for Beijing to be involved with a range of states in the region rather than just one. In April 2012, during the China–Central Europe–Poland Economic Forum in Warsaw, Wen Jiabao promised to establish a special credit line of 10 billion USD for infrastructure and technology to the whole region (Baj/Bielecki, 2012). Previous China–Central Europe summits organized in Hungary in June 2011 and in April 2012 (Symposium) did not result in such high-volume declarations. It is also noticeable that in the first half of 2012, Orbán's attitude has become increasingly conciliatory towards both the EU

35 For instance, at the University of Miskolc, a China Center was established in April 2012. In the same month it was announced that Huawei Technologies agreed to establish its European Logistics Centre in Hungary.

and the IMF, with which Hungary reopened stand-by-credit negotiations. If this trend is to remain, it could result in the gradual restoration of economic stability which would positively impact Hungary's relationship with the Chinese. In 2012 the Orbán government seems keen to maintain continuity in reinforcing Chinese-Hungarian political contacts. In April Li Keqiang, the Chinese Deputy PM and next head of the government visited Budapest where a series of investment and co-operative agreements were signed (Index, 2012). Orbán also plans to visit Beijing in the second half of 2012. In sum, China is poised to remain a focal point of Hungary's foreign policy.

5. Conclusions

1. Between May 2010 and May 2012 Hungary was the only country in central Europe to present a clear, open, and uncritical interest in strengthening relations with China. Such an interest was visible in Orbán's rhetoric, as well as in the number of contacts established at the highest political levels. The interest in China stemmed from both the poor national and regional economic conditions and the governing party's sceptical attitude concerning the future of the European Union. With regard to the former, Hungary has definitively new sources of investment for its weakened economy. The latter, however, is connected with the more general vision of the evolution of international relations in the aftermath of the global economic crisis. According to the Hungarian Prime Minister Viktor Orbán, both central Europe and Asia in the long term will become the beneficiaries of economic crisis because of the expected decline of the former economic centres in western Europe, i.e. the establishment of new economic poles will become necessary.

2. Despite the strong political commitment exerted by Hungarian leaders, their efforts have not brought about the expected results. The primary obstacle for Hungary is most likely its current political and economic situation. Orbán's confrontational policy towards the west, his distrust in markets, and Hungary's unstable economic situation (e.g. the bankruptcy of Malév) revealed the Chinese investors' position

on Budapest to be decidedly lukewarm. China, on the other hand, failed to fulfil its promise to provide Hungary a much needed loan and purchase its state bonds. The positive trade figures in 2010 and 2011 can be explained by the development of economic contacts established between 2003 and 2010. Orbán's left-wing predecessors are responsible for enhancing economic, cultural, and educational ties with China, making Hungary the only country in central Europe to experience a fruitful cooperation with Beijing in the first decade of the 21st Century.

3. Although the Fidesz-KDNP government failed to capitalize on its partnership towards China during the first two-years of its mandate, it is likely that in the near future China will become more active in central Europe which will benefit Hungary. Therefore, in order to achieve their aims, Hungarian leaders should on the one hand continue to encourage Chinese politicians and investors to draw more attention to Hungary, and on the other, soften their policy towards the EU and the IMF, bearing in mind that stability and effectiveness in combating economic crisis are held in high esteem in Beijing.

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The Social Aspects of the Global Crisis in Serbia[36]

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Abstract

The global financial crisis has revealed structural weaknesses within Serbia's economic and social systems, which have heightened concerns for their long-term sustainability. The crisis has also been accompanied by a sharp decline in the national GDP, the deterioration of the national labour market, an increase in poverty rates, and adverse social consequences commonly pinned to economic frailty. Short-term measures to mitigate the negative effects of the crisis have only partially succeeded. Serbian social reforms in the previous decade incorporated profound changes to the state's pension and health care systems, unemployment protections, social welfare, etc. National social policies have likewise been reformed under the broader framework of European harmonization and the country's orientation towards EU accession. Yet the underwhelming results in all areas of social reform suggest that Serbia continues to fall further behind EU standards – a fact which has only intensified since the crisis began.

KEY WORDS:

crisis, transition, unemployment, social exclusion, pensions, health services, social assistance

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1. Introduction

Significant political, economic, and social problems followed the so-called period of transition in Serbia. In the aftermath of the "democratic changes" in 2000, progress has been made in terms of macroeconomic stability, economic reform, and standards of living. The 2008 global financial crisis, however, halted economic growth trends, resulting in decreased production, reduced exports and foreign investments, severely aggravating labour market conditions and increasing levels of poverty. The crisis has also negatively affected the privatization process for remaining public companies, cancelled various concession agreements, brought forth permanent insolvency for many companies, and raised the level of unemployment.

Initial estimates concerning the impact of the global financial crisis suggest that the national situation varied from the more optimistic to warnings about the need to prepare state intervention packages. Confronted with the problems surrounding the repayment of public debt, high inflation, and large budgetary deficits, the Serbian government adopted anti-crisis measures as a means to stabilize the financial sector, ensure economic liquidity, and promote economic development. In 2009 funds for the repayment of overdue loans intended to reduce the negative effects of the crisis were provided during negotiations with international financial institutions (the International Monetary Fund, World Bank, European Bank for Reconstruction and Development).

After a short period of recovery in 2010, Serbia succumbed to a new wave of recession and crisis. As a result, the government prepared a document featuring a new model for economic growth, which aimed to increase investments, reduce public spending, strengthen industry, and raise exports. In line with the Strategy "Europe 2020", a similar report entitled "Serbia 2020"[39] was produced by the Serbian government in late 2010, envisaging increased employment, investments in education, poverty reduction, and the mitigation of social exclusion.

39 "Serbia 2020": The concept of development of the Republic of Serbia by 2020 was presented in December 2010 by the Prime Minister and Vice-President of the Government in charge of European Integration. The main intention of the authors of the document was to coordinate Serbia's social-economic and political objectives with the EU.

The transition processes in Serbia were followed by an overhaul of the social system with a view to overcoming enduring problems and building a sustainable financial model. The crisis has now actualized the need for reviewing the results of the neo-liberal changes made in the provision of basic social rights and creating an adequate institutional framework.

2. Transition trends and effects of the global economic crisis

The socialist transition in Serbia was a phased process. The first period ("blocked transformation") is characteristic of the 1990s, while the first decade of the twenty-first century ("de-blocked transformation") is considered the actual beginning of the transition process.

The first wave of political and economic changes in Serbia occurred simultaneously with the crisis in the former-Yugoslavia, which resulted in the disintegration of the federation and the creation of several independent states made up of its former republics. War, sanctions by the United Nations (1992), and economic crisis led to a decline in GDP, unprecedented inflation (1993), a constant decimation of wages (from 5 to 10 German Marks per month), increased unemployment and poverty, and near-economic collapse. During the 1990s, Serbia survived on reserves, the hastened printing and redistribution of currency, and the disappearing hope that international sanctions would soon end. NATO'S 1999 bombing of Serbia, the destruction of industrial, infrastructural, and civilian facilities, the large number of fatalities, and military defeat accelerated the process of political reform.

Following the "democratic changes" of 2000, a brief period of optimism took hold based on the easily given promises of resolving problems quickly and securing a European future for Serbia. The new government prepared a package of reform proposals aimed at "creating a real market economy" and "strong social policy"; these would nevertheless help the transition's losers confront the difficulties of economic reconstruction and ensure a minimum living standard. Domestic and foreign trade were liberalized, companies and banks were privatized, and the tax system and public finances underwent a period of transformation. Dynamic GDP growth, as well as price and foreign exchange rate stability were soon realized alongside the continued growth of foreign reserves. By the middle of 2008, however, economic growth curtailed.

Positive trends achieved between 2001 and 2008 were the result of sound economic policy; the primary objectives were to maintain macro-economic stability and achieve higher rates of economic growth. "One of the transition characteristics of the Serbian economy has been a mismatch between production and consumption, i.e. consistently higher levels of consumption from production (about 20%). The consequence of this disparity was reflected in the growing trade deficit, which influenced the growth of the current account deficit. The structure of the use of GDP was characterized by high share of personal consumption and insignificant share of investments into fixed assets, as well as of exports of goods and services. High share of aggregate personal consumption was affected by the growth of real wages (which was higher than the labour productivity growth), pensions, loans as well as remittances from abroad" (Ministarstvo finansija, 2012: 55).

Table 1 – Macroeconomic Trends 2001-2010

	2001	2004	2007	2008	2009	2010
GDP, in bil.EUR	*12.8*	*19.0*	*28.5*	*32.7*	*28.9*	*28.6*
GDP, real growth in %	*5.3*	*9.3*	*5.4*	*3.8*	*-3.5*	*1.8*
Inflation, end of year	*40.7*	*13.7*	*10.1*	*6.8*	*6.6*	*10.3*
Average exchange rate RSD/EUR	*59.78*	*72.70*	*79.96*	*81.44*	*93.95*	*102.94*
Current account deficit, as % GDP	*2.2*	*-13.8*	*-17.7*	*-21.6*	*-7.2*	*-7.3*
Direct foreign investments, as % GDP	*1.4*	*4.1*	*6.4*	*5.6*	*4.8*	*3.0*
Reserves of the National Bank of Serbia, in bil. EUR	*1.33*	*3.13*	*9.66*	*8.19*	*10.6*	*10.00*

Fiscal deficit, in % GDP	*-0.5*	*0.7*	*-1.9*	*-2.6*	*-4.5*	*-4.6*
Public debt, in % GDP	*104.8*	*50.9*	*30.8*	*26.3*	*32.9*	*41.4*
Foreign debt, in % GDP	*85.5*	*49.8*	*60.2*	*64.6*	*77.9*	*83.5*
Private foreign debt, in % GDP	*5.5*	*11.5*	*38.1*	*44.6*	*51.0*	*51.6*

Source: Ministarstvo finansija, 2011.

GDP growth in the pre-crisis period was enhanced by the development of the service industry, particularly the financial sector, while the contribution of heavy industry was considerably modest. The inflation rate decreased from 40.7% in 2001 to 6.6% in 2006; however, it again reached double-digits (10.1%) in 2007. The high inflation rate, despite a restrictive monetary policy, resulted from high domestic demand based on the availability of affordable credits and the increasing indebtedness of households. An expansionary fiscal policy, encouraged by the growth of capital and current spending, was reflected in the growth of consolidated public spending, which reached 44.9% of GDP in 2007 (Republički zavod za razvoj, 2009). The initial period of "democratic changes" were also characterized by the expansion of foreign trade and a large trade deficit resulting from the weakened competitiveness of Serbian products on the European market.

The first indicators of the crisis in Serbia40 were seen in the final quarter of 2008, and were first evident in the banking sector (the panicked withdrawal of money) and a dramatic decline in the domestic currency value. The National Bank of Serbia has since spent a significant portion of its foreign exchange reserves to stabilize the national currency (RSD) and reduce inflationary pressure. 2008 was also marked by a cessation of foreign capital inflows, declines in domestic demand and export, and also a significant drop in production. In such circumstances, "the accepted view became that the crisis has not bypassed Serbia, and that it rather represents an acute threat to the achievements in the sphere of human development, stability and economic progress, which were achieved during the last decade. Long-term risk lies in the fact that the crisis rapidly completed an entire

40 For a more detailed approach, see Vuković, D. Perišić, N., Annual National Report 2010 - Pensions, Health and Long-term Care, Republic of Serbia, available at:http://www.socialprotection.eu/files_db/910/asisp_2010_Serbia.pdf

cycle of economic growth which was based on increased demand and consumption, which was driven by substantial capital inflows. Recovery from the crisis will not mean a return to the old model, but it will be necessary in the meantime to lay the foundations for a new development model, based on greater reliance on own real sources of growth" (Krstic, 2010: 6).

A number of negative effects of the economic crisis emerged in 2009 as a result of a further fall in production, primarily in industry, construction, and trade, while other sectors continued the upward trend characteristic of previous years. For example, the agricultural sector in 2009 experienced (symbolic) growth. Overall, the economic crisis resulted in decreased foreign investments in Serbia, which significantly affected economic development. In the second quarter of 2009, public expenditures were 13% higher than in the same period in 2008. Also in 2009's second quarter, consolidated public spending recorded a 6% decline, which contributed to decreased capital investments and increased social transfers (mainly for pensioners). Some positive growth trends were recorded in 2010, namely GDP growth of 1.8%, a result of the service sector's relatively high growth rate (3.1%) (Ministarstvo finansija, 2012).

The 2011 current account deficit hovered around 2.5 billion EUR (or approximately 7.5% of GDP), which was almost the same as in the previous year. The inflow of foreign capital has enabled its financing; however, the situation may aggravate in 2012 due to the obligations of the loans. It is estimated that the servicing of public debt and interests abroad will require over 7 billion EUR in 2012. At the end of 2011, public debt approached its legal limit of 45% of GDP. The planned fiscal deficit in 2012 calls for 4.25% of GDP (Ministarstvo finansija, 2012).

The increase in living standards from 2001 to 2008 resulted from the dynamic increase to wages and pensions. During this period, earnings quadrupled and in 2008 averaged EUR 400. In 2009, average wages dropped to EUR 338 as a result of the crisis. In 2010 they continued to drop (to EUR 331); and in 2011 there was a negligible increase (EUR 337) (Republički zavod za razvoj, 2009). It must be noted that increased living standards during this period significantly aided in the reduction of poverty: according to the Household Measurement Survey, rates of absolute poverty decreased from 14% in 2002 to 6.6% in 2007 (Republički zavod za statistiku, 2009).

3. Measures to mitigate the consequences of the crisis

The global financial and economic crisis has potentially presented an opportunity to create a policy that mitigates the negative effects of recession and creates conditions that expidite economic recovery, raising employment rates and living standards. In late 2008, the government enacted a Framework Programme as a response to the crisis and its impact on the economy. The planned austerity measures and cuts in public spending sought to increase the competitiveness of the national economy alongside the simultaneous affirmation of the "social character of the state." More specifically, the programme envisaged the protection of the most vulnerable groups in society and find a means "[to go] through the crisis in a way that it feels like a mild slowdown, not a decline in living standard and return to the poverty years" (Vlada Republike Srbije, 2008: 8). It also planned to freeze pensions in 2009, write-off interest charges on unpaid taxes and contributions, and dispose of old health insurance obligations in cases where citizens regularly meet their current obligations.

In early 2009, three packages of economic policy were adopted. The first related to the reduction of risks and costs in the financial sector by increasing the amount of insured deposits in banks from EUR 3,000 to EUR 50,000. In addition, the implementation of tax regulations to incomes based on interests, and taxes on capital gain in the trading of securities was suspended in 2009. The second package aimed to stimulate bank lending in order to mitigate the recession in the national economy and ensure an increase in domestic demand. An integral part of this package were foreign credits (from EIB, KFB, EBRD, and the Government of Italy) amounting to EUR 480 million, which were intended for lending to small and medium-sized enterprises. An Action Plan on the construction of roads and the railway corridor 10 was adopted. Finally, during March 2009 negotiations started with the International Monetary Fund (IMF) on a new credit arrangement and other measures to reduce the crisis (Vukovic, Perisic, 2010).

"The prepared emergency package of economic policy in Serbia is focused on: 1. stimulating economic growth (increase in domestic demand, liquidity, investments and export), 2. social measures (support to the most vulnerable layers of population – beneficiaries of social assistance, unemployed and persons aged 65 and over), 3. rationalization of government expenditures at all levels, 4. infrastructural measures (investments into Corridor X, the reconstruction of local infrastructure, promotion of social housing, modernization of public enterprises, development of rural infrastructure), 5. monitoring and correction of the package of measures, depending on the type of economic disorder" (Republički zavod za razvoj, 2009: 12).

Further, the government adopted the Social Protection Plan in August 2009 with a view to solving the key problems in the field of employment and enabling the insured to effectuate their statutory rights based on social insurance. The Plan called for the state to pay contributions for elderly and disability insurance to employees whose employers failed to pay contributions from January 1, 2004 to June 30, 2009 (and also "connecting" the years of service). The Plan additionally comprised of paying contributions for health insurance in 2009 in cases where employers had not done so. This provided lump sum benefits for employees with the lowest incomes, the rescheduling of arrears for electricity, and the preventing of abuses in the privatization process, etc.

A stand-by arrangement with the IMF provided financial support to Serbia valued at EUR 2.87 billion in 2009 and 2010, which positively impacted negotiations with other international financial institutions and stabilized the national banking sector. "The Letter of Intent of the Government of the Republic Serbia was released in December 2009 and contains the presentation of a programme agreed with the IMF, as well as results achieved in the field of macroeconomic stability and other fields. The planned deficit in the budget is 4% of GDP in 2010; the Letter envisages a reduction of the number of employed in public administration by 10% and the freezing of pensions and salary levels in the public sector. The Letter highlights the government's commitment to 'perform key reforms in the fields of pensions, education and health'. Other unintended social transfers are also frozen, but it is expected that the social expenditures will grow, due to increase in the number of poor people during the crisis" (Vukovic, Perisic, 2010: 9).

In early 2010, the Programme of Measures to Reduce the Negative Effects of the Global Economic Crisis in 2010 was adopted. This was in fact a continuation of the measures envisaged in the previous year. The main objective of the new programme was to ensure the preservation of jobs, create opportunities for new employment, and propel growth. In order to increase citizen purchasing power, the government adopted a special programme of subsidized cash and consumer loans for the purchase of domestic products in 2010. That same year, a decree on the conditions and ways of attracting foreign investments was enacted. Its purpose was to harness more favourable conditions for new jobs, and provide greater investments for the automotive and electrical industries, and telecommunication technology.

For the packages of recovery measures, the government provided loans to the economy and citizens in the amount of EUR 1.1 billion and EUR 1.9 billion in 2009 and 2010 respectively. A similar program was implemented in 2011.

Short-term measures to reduce the negative effects of the crisis were partially successful in maintaining fiscal stability. Control of budgetary costs, changes in the distribution of funds, and the freezing of pensions and wages in the public sector (2009-2010) all contributed to the targeted deficit reduction plan.

Table 2 – Indicators Europe 2020 – Situation and Objectives of Development

	Europe		Serbia	
	2010	**2020**	**2010**	**2020**
Employment of people aged 20-64 (%)	*68*	*75*	*49*	*65*
Investment in research and development (% of GDP)	*1.9*	*3.0*	*0.3*	*2.0*
Share of consumption of energy from renewable sources in total energy consumption (%)	*16*	*20*	*12*	*18*
Energetic efficiency (toe/1000$ of GDP)	*0.21*	*0.17*	*0.96*	*0.57*
Population aged 30-34 with university degrees (%)	*31*	*40*	*21*	*30*
Poverty rate (below 60% median of available income of the population)	*16*	*12*	*17*	*14*

Source: Ministarstvo finansija, 2011.

Serbia's development goals for 2020 (as predicted in the Strategy "Serbia 2020") consist of increasing employment rates (up to 65% for persons aged 20-64 years) and investing in research and development (from 0.3% to 2% of GDP). In accordance with the objectives of "Europe 2020", the Serbian strategy outlines measures to improve human capital aimed primarily at reducing the school dropout rate for at-risk groups, and increasing the percentage of the public aged 30-34 with a university degree to 30%. Within the realm of sustainable development and environmental protection, electricity consumption from renewable sources is targeted to increase to 18% by 2020, with additional increases in energy efficiency provided for. As well, the strategy emphasizes the seriousness of the current demographic problem and the reduction of relative poverty from 17.7% in 2009 to 14% in 2020. To achieve the projected social inclusion goals, it is necessary to increase the amount of social assistance benefits and target better development programmes for full access to education, labour, health, and social services (active inclusion). Yet during the public debate on "Serbia 2020," many public sector actors pointed to its shortages in terms of the unrealistic projections of development, the extreme and unfounded optimism, and concerns with how the objectives will be realized.

4. Labour market in the conditions of the crisis

The social effects of the crisis appear to be the most dramatic given the negative growth trends in the labour market, i.e. falling employment and rising unemployment. The unfavourable conditions in the 1990s continued in the following decade, despite evident progress and economic growth in the period before 2008. The process of restructuring and privatizing social sector firms, which centred on releasing redundant workers, led to mass unemployment and poverty in Serbia. Among the most disadvantaged were those seeking their first jobs; women (who have consistently recorded higher unemployment rates than men); those with low and/or only secondary school qualifications; older workers (who had lost their jobs during the privatization process); the disabled community; refugees and internally displaced persons; and some ethnic groups.

“The fall in employment since the beginning of the crisis was dramatic. The number of working age employees (15-64 years of life) fell by almost 200,000 or about 7% between October 2008 and October 2009. This led to a corresponding decline in the employment rate (15-64 years) from 53.3% to 50%. In the same period, the number of unemployed persons (15-64 years) increased by almost 60,000 bringing the unemployment rate from 14.7% to 17.4% (October 2008 to October 2009)” (Vlada Republike Srbije, 2010: 3). In addition to these paltry figures, the employment situation in Serbia has been characterized by less “secure” jobs and work contracts (of limited duration); seasonal work in the agricultural industry; and self-employment and contributing family members in the retail trade and crafts sector.

A study identifying the situation of vulnerable groups in the labour market conducted by Krstic in 2010 reveals that during the crisis, the youth and rural populations in southeast Serbia experienced the greatest societal pangs. For the elderly and women, no major changes were observed, although the number of older workers (55-64) who lost their jobs increased dramatically (Krstic, 2010). For other categories of vulnerable groups (Roma, refugees and internally displaced persons, and the disabled), there was no data about their employment situation before 2008. Given the demographic characteristics and educational levels of these categories, it can be assumed that their position during the crisis worsened, which would be reflected in a further decline in their living standards and increased poverty.

Table 3 – Labour Market Indicators for the Population Aged 15-64 (%)

Age 15-64	April 2008	Oct. 2008	April 2009	Oct. 2009	April 2010	Oct. 2010	April 2011	Nov. 2011
Activity rate	62.8	62.6	60.8	60.5	59.1	58.8	58.9	59.9
Employment rate	54.0	53.3	50.8	50.0	47.2	47.1	45.5	45.3
Unemployment rate	14.0	14.7	16.4	17.4	20.1	20.0	22.9	24.4
Non-activity rate	37.2	37.4	39.2	39.5	40.9	41.2	41.1	40.1

Source: Republički zavod za statistiku, 2012.

Unemployment in Serbia is very high, and according to data from the Labour Force Survey,41 20% of the working age population (15-64 years), or rather 566,000 citizens were unemployed in October 2010. The structural characteristics of the unemployed are also unfavourable, giving the appearance that women also fall into the "vulnerable category" throughout the transition period. In October 2010 unemployment rates for women and men were 20.4% and 19.2% respectively. Even greater differences can be observed in terms of employment rates: for women they were 30.9%; for men 45.0%. Regarding age groups, the highest unemployment rate is in the category of persons aged 15-24 years, which was 46.1% in October 2010. In other words, the number of unemployed young persons in this age bracket was 112,165, accounting for 19.7% of the total unemployment figure (Republički zavod za statistiku, 2012). Young people are also more likely to work in the informal economy and accept jobs beneath their qualifications.

Unfavourable trends in the labour market and the negative effects of the new wave of recession were also visible in 2011. According to the Labour Force Survey, the employment rate was 45.5% in April 2011; it was significantly lower for women (38.8%) than for men (52.2%). In November 2011, there was a further decline (0.2%) in the overall employment rate (45.3%), with a slight increase in male employment (52.5%) and decrease in female employment (37.9%). High unemployment is still the most invasive structural problem in Serbia. The registered unemployment rate of persons actively seeking employment in October 2011 was 29.6% (Ministarstvo finansija, 2012). Due to the unfavourable economic climate, significant changes in the labour market are not expected in 2012.

In response to the crisis, positive amendments were made to the laws regulating the labour market's functioning; strategic documents and action plans were also drafted. The programme of measures for the rapid-solving of the unemployment problem envisaged greater investments for active labour market policies (ALMP). In 2009, the majority of active labour market measures were directed towards programme for young trainees ("First Chance") and the public works sector.

41 Data on unemployment held by the National Employment Office differ from data obtained by the Labor Force Survey conducted by the Republic Statistical Office.

“Public work programmes are designed as a direct income support for the most vulnerable unemployed people, typically in underdeveloped areas, providing them with temporary, subsidized, formal employment, while increasing their chances to find a subsidized employment at the end of the programme. However, recent analyzes have found that these programmes, in the form and the manner they have been conducted in Serbia, achieve much better results when it comes to the first stated goal, than the second one. Not surprisingly, public work programmes did not have long-term effects on employment. Partially because of these disappointing results, the budget for public work programmes in 2010 was reduced to ‘standard’ amount of RSD 700 million” (Arandarenko, 2011: 34).

As part of the measures to improve labour market conditions, a set of strategic documents and action plans have been drafted. A new National Employment Strategy for 2011-2020 is essentially based on “Europe 2020.” Beginning with the current situation in Serbia, specifically the structural problems within the labour market, the Strategy opted to reduce the differences in employment and coordinate employment programmes with EU Member States over the next decade. “The current difference of 20% is so large that it represents one of the biggest obstacles to fulfilling the core Copenhagen criteria for EU accession of the Republic of Serbia. Convergence towards the objectives set by the ‘Europe 2020’ requires more rapid average annual economic growth compared to the EU average, with simultaneous the same or greater labour productivity” (Vlada Republike Srbije, 2010: 15).

Labour market trend projections for Serbia through 2020 are based on assumptions concerning the dynamics of economic growth and the final process of labour market reforms. The Strategy for the period 2011-2020 predicts that employment in 2013 will reach its pre-crisis level, and is set to grow at the pace of approximately 50,000 persons on average in the following years. At the end of the projected period, the total number of employees would reach an estimated 3 million (or 440,000 more people compared to the situation in 2010). Unemployment is expected to decline beginning in 2013; in 2020 the total number of unemployed persons in Serbia would reduce to about 340,000. Compared to the 2020 employment rate projections for the EU Member State populations aged 15-64 and 20-64 (70% and 75% respectively), the projected rates in Serbia are much lower (61% and 66% respectively) (Vlada Republike Srbije, 2010).

5. Poverty and social exclusion

Programmes and measures of social inclusion in Serbia have also been amended in recent years. As part of the activities connected to EU accession, the first steps to improve upon these social conditions were made in early 2009, when a draft list of indicators for monitoring social inclusion was created on the basis of making statements in order to create a starting point for defining the policy of reducing social exclusion. It is envisaged that the measurement of social inclusion is fundamental to the Laeken Indicators (financial poverty, employment, education, and health) to expand with two new, nationally-specific dimensions: the satisfaction of basic needs and social participation.

Data on financial poverty indicate higher rates of poverty risk in Serbia when compared to EU Member States. Taking into account the incompleteness of the national data and its subsequent comparability to the EU data, the average rate of poverty risk in Serbia is 17.7%, whereas the EU average is 16.6%. At the same time, the relative risk of the poverty gap amounted to 22% below the poverty line, which is fully comparable with the EU average of 21.9%. The quintile ratio of 4.7 was slightly lower than the EU average (5) as well as Gini coefficient (29.5 versus 30.6 in the EU) (Vlada Republike Srbije, 2011). These two indicators are not objectively high in contrast to the subjective feeling of the population regarding the "distribution" of inequalities in society.

Contrary to the above, indicators of social inclusion related to employment in Serbia have been far less favourable than those found in the EU; they are only comparable with other countries in South East Europe. One factor accounting for this is that, the decline in employment during the crisis was significantly higher than the GDP drop, in contrast to all other European countries, including those in the region. The long-term unemployment rate (10.9% of total unemployment) and the participation of the long-term unemployed of 65.5% rank Serbia highly unpopular on the European scale (Vlada Republike Srbije, 2011). The same refers to the unemployment rates of young people, those without qualifications, the rural population, refugees and internally displaced persons. A special challenge concerns the unemployment of Roma. All these indicators were generally unfavourable, but they became even worse during the crisis.

Indicators of education, as in the case of employment, reveal significant deficits when compared to the EU, especially where it regards the quality of educational programmes and contents. The participation of children in preschool education is just 46.9% (the EU average is 85%). The ratio of coverage of children aged 0-3 years is even less favourable. Coverage rates of children with primary education in Serbia are high, amounting to 98.07%, and primary school completion rates are almost 100%. Yet the percentage of children dropping out of primary school is high – 7.04% annually, or 5,997 children, most of whom are Roma. Net enrolment rates for secondary schools also increased, amounting to 82.7%; however, the dropout rates are comparatively very high (23.5% and 9.3% for three-year and four year secondary schools respectively). In addition, they are highest within Serbia's most marginalized groups (62% of Roma), as well as those from poorer families (42%) (Vlada Republike Srbije, 2011). The coverage of the population with programmes of life-long learning is extremely low.

Health as a factor of social inclusion has shown mixed results. Indicators relating to access to health care reveal a high percentage of the population with health care coverage (about 94%) and shortages in coverage for more marginalized groups. Life expectancy in 2009 was 73 years on average (76.4 and 71.1 for women and men respectively), but it still falls behind the EU average. Survey statements about the general health situation rank Serbia worse than the EU (56% in Serbia versus 65.1% in the EU said they are of good health). Despite some progress in this area, indicators of the reported quality of health care in Serbia reveal patient satisfaction rates to be considerably high. The prenatal mortality rate, however, is also very high (8.9% and 5.8% in Serbia and the EU, respectively). Moreover, differences concerning the inequalities in health outcomes for people in the general population compared to vulnerable groups have endured. Finally, the long-term financial sustainability of the health care system indicates that the percentage of GDP expenditures for health are higher in Serbia than in the EU (9.8% of the GDP compared to 9% of the GDP in EU Member States). This fact, however, is only relative because the Serbian GDP is disproportionately smaller, so the actual consumption is extremely low by comparison. Thus, the cost of health care in 2008 amounted to $838 PPP per capita, as opposed to $2,877 PPP per capita in the EU (Vlada Republike Srbije, 2011).

6. Social reforms

The nature of social problems and the severity of the situation for the majority of the population in Serbia during the 1990s influenced the content and objectives of social reforms in the period after 2000. The first social policy steps aimed to alleviate poverty and pay deferred benefits (social assistance, pensions, child allowances, etc). Following this, the state has taken its obligation to pay regularly all of the cash benefits in the system concerning social protection. In parallel, a process of shaping a new social policy, coordinated by the Ministry of Social Affairs in consultation with international monetary institutions (IMF, WB) and governments of donor countries has been established.

6.1. Introduction of private pension option

The strategic objectives of the pension system reforms have been defined as “ensuring stable and sufficiently high pensions for all, creating a financially sustainable pension system, increasing domestic savings and accelerating economic development, increasing fairness of the pension system and expanding choices for insured” (Vlada Republike Srbije, 2003: 113). The most significant changes were made in the period 2001-2003. Parametric reforms of the pay-as-you-go system (PAYG) included a one-time raising of the retirement age from 55 to 58 years of life for women, and from 60 to 63 for men; the application of the Swiss formula of pension indexation (i.e. the adjustment of pensions based on wage growth and living costs); a reduction of contribution rates; the calculation of pensions based on earnings realized during the entire life cycle; and the introduction of more stringent conditions for effectuating the right to disability pension (Vuković, 2009).

Subsequent changes in legal regulations (beginning in 2005) aimed at reducing public expenditures and establishing macroeconomic stability. These were carried out amidst strong pressure from the IMF. Critical tones in the debates about the proposed changes and the differences in opinion between political parties have led to the mitigation of radical demands and the adoption of compromised solutions. The retirement age was again raised by two years, with a gradual introduction of this programme beginning in 2011. The changes included pension indexations: in lieu of the Swiss formula, the government opted for a cost-of-living index, provided that the average pension cannot be lower than 60% of one's average earnings at the end of 2008 (Mijatović, 2008).

Recent changes to public pension insurance (in late 2010) partially related to the elimination of certain benefits for the insured with privileged years of service, and the extension of years of service for retirement for women from 35 to 38 years, as well as the raising of the retirement age for survivor pensioners. Other and more integral changes address pension indexation.42 Changes have been introduced in connection with raising the minimum retirement pensions for agricultural pensioners, the status of farmers, and the introduction and transfer of those insured within the military system into the public old-age and disability insurance.

Another direction of reforms within Serbia's pension system is based on a decision made in 2001 in consultation with the WB on the introduction of a voluntary private pension insurance. Deciding on the introduction of the so-called third pillar was motivated by the desire to prevent the consequences of the current and projected demographic situation in Serbia, as well as the distribution of burden for financing pensions.

The legislation based on which voluntary private pensions were introduced in Serbia was made only in 2005. Its insufficient development is most likely the result of a small number of actively insured, and the low level of assets of private funds in the national GDP, despite their growth. The reasons for this are the short time since its introduction, low living standards, and macroeconomic instability (caused by the crisis); however, they also speak to the low level of informed citizens where it concerns this issue.

At the end of 2008, the total number of those maintaining voluntary pension funds amounted to 195,000, while only 66,000 of them regularly made payments into their individual accounts. The majority of the property of

42 The changes in the indexation mechanism were among the most noteworthy topics up for public debate. The adopted solution provides for the following: "in two first years (2011/2012) pensions are to be indexed based on percentage representing a sum of the percentage of consumer prices' growth in the previous 6 months and percentage representing one half of the actual rate of GDP growth in the previous calendar year (Similar to the Swiss formula with GDP). After that, pensions are to be indexed twice a year (in April and October) based on consumer prices' trends" (Stanić, 2010: 32).

funds were on custody accounts (54%), and invested into state shares (34%); 60% of the funds were in EUR. At the end of 2009, the net assets of funds increased to 66.3% compared to 2008, a result of increased net payments from the insured and profits realized by the funds. Data for 2010 pointed to a further decrease in the number of insured (2.5%) compared to 2009, and an overall growth in the net property of funds to 39.2% (Vukovic, Perisic, 2011).

Along with the implementation of reforms in the first and the third pillars, the option of introducing the second pillar (mandatory private pensions) was also discussed. It was subsequently delayed (for an indefinite period of time). The reason why decision-makers should accept the change of model without the mandatory private system lie in the fact "that the existing system ensures that all those who have paid contributions can achieve certain security in their old age. If the system would be based only on savings accounts and if the money would be invested by private companies, the uncertainty would be much greater, because, of course, no matter what control mechanisms and regulations are put in place, it is possible to assume that a number of such accounts would be emptied due to bankruptcy or wrong investments, which would mean that even though people have been paying contribution for old age, such a system would not enable that" (Matković, 2003: 269). Among the reasons listed were: high transition costs; underdeveloped financial markets; the lack of realistic and convincing arguments for its introduction in other countries; (Mijatović, 2008) and inadequate mechanisms of control concerning the supervision of private funds (Vuković, 2009).

Recent studies (Stanić, Živković, 2009) reveal that the transfer of 7% of current contributions for the public old-age and disability insurance (out of a total of 22%) into the second pillar would result in extremely high and long-lasting transition costs (Stanić, Živković, 2009).

6.2. Access, quality and financial sustainability of health system

An explicitly formulated health care policy did not exist for a long period of time in Serbia. Consequently, there are many problems in the field of public health and an absence of national policy objectives that would be in line with real (financial) possibilities and the actual and perceived needs of the population. Only in 2003 (note: many years after other parts of the social protection system were addressed) did health insurance and health care reforms begin. To date, most reforms have related to the aspirations aimed at putting primary care at the centre of the system, after which a concept to choose doctors was introduced. Yet financial developments have only recently been made, and in most cases only partially: in late 2011 the final activities for the introduction of capitation as a method of payment in primary care facilities were implemented. The introduction of diagnosis-related groups for secondary and tertiary care is planned to be begin in the next five years.

Public health insurance has not undergone any significant changes. In 2008, a voluntary health insurance was introduced; at the moment, this programme has very modest coverage.

Public and private health sectors exist in parallel, but are still independent of one another, despite the proclaimed objectives of reform "to increase the participation of private, profit and non-profit sectors in providing health care funded by the Republic Health Insurance Fund" (Ministarstvo zdravlja, 2003: 25). Even though nearly a decade has passed since this statement was made, no significant developments have been undertaken.

The legal introduction of the possibility to sub-contract health services, based on which the Republic Health Insurance Fund pays fees to private doctors, did not affect the changes aimed to bring the public and private health sectors closer together; this model is also not used in practice.43 As it turns out, the so-called temporary engagement of doctors (who are regularly employed by the public sector) in the private sector is not a realistic option for the legal binding of these two sectors.

According to estimates of the Private Medical Chamber, over 50% of the population uses private health sector services; 50% for diagnostic and specialist health services; 65% for gynaecology; 80% for laboratory and dental services (Privatna lekarska komora, 2012).

43 The reasons for that partially result from the "overlapping of the public and private health sectors, widespread corruption, and the inability of the state to introduce [a] control system" (Vuković, 2010: 215).

A systematic and complex evaluation of reform measures thus far undertaken has not been carried out; however, partial examinations provide insights into specific aspects of the health system.

According to the WB,44 "the health care system in Serbia has seen significant progress in the last 15 years" (Svetska banka, 2009: 22), which was largely achieved in two important areas: the management of the system, and the activities conducted by the Republic Health Insurance Fund. Yet "most of the reform objectives have not been achieved" (Vuković, 2009: 137). Recent studies show that there are still many difficulties in the implementation of statutory rights and that this directly affects the health of the population. The differences are apparent in the indicators related to access to health services, the availability of all types of institutions, the level of quality, and the overall satisfaction of patients, etc.

In general, health services are evenly distributed, but these figures are based on the existing standards. Shortcomings are evident in the equality of the services provided. They are generally of higher quality in larger urban centres, as opposed to the quality of services in less developed areas of the country. Inadequate health care coverage (even for primary care) is especially visible within the more vulnerable population groups.45 Its underdevelopment continues to prevent the overall raising of services. Progress in increasing quality has primarily been achieved by investing large pools of resources in the reconstruction of health facilities and the purchasing of modern equipment. A significant number of hospitals and institutes were re-invigorated, primarily in cities with large medical centres, while the situation in rural areas remains poor.

The organization of public health services is an inherited problem of the socialist system. In practice, there are complex organizations where a clinical approach is dominant, while health promotion and prevention are neglected.

44 WB was among the health care reform actors in Serbia (together with the EU and UN); it conditioned its help to the energy sector with health sector reforms (Arandarenko, Golicin, 2006).

45 Many Roma children are not covered with health care. Unfavorable situation is also in refugees and internally displaced persons, who do not have personal documents. At the same time, mechanisms of control of paying health contributions became stricter so that the employees whose employers do not pay health contributions for them cannot obtain medical booklets.

Problems connected to the financing of health care persist and their interaction prevents the partial reform measures from taking hold, and requires substantial changes. Yet the level of acceptance among the general population concerning the need to change the funding model does not automatically lead to acceptance of its consequences (whether it could be increased contributions, taxes, or the separation of the public and private sectors). This results from the low purchasing power of the population, and thus limited options for private health care. Factors inherited from the generous socialist period also do not favour private options (Vukovic, Perisic, 2009).

6.3. Support and help for the poor

The reform framework of poverty reduction and strategic directions for the fight against poverty are outlined in the Poverty Reduction Strategy Paper adopted in 2003. The Strategy is based on three main areas: dynamic economic growth and development, with an emphasis on job creation in the private sector; the prevention of new poverty as an expected consequence of modernization and economic restructuring, and rationalization of the state and its basic functions; the effective implementation of existing and defining new programmes, measures, and activities directly targeted to the poorest and most vulnerable, particularly in the least developed areas (children, elderly, disabled, refugees, internally displaced persons, Roma, rural area inhabitants, and the undereducated). The objective of these activities is defined as the start of a long process of training the above-mentioned groups to emerge from poverty, enabling them thus to develop skills necessary in a new economy, and providing them with the minimum standard of living (Vlada Republike Srbije, 2003).

In contrast to the centralization of social assistance in the 1990s, the Social Assistance Development Strategy of 2005 envisaged a greater degree of decentralization (with mixed results in practice). The legal basis of the system over the past 20 years was regulated by the Law on Social Assistance and Providing Social Protection to Citizens of 1991. During this period, the law was subjected to numerous and substantial changes. In 2004 one of the most important innovations was introduced concerning the right to social assistance benefits; these were limited for able bodied beneficiaries (for 9 months during a given year). This led to a reduction in the total number of beneficiaries. Yet the unification of the poverty line (as opposed to previous differences between the municipalities) at the state level has resulted in an increase in the number of beneficiaries in general.

Finally in March 2011 a new law was enacted in this area. The new solutions provide for modified rights to cash benefits and social services.

The population coverage with social assistance is very low – approximately 2% of the total number of households in Serbia (Matković, Mijatović, 2009). Defined eligibility conditions and real financial constraints of social assistance expenditures have basically dictated the coverage of beneficiaries, their socio-economic status, the number of individuals and family structure, and finally the amount of the benefit.

The criteria for the effectuation of rights are extremely strict. The defined poverty line is lower than the absolute poverty line used in the Living Standard Survey so that the amount of social assistance does not provide coverage for basic needs. Cash benefits reduce the risk of poverty, but they do not guarantee an adequate level of security.

The targeting of cash benefits can still be improved. First, the existing data on the average share of social transfers of income for the lowest earners of the population reveal an increase (from 10.1% in 2006 to 12.1% in 2009). However, they also testify that "about 50% of social transfers are received by those who are not poor" (Vlada Republike Srbije, 2011: 96). On the other hand, "data show that from 2006 to 2008 the efficiency of social transfers increased, since the percentage of social transfers distributed to the poor (before receiving social transfers) increased from 44.9% in 2006 to 49% in 2008, and then in 2009, it dropped to 47.7%" (Vlada Republike Srbije, 2011: 96). Social transfers in Serbia only moderately contribute to poverty reduction, compared with the average EU Member State, and their efficiency in Serbia is "almost seven times lower than the average of the Union" (Republički zavod za razvoj, 2009: 63). The most efficient social transfers were targeted for children: child allowances have reduced child poverty from 24.5% to 22.1% in 2009. In contrast, the poverty rates for the elderly after social transfers (excluding pensions) decreased from 18.9% to only 18.2% in the same year (Vlada Republike Srbije, 2011).

7. National and European contexts - comparative view

The Serbian social protection system is generally comparable to European social models, both from the point of view of its organization (Bismarckian basis) and expenditures (the so-called "new" EU Member States). At the same time, in order to resolve many problems in its functioning and balance its current strengths and advantages with its distinct weaknesses and threats, the reform orientations during the last ten years have been adjusted to the guidelines and norms of the EU. However, the general characteristics of Serbia's dialogue with the European Union have focused more on political rather than economic criteria. Likewise, social dimensions have largely remained in the shadow. Frequently, the aspiration to join the EU was used by the national elite as a means to reduce social transfers, while the introduction of those changes which are a positive legacy of the European welfare states have been omitted.

The immediate impact of EU social policy on social reforms in Serbia remains difficult to evaluate. Conditions have modestly changed in recent years as a result of progress made within the realm of EU accession and Serbia's determination to become a Member State. Ratings of the Commission on the progress have had a positive impact on the harmonization of regulations and practices, particularly where they concern employment policy and social assistance.

As a means to assess the impact of EU policies on the Serbian social protection system, the government's responses to the European Commission[46] and the First National Report on Social Inclusion and Poverty Reduction are relevant national documents.

The national policy of active aging, the greater participation of the elderly in the labour market, and life-long learning are discussed within the framework of special national programmes and reports. The National Employment Strategy (2011-2020) illustrates the need to develop pro-

46 Reponses to the Questionnaire of the European Commission, Belgrade, January 2011, available at http://www.seio.gov.rs/upload/documents/upitnik/odgovori_na-upitnik_ek.zip

grammes specifically oriented towards unemployed older workers (50-64 years). In addition, the need to develop an adequate system of adult education and new skill acquisition courses, particularly those promoting active ageing policies and the concept of life-long learning and motivating the elderly to continue to work in accordance with their skills, is recognized. The programme also encourages employers to hire and retain older workers on the job and prevent discrimination in employing the elderly, especially women.

Health care reforms have also been popular topics in government discourse, frequently those equalized with European harmonization and the better positioning of indicators and performance of the Serbian health system. The first steps have been completed, including the harmonization of Serbian health legislation with the EU, and the adoption of numerous strategies, inspired by the development of health care in EU Member States.

Some elements of the Open Method of Coordination (OMC) in the health system, such as reports and indicators, have been partially introduced, even though the concept of the OMC is not directly represented in any national context. Although there are pessimistic signs concerning the realization of objectives related to the promotion of accessibility and quality of health services, as well as the long-term sustainability of the health care system, OMC represents one of the most important segments of national health care reform.

Finally, considerations for the problems stemming from relative poverty and social exclusion are one of the most important elections of national social policies towards the harmonization with European trends. In this context, the need to improve many aspects of the social system and the position of many vulnerable groups in society is more than evident. Diversified social services introduced by the new Law, among others, are directed towards the expansion of social networks for the poor and those at risk of poverty. Efforts aimed at decentralization have been also motivated by the need to better recognize the social needs of the communities and to react to them in a timely manner.

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The European Union, NATO, and the "Arab Spring"

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Abstract

At the onset of 2011 an unprecedented wave of social unrest and political upheaval began to sweep across the Middle East and North Africa. Following the first demonstrations in Tunisia, and the flight of its President Ben Ali to Saudi Arabia, the wave has engulfed much of the Arab-speaking world, from Morocco to Bahrain. While some rulers have abdicated peacefully, violence has been a constant. In the majority of cases, the ruling regimes met the spontaneous, massive, and peaceful demonstrations with brutal police repression; some even called in the regular army to strike down unarmed civilians with heavy conventional weapons.

KEY WORDS:
Arab world, social unrest, repression, NATO, EU

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1. Introduction: The Peculiarities of the "Arab Spring" and Comparisons to 1989

Many indicators suggest that the upheavals in Arab states reflect and incorporate a much wider phenomenon of social fever, which in 2011 led millions of protesters to the streets of major cities across four continents. Such underlying similarities include the deep and general dissatisfaction with the global economic recession, austerity measures imposed by respective governments, and high unemployment rates, etc. Specific to the Arab region, the protests were largely provoked by the higher costs of staple foods brought about by drought, floods, and fires in several of the world's leading grain exporting countries. The spotlight soon shifted to the ruling regimes' loss of legitimacy, namely its use of heavy-handed oppression, and wide-spread corruption among the elites. Further motivating the crowds was the exceptionally high rate of unemployment, which showed no bias between the laborer and the well-educated, and the overall lack of opportunities for social promotion. The culmination of these factors brought out hundreds of thousands of young people, initially led by urban unmarried males, to the movement now termed the Arab Spring.

Social unrest, political upheavals, and revolutions in several Arab states have subsequently activated a growing cross-section of urban populations, including among them women, teachers, medical personnel, and civil servants. Although many members and supporters of Islamist parties and associations participated in the demonstrations, few Jihadist or anti-western slogans were notably displayed. In this respect, the Arab Spring widely and almost wholly differs from previous incarnations of mass protests in predominately Muslim countries, including Iran, Afghanistan, and Pakistan. Rather, the main targets of the Arab protesters were exclusively their distrusted, brutal, and corrupted domestic regimes and home-grown dictators. Contrary to the accusations of many of the endangered Arab regimes, there has been no credible evidence linking the protests to external, i.e. non-Arab, influence or interference. On the other hand, reasonable evidence suggests an intra-Arab demonstration effect; commercial mass media of the events has been obvious and particularly salient prior to and during the most famous of demonstrations in Cairo. Blocked from the regime-controlled public communication systems, the young organizers successfully utilized the so-called powers of electronic social media, e.g., personal computers, cell phones, and the Internet, to incite mass demonstrations. In fact, the revolutionary use of such devices has added an additional texture to the Arab Spring movement, garnering near equal attention from the western media and academic communities alike in discussions centering on their social and political applications.

Although some similarities may be observed between the Arab Spring and the wave of democratization in Central and Eastern Europe in the late 1980s, the two events are more different than alike. Among the Eastern European members of the Warsaw Treaty Organization, (WTO), demonstrations and protests targeted authoritarian, communist regimes imposed and maintained by the eastern superpower, the USSR, and brought about major upheavals in all of Central and Eastern Europe's communist states, including non-WTO members Yugoslavia and Albania. The upheavals of 2011, however, have been more sporadic, occurring in a sizable but limited number of Arab countries. Moreover, the protests were not directed against foreign domination. Further separating the two movements, the ideologies supporting the Arab Spring have been characterized as tremendously heterogeneous; notably, they lack known and charismatic leaders. In this regard, the movements of 1989 were seen as unitary and were often led by a prominent opposition figure. In terms of force, many of the resisting Arab regimes could not have been defeated without the use of military intervention. In contrast to the movements in Europe (with the partial exceptions of Poland, Yugoslavia, and Romania), the Arab armies and professional military units played a crucial role in determining the outcomes of the democratic uprisings in their own and even in neighboring countries (Bahrain). Such roles varied between brutal and determined suppression (Libya, Yemen, Bahrain, Syria), to the mostly benign yet authoritative (Egypt), to the protecting of unarmed demonstrators against police brutality (Tunisia).

The dynamics and outcomes of the Arab Spring have also varied greatly from one affected country to another. By December 2011 only two dictatorial Arab regimes disappeared (in Tunisia and Libya). In fact, the new regime in Libya still does not control the entire country; it continues to share and compete for power with local warlords, tribal chiefs, and unruly armed gangs. In Egypt an ex-general and dictator was replaced by a military junta, which has been accused by the leaders of the still-ongoing protests of "stealing the revolution." In Yemen and Syria the two dictatorial regimes remain in power despite the months-long mass demonstrations, thousands of casualties, and in the case of the former, Yemeni President Ali Saleh's formal resignation. All told, the key political beneficiaries of the upheaval in several Arab states (notably Egypt) were not the young, democratically-oriented initiators, but rather the various shades of the much better organized Islamist groups, from the more moderate to the radical Jihadists.

The developments since the Arab Spring have neither brought about a radical geopolitical realignment of the region (as many experts predicted), nor the disbandment of the regional interstate organization (the Arab League). Further, the social and political upheavals have not created a new, hitherto unknown variety of direct and spontaneous party-less street democracy, as some western neo-Marxists and anarchists quixotically expected. Further, there has been no radical change in the Arab economies or in the patterns of trade relations with their major international partners.

In sum, the Central and Eastern European experience of region-wide transition to competitive politics and market economies has only a passing relevance to the Arab Spring; seemingly such a transition has not and cannot be replicated in the culturally-different Arab world.

2. The Roles of the European Union and NATO

Given its support for liberal democratic foundations and preference for the use of soft power, the European Union was widely expected to support and engage the democratizing political transformation in the Middle East and North Africa. Moreover, the political, social, and economic problems that ignited the Arab Spring offered useful starting points for new EU policy initiatives in the region. In addition, the new governments strongly needed external support to avoid political regression and the pitfalls inherited from their dictatorial predecessors.

However, the events and aftermath of the Arab Spring revealed the European Union, despite its network of experienced and well-paid delegations in the region, to be unprepared, poorly informed, and frozen by confusion. The primary reason for the EU's ensuing passivity was the member states' unwillingness to allow the EU to play an active role in the region, instead favoring a (delayed) response from the North Atlantic Treaty Organization (NATO). To the massive upheavals across the Mediterranean, the EU Commission responded with a proposed Partnership for Democracy and Shared Prosperity. Such 'paper democracy,' however, has brought forth nothing new, and in real terms merely altered the label of the previously established European Mediterranean Policy (EMP). Further, the political and economic sanctions imposed by the EU on several dictatorial regimes have produced little notable effect on the political dynamics of the Arab world.

More troubling, the tempered reaction to the crises in Tunisia, Egypt, Libya, and Syria exposed serious cleavages between EU countries, an even more considerable gap between the EU's proclamations and the actual policies of its member states, and the insufficient coordination capabilities between the European Commission and the EU External Action Service. The EMP, as part of the European Neighborhood Policy (ENP), which has espoused the promotion of liberal reforms and human rights in southern Mediterranean countries, has proven to be ineffective despite the considerable funds invested in it over the years. The European Commission's primary goals for the EMP now seems rather to have concerned maintaining political stability in the region, assuring uninterrupted oil and gas imports, and preventing excessive illegal migration within EU borders.

Further constricting an EU response, the leaders of its most influential member states had visibly entertained cordial relations with (i.e., more than tolerated) the region's dictatorial regimes, which presumably guaranteed political and energy stability, and served as a bulwark against Islamic fundamentalism and terrorist organizations like Al-Qaeda. As part of this tacit agreement, the majority of European leaders had usually turned a blind eye to the wide-spread violations of human rights and fundamental freedoms occurring in practically every Arab state. Yet in failing to respond at such a crucial moment in time, the European Union has now relegated itself to an ineffectual geopolitical actor and, in accordance with real, long-term European interests, squandered its ability to influence tangibly the seminal developments in its southern neighborhood.

In contrast to the EU, NATO has played a much more defining role in the Arab Spring, namely within the regime overhaul in Libya during the spring and summer 2011. For the first time in the alliance's history, NATO deployed an "out of area" operation jointly initiated by two European members, France and Great Britain. The United States, despite providing crucial military support, declined to take the lead role. Operation Unified Protector was commanded by a Canadian general and coordinated from the NATO and SHAPE Headquarters. Legitimacy for NATO's "humanitarian" intervention was made possible by UN Security Council Resolution 1973, which was adopted with little interference on March 17, 2011 and subsequently supported by the Arab League as well as the Organization of Islamic States. The resolution's clearly stated objective was to protect Libyan civilians from the brutal repression of the long-tenured Gaddafi regime.

On March 19, 2011, following air strikes targeting Libyan military installations, NATO imposed a no-fly zone for Libyan aircraft, and a naval blockade in the Mediterranean to prevent the flow of war supplies to Libyan ports. The initial missile attacks were carried out by the US Navy, while subsequent bombing and fighter raids were led by the air forces of other NATO members, and later by Qatar and the United Arab Emirates. On average, 150 missions were flown daily. By September 29, 2011 the sum total included 23,246 sorties, of which included 9,040 "strike missions." With its advanced capabilities, NATO soon neutralized the Libyan Air Force, destroyed the government's command and control centers, anti-aircraft defenses, and a large number of combat units. By all accounts, NATO honored UNSCR 1973's prohibition excluding a "foreign occupation force" in Libya; although contingency plans for a limited invasion were developed by NATO's Southern Command.

While most analysts commend the proficient and successful mission in Libya, there were several internal problems within the NATO alliance during the operation. Of NATO's 28 independent member countries, only eight actively participated in Operation Unified Protector; fourteen others provided military support. Small members understandably could not offer appropriate advanced air and naval assets. This, however, was not the reason for the abstention of the two largest European members, Germany and Turkey, whose governments refused to join the military Operation on purely political grounds. Further, because of internal disagreements among its members, NATO never had a clear and agreed upon political strategy for the mission, which prevented the Alliance from fitting its operational goals with the means required. More significantly, the operation confirmed NATO's chief operational criticism: the insufficient capabilities of European allies to carry out, without US support, large-scale, protracted air combat operations, even in Europe's immediate neighborhood. Such capabilities, including intelligence, reconnaissance, target acquisition, precision ammunition, and air refueling were provided by US forces. While the United States' contribution was far less visible than that of the Europeans, it was an indispensable component for the operation's success.

The constraints imposed by the UN mandate increased the number of targeting errors. On a number of occasions, NATO forces overstepped the restrictions on the use of force imposed by the UN Security Council resolution. Further, the barrage of air raids caused moderate collateral damage among the Libyan civilian population and also among the rebels; subsequently, public support for the mission, particularly among Arab states, soon dwindled. Moreover, in what had become a Libyan civil war, NATO clearly sided with the anti-Gaddafi forces. In fact, the Alliance superimposed on the fully legal and legitimate humanitarian mission, a politically problematic and controversial military intervention to enable the overthrow of Libya's dictatorial regime.

In spite of NATO's total air and sea dominance, the heavy losses suffered by the Libyan government's armed security forces, and the wide international, moral, and political support for the rebels, the heavily-isolated Gaddafi regime fought back fiercely for more than six months. For the purposes of comparison, the mission lasted twice as long, and produced many more military and civilian casualties than NATO's 1999 mission in Yugoslavia, where by all accounts Milošević's forces were much better armed. Perhaps as a result, a similar international response has been ruled out in Syria; although from a humanitarian standpoint, it appears even more justified given the large number of civilian casualties. This has been due, i.a., to the Russian Federation's stiff opposition in the UN Security Council (supported for different reasons by China), the Russian and Iranian military and political support for the Assad regime, and the greater military risks involved.

In contrast to the European Union's response to the Arab Spring, NATO reacted much faster, performed more proficiently, and more than fulfilled its immediate objectives during the Libyan crisis. Unlike the EU's cumbersome institutional structure and burdening decision-making framework, both of which function poorly in times of crisis, the Alliance has been designed and organized from its inception to operate well under the worst of conditions. The difference in the resulting performance has been impressive. NATO proved once again to be the only inter-state organization capable of dealing effectively with severe humanitarian crises in Europe and its neighborhood. In spite of its internal tensions, NATO was able to organize and execute a large scale "out-of-area" military operation successfully. On the political side, NATO forces decisively contributed to the overthrow of Gaddafi's regime, and even accidentally to the dictator's capture, where after he was tortured and hasty executed by the rebels. Following this violation of international humanitarian law, NATO officially terminated the operation on October 31, 2011; however, the National Transitional Council of Libya requested a several month extension of the mission. The success of Operation Unified Protector allowed the new authorities to declare an end to the civil war and begin preparations for the orderly rebuilding of the Libyan state, which would be, according to public statements, based on the principles of representative democracy, as well as Arab religious and cultural heritage.

Much more effectively than the European Union, NATO has contributed to the creation of favorable internal and external conditions for the transition to democracy in Libya, allowing Libyans themselves to decide their state's future. Further, the Alliance is ready to provide advice in rebuilding the Libyan armed forces, carry out security sector reforms, and develop democratic civil-military relations should the newly legitimate Libyan authorities request such assistance.

3. Lessons to be drawn

Following the EU's failed policy in the southern Mediterranean, the European Council and European Commission are expected to review and establish the EU's future priorities in the region. Given the well-documented support many European leaders gave to the region's dictators, perhaps the organization's most pressing concern is whether it can present itself as a friend of the Arab peoples, rather than an energy-hungry, fortress Europe.

Yet the need for revising the EU's Neighborhood Policy could not come at a more inconvenient time, given the prolonged period of financial insolvency in several EU Mediterranean states, and the overall crisis in the Eurozone as a whole. The resulting stagnation and economic downturn in many EU member states only increases the pressures on the EU and national budgets. Thus, it would be unrealistic to expect the ENP and the EU External Action to receive much needed funds above what has been forecast in the 2007 – 2013 Financial Perspective. The same limitation applies to the European Investment Bank as well.

The philosophy behind the European Neighborhood Policy has to date been based on the presumption that it is essentially up to the partner countries to reform themselves. In fact, the developments in a number of Arab states reveal that the EU must reform some of its most basic policies. Therefore, in order to promote long-term democratic stability in the southern Mediterranean and in the Middle East, the European Union must:

- coordinate a consistent Mediterranean policy and refrain from using double standards when dealing with Arab regimes;
- remove protectionist barriers; liberalize trade in agricultural products and in labor intensive industrial products. Such measures would promote more balanced economic developments in the southern Mediterranean;
- develop a comprehensive and proactive immigration policy that would alleviate the problems associated with the EU's aging popu-

lation, reduce the high unemployment rates common to the region, and reduce the pressures caused by illegal migration into the EU;

- adapt the Schengen system to possible future extraordinary events in the neighborhood;
- assume an active role in managing the Israeli–Palestine conflict instead of quietly following American policy, which has been for internal political reasons biased in favor of Israel and harmful to the American and EU political and economic interests in the Islamic world.

Another lesson from the experience of the Arab Spring concerns the "strategic partnership" between the EU and NATO, which obviously lacks a concrete functioning ability. The EU's Common Foreign and Security Policy (CFSP) and the more specialized European Security and Defense Policy (ESDP) have both proven to be resounding disappointments. Unfortunately, without the determined efforts of its chief architects, it will be difficult to improve upon ESDP during the two 2012 Presidencies of the Council of the European Union, given the respective positions of Denmark and Cyprus (Denmark does not participate in the CSDP and Cyprus often blocks its implementation due to the long-standing conflict with Turkey).

The very modest achievements of the Arab Spring, particularly in Egypt, combined with the disquieting lack of progress in managing the Arab-Israeli conflict, and Iran's nuclear ambitions have all exposed the serious limitations of the European Union's political influence within the Arab-speaking world. The EU's European Mediterranean Policy, NATO's Mediterranean Dialogue and the two Euro-Atlantic organizations' relationship with North African and Middle Eastern states must be reviewed and adapted to the new political conditions. Further, it would be appropriate to rethink the "Berlin-plus" arrangement between the EU and NATO, introducing a potential Berlin-plus-in-reverse mechanism. EU-NATO cooperation could be improved by combining the top-bottom and bottom-up approaches. Moreover, Turkey and other non-EU contributors must be given full access to ESDP missions; EU member states Greece and Cyprus must be prevented from blocking NATO member Turkey. Finally, there is a pressing need to clarify and implement the rules for applying the doctrine of international "responsibility to protect" endangered civilian populations.

The recent events in the southern Mediterranean have provided the EU, NATO, and the international community as a whole with ample grounds for serious introspection and reflection on the best ways to aid social, economic, political, and security concerns in the Mediterranean. It should be noted that such improvements in the EU's southern neighborhood would be highly beneficial to Europeans, as well.

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Book Reviews

Power and Progress. International politics in transition, Jack L. Snyder[48]

The end of the Cold War was marked by a breakthrough that brought change to the international system, and awakened a widely shared enthusiasm about the victory of liberal democracy over totalitarian experiences of the past century. The new democratic order with a unipolar structure and the United States as the leading power was expected to guarantee peace and equal development all over the world. More than 20 years after the fall of the Berlin Wall, it is evident that this double revolution was only partial, and that the world remains heterogeneous and unstable, whilst current classical international relations thought fails both to explain the developments, as well as to predict them.

Jack Snyder, one of the leading American IR theorists associated with the Columbia University, has been dealing with the above mentioned issues for the past few decades and in his new book *Power and Progress. International politics in transition* he presents a collection of his most important essays in a single volume framed with a new introduction, highlighting the crucial findings and referring to the conclusion of the early essays from a time perspective. Snyder's main argument in the book is that in order to be analyzed, understood and ruled, the constantly transforming and extremely heterogeneous modern world requires the integration of the realist logic of the struggle for power and security together with the liberal logic of change. Only then can the system be seen as a whole constructed of and reproduced by both consolidated democracies, countries dealing with the consequences of transformation and partial democratization, as well as illiberal and non-democratic states, whereas the liberal theory is applicable rather in the world of mature democracies, and the realistic one in the anarchic systems of autocracies.

Snyder makes an attempt to explain the anarchical dynamics of power and the modernization dynamics of progress by tracing the development of his own thoughts and perception of the international system over the past two decades. The collection of twelve essays written between 1990

48 London and New York: Routledge, 2012. 315 pp. Security and governance series. ISBN 978-0-415-57573-7

and 2004 has been arranged around three key subject areas: anarchy and its effects; the challenge of democratic transition; and empire and the promotion of liberal order. In each of the three parts the selected key IR conceptions have been addressed, whereas strong references to structural – both defensive and offensive – realism and liberal (though not idealistic) thought are clearly visible.

In the first part of the book, devoted to the role of anarchy in international systems, Snyder presents fours essays published originally in 1990, 1999 and 2002. Anarchy, perceived neither as a clearly constructivist idea, nor as a concept of an unchangeable and indispensably brutal world (p. 113), should be – according to the author – taken for granted as a starting point for analysis. However, security fears resulting from anarchy and the behavior under the security dilemma should be perceived as shaped not only by the strategic situation itself, but by the participants' perception of their situation (p. 76). Snyder argues that none of the by now developed perspectives on security in the changing European order succeeds in explaining these dynamics, since the complex world requires a highly complex view (p. 68). Exemplarily, while referring to Waltz's findings regarding the alliance strategies in multipolarity, the author underlines that the chain-ganging and buck-passing logics need to be completed with a security dilemma variable of whether offense or defense is perceived to have the advantage (p. 38), since only a multivariable model can mirror the reality of international politics.

The challenges of democratic transition became Snyder's concern in the four essays written between 1994 and 2008, and collected in the second part of the book. The fact that consolidated democratic states have never fought wars against each other does not mean that democracy *per se* guarantees peace. Moreover, the processes of democratic transition often lead to extreme forms of aggressive nationalism and destabilization, whilst Snyder's particular concern refers to the future of the Islamic world (p 140). Peaceful transition can be supported by numerous conditions such as breaking up the information monopolies, promoting the inclusive, civic-territorial concepts of national identity or institutionalization of effective norms of mass political participation (p. 167). Snyder claims that the likeliness of experiencing a war or destabilization rises when the democratic transformations remain incomplete (p. 180), and takes the

Russian Federation into consideration, being a prominent example of a blurry democratic system with an unknown future (p. 202).

Hegemonic strategic myths are issues addressed in the last four essays written between 2004 and 2009 and selected for the third part of the book as a kind of reference to author's 1993 book *Myths of Empire: Domestic Politics and International Ambition*. Starting with the observation about the US post 9/11 paradoxical combination of omnipotence and particular vulnerability to external threats (p. 214), Snyder asks questions about the future hegemonic role of the USA in the globalized world and argues that the current strategy of using military occupation as a tool to promote democratization is a very vague concept that needs to be applied carefully and planned strategically (p. 225). Moreover, finding the human rights abuses as one of the key problems of the modern world, Snyder claims that also the legalist approach itself, based on international courts, commissions and trials does little to deter further violence and is not highly correlated with the consolidation of peaceful democracy (p. 285).

The international system is undergoing a dual liberalizing transition – within the individual states and in the system as a whole, Snyder argues in the conclusion to his book (p. 293), and claims that the proceeding transformation generates a significantly unstable situation and therefore creates new roles to be fulfilled by the mature liberal democracies. Furthermore, the author proposes five rules of thumb for managing the dual transition. Creating and sustaining a global "operating system" which indirectly facilitates democratization is so far the crucial task to be completed (p. 297), and should be supported by the practice of offshore balancing against regional threats (p. 298), together with maintaining an open door policy to join the liberal club (p. 298). The cooperation with illiberal reformers in potentially transitional states (p. 299) should be applied as an indirect strategy of democracy promotion (p. 299). In the meantime, standard diplomacy should be developed (p. 301), and the international democracy promoters ought to conduct their actions patiently and in a correct sequence (p. 300).

The new Snyder book obviously lacks more profound criticism and explanation on his findings collected over the past two decades. As he himself states, the world is being transformed and the time perspective changes the perception, therefore, the short introduction he offers to his readers seems to be unsatisfying. Moreover, the idea of integrating the standpoint of liberalism and realism, although interesting and definitely worth developing, disappear in the book and the perspective applied in all of the essays is coherently neorealist. An important remark should be made also to one of the general assumptions being a fundament for the proposed analysis, mainly the certainty about the current and future unipolarity of the world. This US-centric bias represented by Snyder, although analytically interesting, provides the answers to the central question raised – on the future role of China and other non-democratic rising powers; on the development of regions with weak political institutions and a rising demand for mass political participation; and on the Western response to the opportunities and threats of leadership in a heterogeneous modern unipolar world (p. 10) – pretty easy to be found, though questionable in their explanatory value.

Despite the assessment made above, the book represents an important input to the highly needed discussion about the current state and the future IR theory, by stating that the classical thought is no longer applicable and that the new schools do not bring much of explanatory and predictive power. Moreover, the idea of collecting the academic achievements of the post-Cold War era and having a look at them as a whole signifies another requirement of modern IR theory, namely the requirement to treat the development of the IR as a linear, holistic process, just as the international politics themselves are. Only this will allow science to develop and increase its ability to explain the logic of power and the logic of progress in the contemporary world.

Ida Orzechowska

Global trends 2030: Citizens in an Interconnected and Polycentric World[49], Álvaro de Vasconcelos (ed.)

The statement that the world is changing on an unprecedented scale and in an unknown direction has been an academic and political mantra for the past twenty years. Nevertheless, change is and has always been an inherent element of the international system, whereas fulfillment of the predictive function has always been the weakest point of all international relations theories. Álvaro de Vasconcelos, director of the European Union Institute for Security Studies, together with the research fellows from the European Strategy and Policy Analysis System research project, have made an attempt to address and identify the long-term trends on major policy issues facing the EU. The report "Global trends 2030: Citizens in an Interconnected and Polycentric World" is a key outcome of the project.

The results of the analysis included in the report have been structured into four main parts, which basically reflect the key findings of the research and indicate that by 2030 the world will face and will be shaped by several global trends, such as the empowerment of the individual, greater stress on sustainable development against a backdrop of greater resource scarcity and persistent poverty, compounded by the consequences of climate change and the emergence of a more polycentric world characterized by a shift of power from states, together with the growing governance gaps. Each of the four parts has been further developed in several chapters and each of them further on in few other sections.

The first part of the report has been devoted to the empowerment of individuals which is, according to the authors, one of the main symptoms of the declining role of the state in the international system. The evolution of the meaning of individual actors results mainly from developments such as demographic growth, global emergence of the middle class, universal access to education, influence of the information and communications technology as well as the changes in the status of women in the world.

49 Paris: Institute for Security Studies, 2011. 174 pp. ISBN 978-92-9198-199-1 www.iss.europa.eu/uploads/media/ESPAS_report-01.pdf

Moreover, the authors further claim that the values, ideas and demands of people all over the world are likely to converge which, together with the rising civic political participation, will contrast sharply with governments' capacity to deliver public goods. At the same time however, the authors underline that nationalism and populism will remain serious risks to the democratic developments.

Social inequalities together with climate change and scarcities are the subject of the second part of the report. Despite the above mentioned social developments, phenomena such as diseases, corruption or weak education systems will restrain the empowerment and democratization processes. Moreover, living standards and public safety will be significantly affected by climate change and resource scarcity. The authors emphasize that state security will not dominate the international agenda by 2030, and although it will remain a key issue, a shift to human security will be made a global political agenda. According to the authors neither a war among great powers, nor a major conflict involving WMD is likely to happen. Nevertheless, the possibility of inter-state conflict cannot be disregarded entirely, whereas border tensions, tensions over raw materials and nationalisms seem to be the most possible ones to occur.

The birth of a polycentric world together with the growing governance gap is the issue addressed in the third part of the report. A shift in economic power from the U.S., Europe and Japan to China and India, increasing Chinese military capabilities and rising middle powers, including Indonesia, Turkey and South Africa, accompanied by the increasing significance of the non-state actors are in the author's opinion the critical developments when it comes to the world's polarity. The polycentric world tends, moreover, to create greater awareness of the global character of the world citizens' topmost concerns whereas the global governance structures will most probably be unable to deliver many of the international public goods.

In the last part of the paper the authors clearly state that the global trends they identified do not allow defining with any certainty how the world will look like in 2030, as the importance of the unknown variables should not be underestimated and each of the trends observed now can develop in various directions. Therefore, the authors further argue that it remains crucial for the European stability to efficiently and effectively monitor the transitions and develop Europe's ability to adjust and react quickly to the changing international environment.

The methodology of the ESPAS research was based on a mix of in-house and contract-based expertise, whereas the scholars tried to exploit the expertise of the EU institutions most effectively. The report is an outcome of cooperation of experts and think tanks both from and outside of Europe, namely from the United States, Brazil, China, India and Russia, but also from Africa, the Arab world and Turkey, and was aimed at avoiding a Eurocentric perspective. The research process was organized in three main phases and included analysis of the existing literature and identification of the knowledge gaps; mobilization of the best expertise available worldwide in order to fill those gaps and finally conferences, where the preliminary findings were discussed. Moreover, some brainstorming sessions and working group meetings were held and representatives of the younger generations were invited to attend ad hoc discussions (focus groups) on questions of identity, the future challenges and opportunities facing their countries, and political participation and social networks.

As many large-scale research projects in social sciences aimed at capturing a holistic view of a systemic phenomenon and based on a broad spectrum of secondary sources accumulated and discussed in forums, the project can be criticized for its methodological dimension as well as subjectivity of the findings. Therefore, although the relatively low level of objectivity is an imminent element of social sciences *per se*, it is important to underline, that the report largely reflects the current discourse and perception of the global developments, and not the developments themselves. And even if one agrees that the meaning of a discourse should be appreciated in international relations, as Barry Buzan and his fellows from the Copenhagen School claim, due to the deeply incoherent nature of both the academic and the political discourse themselves, it seems to be extremely hard to predict the future on the basis of such an analysis.

The above seems to be particularly visible and particularly dangerous when the issue of the negative dimension of international security, in the strict meaning, is concerned. The authors of the report undoubtedly state that major conflagration involving chemical, biological, radiological or nuclear weapons (CBRN) is not likely to happen over the next two decades (p.17). Even in the report's section devoted to Iran the attention is paid to its democratization and support for inclusive governance, and not to the possibility of a conflict outbreak. This matches perfectly with the post-Cold War broadly shared peace enthusiasm and negation of the possibility of a large scale war incidence. However, since security still remains the priority function of the state (which was also confirmed by the authors of the report, p. 95), it seems to be highly risky to ignore the possibility of a rise of a serious conflict, especially when one has in mind what the authors themselves emphasize, namely, that the multiplicity and diversity of the actors in the international structure create a great level of uncertainty and unpredictability in further developments. Therefore, the extent to which the intervening and unknown variables may influence the international system can be unprecedented.

The third element of the report, which should become subject of criticism, is the omission of the intervening variables and their potential influence on the direction of the developments in the analysis. As long as it is obvious that some, if not the majority, of the intervening variables are at the same time the unknown variables, the experiences from the past two decades seem to prove that some trends can be observed also when the intervening variables themselves are concerned. This can by exemplified by the 9/11 attacks being a breakthrough point which was firstly, unpredicted (in contrast to the previous biggest turning point which was the collapse of the bipolar world), secondly, of an unknown nature, and thirdly, significantly changed the global approach to security. The European Union will most probably have to face a similar – new, unpredictable and breakthrough – phenomena within the next 20 years and a report which aims to outline how the world will look like by 2030 should include at least an attempt to address this problem.

The last crucial issue which seems to be at least questionable among the findings included in the report is the problem of the individuals' empowerment. In the authors' line of reasoning, the assumption is that the weaker the state is, the more empowered the individuals are. This seems however, to be a far reaching simplification. The de-etatization of international relations indeed creates the space for the non-state actors but non-state does not mean grass-root, civic or individual. Furthermore, it may appear that the bigger the competition on the non-state level is the smaller chances the individuals have to influence the decision makers and to create the political agenda.

The conclusions of the EUISS report are basically confirmed by several similar reports prepared by scholars and analysts represented by institutions and bodies of various natures and geopolitical backgrounds. The research conducted by the Roland Berger Strategy Consultants, the U.S. National Intelligence Council and the British Wilton Park basically support the findings concerning the fragmentation of the international system and the development of a multipolar international structure. The conclusions related to the demographic developments, de-etatization of the international relations or rise of importance of BRIC powers along with several other fast developing countries, reveal some serious differences in results regarding security issues and the approach to future development trends of modern armed conflicts, terrorism, proliferation, etc. The NIC's report underlines the rising geopolitical significance and possibility of the use of nuclear weapons, particularly in the Iranian context, but also if any future wars in Asia or the Middle East are considered. Moreover, the authors of the NIC's research clearly state that a fragmented international system, together with the spillover from regional conflicts and the resource scarcity significantly increase the potential for interstate conflicts, whereas new types of conflicts could (re)emerge, such as conflicts over resources. This seems to confirm Harald Waltzer's thesis in his Climate Wars, where the attention is transferred from war studies to natural developments that enforce critical changes of living conditions thus creating migration waves and violence excesses with a global impact in the interconnected polycentric world. The report prepared by Wilton Park additionally emphasizes that nuclear disarmament may be counterproductive in the multipolar world and that the future conflicts are likely to move into new frameworks including cyberspace, and rising interconnection between terrorism and organized crime, which is mainly a result of international governance' inability to adapt to new powers and arrangements.

Although serious criticism can be made when the ESPAS report is concerned, it undoubtedly represents an added value to the European security discourse because of several reasons. Firstly, it points out the need to identify challenges that the world and Europe will have to face within the next few decades, and that a coherent approach based on knowledge is required in order to maintain and develop a stable international system. This seems particularly important when the discussion over a new European Security Strategy and the question of the further role of the EU in the polycentric world is considered. Secondly, the inclusion of a broad spectrum of analysts from all over the world in the research project illustrates and emphasizes the transfer from European or Western domination in international relations to a relatively balanced multipolar world. And finally, the holistic, systemic approach applied in the ESPAS research highlights one of the challenges that both academics and politicians will have to face, namely the rising interconnection of global issues and the impossibility to solve just one problem in one place.

Ida Orzechowska

The Next Decade - Where We've Been ... and Where We're Going, George Friedman[50]

The book *The Next Decade – Where We've Been … and Where We're Going* represents a highly detailed analysis of the potential development of U.S. foreign policy. The title of George Friedman's book is self-explanatory, as he seeks to propose solutions for the improvement of the U.S. foreign policy in the following decade and emphasizes several mistakes that were made in the past.

The author introduces the subject by highlighting the thesis that a century is a period when significant events occur, while a decade is an interesting period to analyze, but is usually absent of significant changes. He advocates the necessity for change in basic U.S. foreign policy and the return to balancing powers in regions throughout the world, while avoiding direct interventions. A short summary of the subjects that are discussed in the book are presented. The first chapter outlines the global role and influence of the American President. The author's argument is, on which he bases his idea, that the United States are an unintended empire. He explains that the U.S. remains the last world superpower following the decline, and finally the dissolution of the Soviet Union. Further analysis is provided on how the American President should perform his actions and which policies he should pursue. Comparisons are made with the Roman and British empires, and an account of the most influential United States' presidents is provided together with their distinct qualities.

The chapter ˝Republic, Empire and the Machiavellian President˝ discusses the moral dilemma of maintaining an empire based on democratic principles. It also considers particular mechanisms that could limit the power of the American President. The author presents his opinion taking into consideration both the idealist and the realist view of the role of the United States in the world as well as reinterpreting several Machiavellian ideas. The third chapter discusses the aftermath of September 11, and the financial panic of 2008, as two key events that had a crucial influence on the past decade. The author provides a short overview of the

50 New York: Knopf Doubleday, 2011. 272 pp. ISSN 978-0-385-5329-5

situation prior to the financial collapse. He further analyses the policies which were enacted by former American Presidents in order to revitalize the economy.

The next chapter discusses the belief that the primary goal of the 9/11 attack was to reveal America's vulnerability. Thus, if the United States could be threatened, Bin Laden believed this would prove that no government was secure, which would enable his idea of a revolution aimed at the restoration of the Islamic caliphate. Furthermore, an interesting argument considers the necessity of war in Afghanistan and Iraq. It also analyses mistakes regarding Iraq and the Iranian focus on the nuclear program. The chapter ˝The Terror Trap˝ analyses the term ˝War on Terror˝ and why the use of such a phrase is focused on a far too wide field. The author does not disregard the potential threats arising from terrorism, yet he argues that these threats were given a far too central position in creating the U.S. foreign policy. He also believes that the risk of terrorist' possession of weapons of mass destruction is minimal.

Chapter six concerns Israel and displays relevant historic data that explain the roots of the conflict in this troubled region. Friedman proposes that the United States should reconsider their policy and involvement in the conflict. The following chapter analyses American interests in the area between the eastern Mediterranean and the Hindu Kush. It also questions the issue of destabilization of balance in the region and discusses means for its restoration. Friedman analyses potential dangers of the rising Iranian power and solutions to this issue. He also considers the consequences of a possible U.S-.Iranian understanding that would resolve current issues.

The eighth chapter analyses the power of the Russian Federation and provides a short illustration of relevant historic events. The author explains the complex geostrategic relations in the region, subsequent to the dissolution of the Soviet Union. In addition, an analysis is presented of potential development of relations between the Russian Federation and particular European countries, taking into consideration countries which represent important strategic partners in the region. The chapter ˝Europe's Return to History˝ starts with an outline of the numerous conflicts that Europe had throughout its history. Friedman presents a short history of the European Union and the pivotal role of Germany. The role of Germany in the economic crisis is examined as well as its relations with peripheral countries of the European Union. An interesting analysis of the future of Poland is explained as well as its crucial geostrategic position.

The following chapter proposes actions that should be taken in the Western Pacific. The author holds on to the idea of balance of power as he advocates solutions to maintain future stability between China and Japan and Pakistan and India. He stresses the dependence of Japan on U.S. resources, as well as the fact that China's functioning would be a lot harder without the United States because a vast amount of their products are being distributed in the U.S. market. The author bases his ideas on in-depth analysis of economic and historical data, taking into account the geostrategic position of these countries. He believes it will be necessary for the United States to make a significant shift in several of its current policies.

The eleventh chapter provides an overview of the issues related to South America and U.S. policy towards its nearest neighbors. The author presents reasonable arguments on why no country in the region is problematic to the United States, including Venezuela. The chapter mostly considers U.S.-Mexican relations and the issues that exist as consequence of the co-dependency and the collaboration of these economies, especially considering the issue of illegal immigrants and the drug market. The only possible emerging threat might be Brazil with its growing economy, although that could also be balanced by assisting Argentine.

The title of the chapter ˝Africa: a Place to Leave Alone˝ is self-explanatory. The author believes that, with the exception of Northern Africa, Africa is a region where the United States have no significant interests and that there are no notable threats there. The main argument for these views is that the majority of African states do not have a strong central government, so establishing a balance of power there is impossible. During the Cold War, the U.S. presence was necessary in order to restrain the Soviet power. The author does not see any similar threat in the coming decade.

The thirteenth chapter discusses demographic and technological issues. It emphasizes the problem of the generation popularly called the ˝baby boom˝ generation of the 1950-s. The analysis is focused on finding potential solutions. The author displays the evolution of significant technological inventions and their relevance. He also discusses the issue of energy resources deficiency, as well as potential alternative energy resources and global environmental issues. The final chapter sums up the arguments and solutions presented throughout the book. The author underlines that, with the end of the isolation period in 1898, the United States evidently stepped on the path of imperial power and also highlights the necessity of setting a balance between moral principles and a realistic foreign policy. The mistakes of the past decade can be rectified and the next decade will be a crucial time for the American nation to mature and understand its position in the world.

Regardless of whether the reader agrees with the argumentation presented in the book, it is a very well written projection of possible intriguing scenarios that might follow the United States in the next decade, as well as multiple recommendations as to how the U. S. should deal with the forthcoming issues.

Filip Kokotović

Nations in Transit 2011: Democratization from Central Europe to Eurasia, Sylvana Habdank-Kołaczkowska and Christopher T. Walker (eds.)[51]

The following book is the 15th volume of *Nations in Transit*[52], published annually by Freedom House. Freedom House is an American think tank that conducts international comparative research and publishes reports on the state of democracy, political freedom, human rights and freedom of the press in the world. Founded in 1941 by Eleanor Roosevelt (spouse of Democrat US President Franklin D. Roosevelt) and Wendell Willkie (Republican presidential candidate), it is a non-governmental research institute that was originally intended to popularize American involvement in the Second World War.

After the fall of the Berlin Wall, Freedom House started doing research on democratic transition, issuing reports on country progress in establishing democratic standards, protecting civic and human rights and freedom of speech. Freedom House's work revolves around three activities: analysis, advocacy and action (AAA). However, its main goal is not only research on the global state of democracy, it also aims to lobby among US decision-makers to adopt policies which further democracy and human rights on the global level. Finally, it takes direct action through training, assistance and grants which helps similar organizations in various countries – especially those struggling to become more democratic.

This year's *Nations in Transit 2011* report is subtitled *Democratization from Central Europe to Eurasia*. Its editors are Sylvana Habdank-Kołaczkowska, Project Director of *Nations in Transit* and Christopher T. Walker, Director of Studies at Freedom House.

The methodology used in the book is explained in the first chapter. The book covers 29 post-communist countries in Europe and Asia and meas-

51 New York and Washington: Freedom House, 2011. 24 pp. www.freedomhouse.org/sites/default/files/Full Booklet%2C NIT2011_0.pdf

52 The first Nations in Transit report was published in 1995.

ures and compares their progress in democratization for the period from January to December 2010. The 29 country reports all follow seven research topics: national democratic governance, electoral process, civil society, independent media, local democratic governance, judicial framework and independence, and corruption. The results for these seven categories (criteria) are shown on a scale from 1 (highest level of democratic progress) to 7 (lowest level of democratic progress). The ratings are calculated according to a quarter-point scale, so that smaller changes in democratic progress equal a change of 0.25, while changes of a bigger scope equal 0.5. The ratings are based on a range of questions posed for each of the seven categories. The *Nations in Transit 2011* list of questions includes five questions on national democratic governance (including 5-6 sub-questions), ten questions about the electoral process, ten questions about the civil society, ten questions on independent media, six questions on local democratic governance, (with 4-6 sub-questions), nine questions on the judicial framework and independence, and ten questions on corruption.

The average score in each of the seven categories gives an overall Democracy Score (which was first employed in the 2004 edition) for each country. According to this score (on a scale of 1 to 7), Freedom House's researchers classify the regime types in their country. Countries with a Democracy Score of 1-2 are labeled as consolidated democracies; those with a score of 3 are called semi-consolidated democracies, while the regimes of those countries which have a score of 4 are named transitional governments or hybrid regimes. On the other hand, countries which received the score of 5 are labeled as semi-authoritarian regimes, while those which have a score of 6-7 are identified as consolidated authoritarian regimes.

In the introductory chapter, titled *The Authoritarian Dead End: The Arab Spring's Implications for the Former Soviet Union*, Christopher T. Walker shows how the Arab Spring debunked the myths that in some cultures (i.e. the Muslim world) people did not desire more freedom and that authoritarian regimes provided stability. He also points out that the revolutions in the Middle East and North Africa raise questions about the future of regimes in post-Soviet countries, as most of them were consolidated or semi-consolidated authoritarian regimes (according to the Democratic Score presented in this volume), while at the same time they share many similarities with the regimes which were brought down with the Arab Spring. Walker stresses that all nine post-Soviet authoritarian countries have shown a further deterioration of democratic standards in the last ten years. The author points out the countries where either the power holders enjoy limitless terms (Kazakhstan, Belarus, Tajikistan, and Uzbekistan) or where there is a controlled succession of power (Azerbaijan, Russia and Turkmenistan).

The author emphasizes several things – the resistance to reform in authoritarian states, the worsening of media freedom across all regions encompassed in the research, strikingly bad results in regionally important countries such as Ukraine and Hungary and poor performance in the Balkans (with Croatia and Serbia standing out as exceptions).

The editor's introduction is followed by tables which show ratings for all countries from 2002 to 2011. The final table before the country report chapters shows the 2011 country rankings by regime type. According to their Democracy Score, Estonia, Slovenia, Latvia, Czech Republic, Poland, Lithuania, Slovakia and Hungary are consolidated democracies, while Bulgaria, Romania, Croatia, Serbia and Montenegro are semi-consolidated democracies. Albania, Bosnia and Herzegovina, Ukraine, Georgia and Moldova are labeled as transitional governments or hybrid regimes, while Kosovo and Armenia are identified as semi-consolidated authoritarian regimes. Finally, consolidated authoritarian regimes include Kyrgyzstan, Russia, Tajikistan, Kazakhstan, Azerbaijan, Belarus, Turkmenistan and Uzbekistan.

The reports are listed alphabetically and not according to the countries' Democracy Score or regional affiliation. Each report consists of basic country information, taken from the Word Bank data, a table showing ratings and scores from 2002 to 2011, and an executive summary which briefly covers democratic progress across the seven aforementioned categories and gives an outlook for the following year. The country report also includes a main report which further explains the main events and processes which influenced annual progress in each of the categories. Short information on the authors can be found at the end of each report, while the bibliography (references) used is presented as endnotes at end of each "case study".

Overall, the Democracy Score declined in 12 countries (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Hungary, Kosovo, Macedonia, Montenegro, Russia and Ukraine), while it improved in Croatia, Czech Republic, Estonia, Georgia, Kyrgyzstan, Latvia, Moldova, Poland, Romania, Serbia and Slovakia. Croatia's score improved from 3.71 to 3.64, while its best score was 3.54, measured in 2002. Independent media suffered setbacks in Belarus, Bosnia and Herzegovina, Hungary, Kosovo, Macedonia, Montenegro and Ukraine, while the electoral process saw improvements in Czech Republic, Georgia, Kyrgyzstan, Latvia, Moldova, Poland and Slovakia. Croatia achieved democratic progress in the fields of civil society and corruption, while in all other categories its scores remained unchanged, which implies stagnation in democratic development. Out of all seven categories, Croatia received poorest results for judicial framework and independence, and corruption (both 4.25), while civil society reached the best score (2.50).

This book can be useful for academics, policymakers, civil society activists and the media alike. The year-by-year scores for each category and country enables both a cross-country and a chronological comparative approach. The concisely collected, carefully sorted and arranged data presented in this Freedom House analytical report can be employed for further research on a range of topics. For example, a country's investment opportunities could be correlated with its corruption score, while for the ones aspiring to become members of the European Union, scores for national democratic governance and judicial framework and independence could be linked with each country's state of progress towards full EU membership.

The book can be warmly recommended as a useful resource for students and researchers interested in comparative politics, post-communist studies, processes of democratization and the correlations between democratic governance and security, as well as those with an interest in one of the regions (new EU members in Central and Eastern Europe, the Balkans and non-Baltic former Soviet states).

Iva Kornfein

European Union Diplomacy: Coherence, Unity and Effectiveness, Dieter Mahncke and Sieglinde Gstöhl (eds.)[53]

The European Union punches below its weight when performing as a foreign policy actor, mainly due to its *sui generis* nature and the inherent tension between supranationalism and inter-governmentalism as the EU member states want to keep their foreign policy prerogatives. Despite some progress since the late 1990s, the EU has been struggling to strengthen its capabilities and instruments, and secure necessary political consensus in order to upgrade its foreign policy. In that sense, the Lisbon Treaty with its latest institutional architecture in the EU's external relations could open a new era for the EU by securing a stronger, more coherent and unified EU's voice in global affairs.

The book focuses on the Lisbon Treaty-led institutional changes in the EU's external relations and analyses their impacts on the EU as a diplomatic actor. The authors provide an analysis of the first results of the High Representative for Foreign Affairs and Security Policy who is at the same time Vice-President of the Commission (HR/VP), and the impacts of the President of the European Council and European External Action Service (EEAS). These changes have improved the EU's capacity to achieve institutional coherence and bridge the gap between the European Commission and European Council through the HR/VP posture whose work should be supported by the EEAS as the EU's diplomatic service. Apart from this institutional set-up, authors emphasize the profound change the Treaty brought by merging the EU's foreign policy with other EU's external policies (e.g. enlargement, trade, energy or environmental policy), as the EU aims to amplify its political clout by achieving greater policy coherence across the entire cluster of external policies. However, the first results of the post-Lisbon EU represent only a starting point ahead of gradual development, whose final outcome will be determined by the EU's political leadership and its strategic vision for the EU's global role in the 21st century. This analysis of post-Lisbon EU is depicted in the foreword given by *Herman Van Rompuy*, President of the European Council, who praises the

53 Brussels, Berlin and New York: Peter Lang, 2012. 273 pp. ISBN 78-90-5201-842-3

Lisbon Treaty in developing continuity of the EU's strategic interests and objectives, elaborated in the ensuing ten chapters. The first part of the book analyses internal or institutional aspects of the EU diplomacy while the second part assesses external aspects of the EU diplomacy.

In the first, introductory chapter, *Dieter Mahncke* elaborates the historical genesis and development of the EU's diplomacy, that experienced a major breakthrough after the collapse of communism and whose position was advanced through the Maastricht, Amsterdam and Lisbon treaties. However, the author expresses major concern over the real content of the EU's foreign policy that should be implemented through the institutional framework enclosed in the Lisbon Treaty because the EU possesses only broad foreign policy objectives that can be made operational through the HR/VP and the EEAS. However, the EU Member States pose a crucial challenge to this coherent EU's foreign policy as they don't want to hand over sovereignty in foreign and security policy and have opposed strengthening of the EEAS. Consequently, their reluctance to use the most recent EU's foreign policy toolbox and achieve greater unity undermines the Union's strength and downsizes the strategic significance of the Lisbon Treaty.

Paul Quinn in the second chapter analyzes the post-Lisbon external relations through the prism of coherence. Several pre-Lisbon problems have been amended by abolishing the pillar-structure, granting legal personality to the EU and uniting external representations under the EEAS authority while the HR/VP became a guardian of the coherence principle. These legal and institutional changes have upgraded horizontal coherence across the EU policy-making and improved the EU's capacity to act. However, vertical coherence between the EU and Member State policies will be harder to achieve because the „concept of conferral" allows the EU to act only within powers granted by the Member States whereas the institutional coherence across different EU institutions is challenged by the tension between actors in the EU's foreign policy machinery. Challenges of the vertical and the institutional (in)coherence were clearly visible during the setting-up of the EEAS, the analysis of which is provided by *Benjamin Barton* in the third chapter. Namely, the EEAS nominally represents an autonomous body, aiming to streamline the EU's foreign policy abilities, pool the resources and secure the coordination across various institutions dealing with foreign policy. However, it emerged after years of institutional wrangling within the EU regarding the distribution of power and competences within the EEAS. These institutional turf wars have continued in the aftermath of the EEAS' set-up, with the Member States keeping their dominant influence. The success of the EEAS fundamentally depends on the Member States' willingness to use the EEAS as the building block upon which to construct a unified foreign policy.

After institutional issues, the following two chapters deal with personalities and values in the EU's foreign policy. *Anna-Claire Marangoni* analyses the first years in office of Catherine Ashton and Herman Van Rompuy. She highlights the importance of first appointees in shaping new positions, contributing to institutional creativity and exercising far-reaching agenda-setting powers. Focusing on Lady Ashton's track record, the general observations are that she has not lived up to the expectations yet, especially when compared with the tenure of Javier Solana. Solana was the first EU High Representative for Common Foreign and Security Policy (CFSP) and has considerably shaped the EU's diplomacy by framing issues and pushing towards innovative policy proposals. Therefore, Lady Ashton should become a strategic thinker through her HR/VP post, being able to frame issues, achieve compromises and position herself appropriately towards other EU institutions and the Member States. Regarding Van Rompuy's tenure, he has performed an important brokering role between a variety of actors and has also shown willingness to perform an influential foreign policy role. The following chapter, written by *Yannick Hartstein*, reflects on the role of seconded national experts (SNEs) in the EU's foreign policy. The SNEs are important agents for the Europeanization of the foreign policy through social learning mechanisms that reconstruct their interests and identities, previously dominated by national foreign policy issues. In that sense, CFSP institutions have an important socialization function because they provide an environment that facilitates the adoption of new norms, rules and values among the SNEs, thus contributing to the creation of a distinct EU's foreign policy culture.

The sixth chapter deals with the EU's multilateral diplomacy and marks the beginning of the second part of the book which focuses on the external aspects of the EU's diplomacy. *Sieglinde Gstöhl* analyses changes brought by the Lisbon Treaty in the EU's external representation, namely within the UN institutions. She argues the Treaty does not necessarily ensure a „single European voice" because most multilateral organizations are state-centric, meaning they would require change of their constitutive acts in order to secure membership of the EU as the collective entity instead of its Member States, a scenario not likely to happen. Furthermore, other major actors are not necessarily in favor of the EU speaking as a single block and the EU countries themselves seek to protect their international positions against the Commission and the HR/VP in the international fora. Consequently, the EU emerges as the "patchwork power" in multilateral diplomacy, represented by varying actors and lacking a single stance. The comprehensive nature of the EU's diplomacy is evident in the following two chapters that focus on the EU's bilateral and unilateral diplomacy. *Youri Devuyst* and *Jing Men* analyze, in the seventh chapter, the EU's extensive practice of political dialogue with third countries and regional organizations. Political dialogue is an important asset of the EU because it affirms the EU's collective identity and improves the policy-planning process through a regular exchange of information and by focusing on priority issues. Authors particularly focus on the bilateral EU-China political dialogue that has significantly improved mutual cooperation and partnership since the mid 1990s, confirming the valuable place of political dialogue for the EU in world affairs. Chapter Eight, written by *André Ghione*, elucidates the impact of the Lisbon Treaty on the EU's trade policy because it now falls within the overall EU's external action objectives and is being scrutinized by the European Parliament. Essentially, the EU, by employment of a trade policy, now aims to strike a proper balance between its values of human rights, good governance and sustainable development, with its commercial interests.

Shannon Petry, in chapter nine, focuses on the external perceptions of the EU' diplomacy by analyzing the process of transformation from Commission Delegations to the EU "embassies" within the EEAS ambit since 2010. The analysis has shown that the international partners have positively endorsed the Lisbon Treaty-led changes in the EU's diplomacy and generally appreciate its importance for the Union. Additionally, it is argued that international partners are primarily focused on the substance or capacity of new EU's diplomatic corps to deliver appropriate results. Therefore, research clearly sheds light on the need to secure appropriate training of the EEAS staff in order to secure efficient implementation of the EU's foreign policy, as being stressed by *Dieter Mahncke* and *Sieglinde Gstöhl* in the concluding chapter. This training is a necessary precondition in improving the EEAS' working capacity but can also play an important role in creating the EU's diplomatic culture and foreign policy identity.

The book offers a first account of the impact the Lisbon Treaty had on EU's foreign policy implementation, evidently contributing to the academic debate on the EU's role in international relations. The book reveals the complex nature of EU's global posture in the post-Lisbon era and shows its multifaceted nature, endowed with various subjects and overlapping policy domains. The authors analyze in detail the inter-institutional wrangling within the EU's foreign policy domain and the position of the EU member countries which still want to have a grip on their prerogatives, representing major obstacles in securing a coherent and unified EU voice in global affairs.

Additionally, the authors provide an assessment of the EU-induced changes of cognitive patterns among national policy-makers, leading to compliance with the EU norms and rules. However, this is the point of major objection towards the authors' approach. In particular, the authors remain reluctant towards the EU's possibilities to develop a coherent and unified foreign policy and are generally too critical towards the newly established HR/VP post, undermining its potential autonomy and giving advantage to the EU Member States. The political will of the EU Member States is indeed crucial in definition of the EU' foreign policy however, this policy cannot be solely analyzed through the prism of inter-governmentalism or lowest-common denominator logic. The EU has developed a "coordination reflex" and the sense of "we-ness" within the foreign policy where the EU identity and interests are being mutually constituted. This struggle of the EU to define the content and objectives of its foreign policy occurs within a particular transnational social milieu where policy makers share ideational bonds and seek to translate them into concrete actions. Therefore, the emergence of a common EU strategic culture could become the fortitude in determining the success of the HR/VP and EEAS because it could stimulate a myriad of different voices within the EU's foreign policy, thus turning them into the same direction. Despite the objections, regarding the easily undermined perspectives for a coherent EU diplomacy, this book can be recommended to scholars, practitioners and the wider audience interested in the EU's external relations as it offers an overview of a historical struggle to reach a single EU "telephone number" in the world affairs.

Saša Čvrljak

An Introduction to European Foreign Policy 2nd ed., Fraser Cameron[54]

The book *An Introduction to European Foreign Policy*, written by Fraser Cameron, one of the leading experts on the external relations of the EU, provides an excellent insight into the key topics concerning the Union and its role in the globalised world including the reforms that the Lisbon Treaty brings, transatlantic relations and the ongoing financial crisis in Europe.

The European Union succeeded in imposing itself as a leading player in many international contexts: it is the most prominent actor in environmental policies, the largest provider of development assistance and the most important trade partner worldwide. Still, despite these massive achievements, the EU failed to impose itself as a main actor in international politics.

In the context of a changing geo-strategic environment, where military power is rarely sufficient to resolve political problems, the United States are far from losing their role of a diplomatic superpower although new actors have been emerging as key international actors. However, while BRIC countries seem far from representing a serious challenge to the US predominant position due to compelling domestic issues, the EU still lacks a clear identity and has trouble expressing independent views.

This shortage is reflected by the poor step forward made by the Common Foreign and Security Policy (CFSP), since its institution in the early 1990s compared to the enormous progress that have characterized the other two pillars of the Union.

European Member States always tried to prevent the Commission in having a proactive role in this policy area, the consequence of which is the political cooperation having been established, since its creation in the 1970s, on an intergovernmental basis. This entails that, in order to adopt joint action and common positions (the means that EU addressed to third states), consensus must be reached among all the 27 members.

54 London and New York: Routledge, 2012. 293 pp. ISBN 978-0-415-59923-8

Turning back to a historical perspective, European Political Cooperation started as a merely declaratory cooperation that started its development after 1992 in a proper policy area, with its own structures and institutions.

There couldn't have been a worse time for the launch of this new policies field than the outbreak of the war in former Yugoslavia that underlined all the limits of the newborn policy. Still, in such an adverse environment, important achievements have been acquired: the EU successfully dealt with the Hungarian and Russian minority issues and it managed to lobby effectively for the 1995 extension of the Non Proliferation Treaty.

As described above, the Common Foreign and Security Policy is purely intergovernmental, this means the Council has the lion's share of the decision making process, leaving little room for maneuver to the Commission and to the Parliament. The institution which emerged as a key player in this institutional strife between the EU bodies is the High Representative for the CFSP: thanks to the highly charismatic Javier Solana, who was the first official holding this position since its creation in 1997. Solana emerged as one of the main stakeholders in European diplomacy.

One of the most recent developments has been the creation of the European External Action Service, an independent body meant to overcome the frictions between the EU institutions and promote coherent external relations. It will be the duty of the new representative Catherine Ashton, to shape this agency according to the transparent and consensual approach held by the former HR, which has been worldwide acclaimed as an example of new diplomacy going beyond the mere balance of power.

Javier Solana also gave a striking contribution to the development of the Common Security and Defence Policy. With the adoption of an enlightening document he has set the priorities for many external actions of the EU, and following the path traced by the Petersberg Tasks and by the Helsinki Headline Goals, CSDP missions were sent to Bosnia, FYROM, Congo and Georgia, giving a significant contribution to security and humanitarian crisis management.

Furthermore, proving that Internal Security is not the only priority of the European external activities, the Neighborhood Policies are aimed at building a tight cooperation with those countries that have no prospects of accession. These actions, targeted towards Mediterranean and Eastern European Countries, have been increasingly linked to a strict conditionality concerning the implementation of the rule of law to avoid the risk of hindering the process of democratization.

A different approach has been used towards the Balkans. The Europeanization of the region has always been a priority since the failure of stabilisation in the early nineties. With its association programs, the EU has undertaken cooperation aimed at the gradual integration of most of the Western Balkans into European structures. The fulfillment of the accession negotiations by Croatia is the first milestone in a process that will contribute to the consolidation of the EU as an indispensable partner for the whole area.

What emerges as a key issue that could legitimize a deeper integration in EU external policies is the prevention of conflicts and crisis management. This has been seen as a main weakness at the early stages of the Common Foreign and Security Policy but its initial failures must be ascribed to the initial reluctance of Member States to transfer sufficient powers to the supranational institutions.

Still, significant achievements were made in minorities' protection in Macedonia and effective peacekeeping actions were taken in many African nations, despite the comprehensible difficulties related to the respect of the will of 27 different nations. Conflict management, by its very nature, requires a fast decision making process. This is the ratio underlying the institution of a new Directorate for Conflict Prevention: a unit that will hasten the response capacity of the EU towards unexpected crisis.

One of the most pressing demands that the civil society has addressed to the EU is a more effective coordination of the counter terrorism offices. The EU is tackling this threat with both internal and international cooperation including the creation of common criminal data files and the establishment of a closer collaboration between national police forces. The perspective of the creation of a European Central Intelligence Agency would give a crucial shift to the fight against terrorism but it faces overwhelming obstacles due to the reluctance of the national services.

Making an assessment of these first two decades of European Foreign Policy is no easy matter. The external dimension remains a sensitive area for most of the Member States, especially for those who, led by pride, still aspire to exert a leading diplomatic role. Still, in this challenging environment, the CFSP can take credit for some modest success, leaving a promising future perspective.

Worldwide calls for an EU speaking with one voice can hardly be ignored because a community with over 500 million people cannot escape from playing a greater role in the world affairs.

An Introduction to European Foreign Policy is vital reading material for all those who want to get a concise and clear overview of European and International politics, including the information on the New EU External Action Service, European and security defence missions in Afghanistan and Kosovo, issues such as Egypt, Libya, Iraq and Iran, and strategic partners of the European Union in Asia – China, India, Japan and ASEAN.

Antun Krševan Dujmović

The Delphic Oracle on Europe. Is There a Future for the European Union? Loukas Tsoukalis and Janis A. Emmanouilidis (eds.)[55]

This book represents a continuance of the European Seminar of the Hellenic Foundation for European and Foreign Policy (ELIAMEP), held in Delphi in June 2009. The seminar *The Delphic Oracle on Europe* brought together leading theorists and policy makers who discussed the ways forward for the EU in times of global crisis. The book itself is divided into three parts: Part I focuses on the Union's institutions and the issue of leadership, Part II analyses key elements of the new socio-economic situation in Europe, while Part III discusses the EU's global role in the post-crisis world.

The book opens with Jonas Condomines Béraud's assessment of the Lisbon Treaty implementation. According to him, it is still too early to consider the possibility of extending the classic adversarial political model on a European level. Even if there existed a political will for this type of transformation, the transition period for agreement of such new European treaties would take longer than expected. In this unfavorable context the principle question Béraud poses is whether Europe can afford to wait? The subsequent argument written by Olaf Cramme analyses the problem of leadership in the EU. The author makes a distinction between entrepreneurial or problem-solving leadership, which the EU has plenty of, and directional leadership which the EU is lacking. This situation is explained as a consequence of the rising complexity of policy making in the EU, namely, where once there was emphasis on strategic and directional discussions now there is increased preoccupation with getting the details right in rather technical agreements. In the final account in Part I written by Josep Borrell Fontelles, the author analyses the future role of the European Parliament. Fontelles explains in great detail the innovations introduced by the Lisbon Treaty in the case of the EP. In his view, using the new powers assigned by the Treaty, the EP will become more like an ordinary Parliament and less a talking shop – a criticism repeatedly mentioned in the past.

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Part II of the book sums up an excellent group of authors who are skeptical towards the possibility of Europe to abandon the current unfavorable state of affairs any time soon. Pier Carlo Padoan indicates that in order for Europe to grow, the Member States need to take necessary steps to establish a single representation in international forums and complete the process of integration in the areas where such a need exists. Unfortunately, according to Padoan, such development is not very likely, due to the famous Olson problem. In other words, decades of integration have increased the capacity of special interests to resist changes, while at the same time the ability of political leaders to overcome such resistance has weakened. In the following chapter, written by Dieter Helm, he evaluates possibilities for materializing the proclaimed green growth of the European economy. He indicates that, contrary to the idea that decarbonisation of European economy will cost less than 1 per cent of GDP per annum, correct policy cost calculations indicate that the costs would be much higher. This does not imply that such actions are not worth doing, but rather that the price will be a reduced standard of living.

In his account about the crisis and the governance of the Euro, Area André Sapir states that the EU treaties did not foresee any mechanism for crisis management and crisis resolution. It is as if the treaties assumed that crisis prevention would be efficient and the development of instruments to manage and to resolve crises would only have a moral hazard effect. He concludes by stating that the monetary union does require some form of fiscal union. Therefore, current developments towards more fiscal solidarity and less fiscal sovereignty clearly amount to an important first step towards a fiscal, and thereby, a political union. Assessing the political economy of the single market Roger Liddle notes that European recovery will be managed by the private sector. "State capitalism" is not the model for Europe's future, even though governments at all levels must exercise a developmental role in support of business growth. Therefore, the EU's role will not just be to regulate the market, but to nurture a constructive, non-competitive framework for state activism that supports the market. In Liddle's view a refreshed commitment to the European style capitalism should support the business ethics of long-termism, social partnership and stakeholder accountability rather than the crude ideas of shareholder value.

For Philippe Herzog social Europe needs to adapt to the new circumstances and challenges created by the crisis. Therefore, he calls for a new growth model based on the development of human capabilities, the promotion and extension of European public goods, the introduction of tax incentives to encourage training and investment, reforms in the financial sector, strengthening of the EU's industrial policy, and further development of the European social dialogue.

Part III of the book starts with Jolyon Howorth's article on the need for the EU to develop a grand strategy. According to the author, the Lisbon Treaty was devised as a set of instruments which would allow the Union to play an ever greater role on the global stage. However, there are many obstacles to achieving that ambition such as: bureaucratic in-fighting in Brussels, the residual national ambitions or the personal ambitions of individual statesmen. These obstacles need to be overcome by a grand strategy which would allow Europe to resume a stronger influence on global affairs. The account written by Zaki Laïdi starts with the assumption that Europe is risk averse. Being risk averse is in itself neither a quality nor a weakness, rather, it is a manner of being in the world and Europe's task is to discover how to put this characteristic to use and to accord value to it in the context of the current international system. The final article to Part III, written by Janis A. Emmanouilidis, further evaluates the topic of global Europe. In the author's view, Europe's ability to assume a global role is still hampered by different foreign policy traditions and cultures and by diverging interests defined predominantly in the national framework. Europe should enable Europeans to manage and co-determine global and regional developments. This however, requires the enhancement of Europe's global role through the definition and implementation of a limited number of strategic projects.

In a separately written conclusion to this volume, Loukas Tsoukalis, by using the metaphor "The Delphic Oracle on Europe", sums up the most important messages of the book. His general conclusion is that despite the current deep crises, there still is hope for Europe. His moderate optimism is based on the fact that the crisis in the EU will result with stronger and more effective governance structures, including a more effective regulation of the financial markets. Still, this is only the first step since the EU needs a new narrative. This time the emphasis should be on policy innovation and measures that work in a complementary fashion with those at the national and local level. Furthermore, there should be enough room for differentiation in order to bridge the internal divergence. Last but not least, the political system of the EU should be enriched by an increased level of political competition while globally Europe should learn how to speak in one voice.

This book represents an interesting collection which provides analysis of the current state of affairs as well as ideas and recommendations concerning the future development of the EU. It was published at a very sensitive moment, when the EU was going through the most severe economic and political crisis in its half century history. Under the pressure of inevitable daily crisis management, many of the dilemmas analyzed in this review will be resolved in the years to come, one way or the other. Therefore, the practical value of this book is exceptionally high – researchers and policy makers are likely to come back to it and use it as a credible source of ideas and information written at the peek of the EU's most troublesome times.

Hrvoje Butković