

Labour Focus on Eastern Europe



The new Europe
and the new
imperialism

also:
the anti-globalisation
movement in Poland

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**Labour Focus on
 Eastern Europe**

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Labour Focus on Eastern Europe is published three times yearly. First published in 1977, it is an independent left journal that deals with European politics: international relations, political currents, social-political conflicts, and the political and economic aspects of European (East-West) integration in the post-Cold War era. It has a particular interest in the process of social and political transformation that is taking place in Central and Eastern Europe and pays particular attention to the political currents and organisations of the labour movement in these countries.

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A new journal

Beginning in January 2005, *Labour Focus on Eastern Europe* will merge with the German Studies journal, *Debatte*, to create a new journal. The title of the new journal will be: *Debatte: Journal of Contemporary Central and Eastern Europe*. There will be three issues per year.

The new journal will be published by Carfax, part of the Taylor and Francis group. The Taylor and Francis group is one of the main journal publishers in Europe and, in the area of European studies, publishes such titles as *Europe-Asia Studies*, *West European Politics*, *Journal of Southern Europe and the Balkans*, and *German Politics*.

Founded in response to German reunification, *Debatte: Review of Contemporary German Affairs* has covered all aspects of the new Germany, from its re-emergence as a major European and world power to its domestic culture and society. *Debatte* has also reached beyond the narrow audience of traditional academic journals to all those in the English-speaking world with an interest in contemporary German affairs.

Both journals (*Labour Focus* and *Debatte*) have always had a close relationship. Günter Minnerup, the editor of *Debatte*, is also a member of the editorial team of *Labour Focus on Eastern Europe*. In fact, he was editor of *Labour Focus* from 1986 to 1992. Both journals have wanted to expand their original coverage to reflect the new dynamics of European politics at the start of the new millennium. Hence the idea to merge both journals and bring together the expertise and experience of both editorial teams.

The new journal will not be a conventional European Studies journal but will continue the critical tradition established by both *Labour Focus* and *Debatte*. It will develop a critical analysis of European international relations, socio-political conflicts and the political, social and economic aspects of European (east-west) integration. It will continue to have a particular interest in the political currents and organisations of the labour movement in eastern and western Europe.

Gus Fagan

editor

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László Andor

Hungarian Currency and Finance

Perspectives and problems of introducing the euro in East-Central Europe

Summary

The new Member States of the European Union have made outstanding progress in terms of macroeconomic development in recent years, but there remain a number of specific problems which raise doubts as to the future monetary integration of these countries. Hungary is a case in point that illustrates both the achievements and the difficulties of the transition process. The political elite, the policy-makers and the wider public take for granted the benefits of replacing the forint with the euro, while repeated turbulence on the financial markets highlight the fragility of convergence and currency reform. In the period 2003—2004, the illusions about rapid introduction of the euro had to be abandoned as a result of currency instability and conflicts over monetary policy. This article discusses various aspects of this unusual period of monetary history.

Introduction

Eight of the ten countries that joined the EU in 2004 are from the former Soviet bloc. These eight countries underwent a period of decline in the early 1990s, experienced a period of recovery in the late 1990s, and some of them have seen outstanding macroeconomic improvements in

recent years. However, a number of specific problems remain which raise questions as to these countries' future monetary integration.

In its own way, the ECB recognized the specific problems of the East. In a report issued on the 20th October, 2004, the European Central Bank said that more than half of the countries that joined the European Union this year, including Poland and Hungary, which want to adopt the common currency by the end of the decade, need to do more to trim their deficits to levels needed for euro membership. However, the ECB views this as a problem of discipline that has recently been aggravated by the wrong tendencies in France and Germany. "The behavior of old members of the European Union in not complying with the Stability and Growth Pact is not sending a good signal to the new member states," said Ottmar Issing, the ECB's chief economist. The president of the ECB, Jean-Claude Trichet, added that it was "absolutely obvious" that a lack of fiscal discipline among the current 12 members of the euro area set a bad example for the 10 countries who joined the EU in May. (Dougherty 2004)

Hungary is a case study in both the achievements and the difficulties of economic development. She also provides an opportunity to demonstrate that it is not simply a problem of discipline to satisfy the rules of EMU but also a question of social and political cohesion. In July 2003 the Hungarian government and the National Bank of Hungary (NBH) announced in a joint declaration that the country would introduce the euro as national currency as of 1 January 2008. This brave announcement took place at a time when the government was struggling to reduce a serious deficit of the state budget that exceeded 9% of GDP in 2002. The exchange rate of the forint has not been stable either in recent years. Following a period of constant appreciation, the national currency survived three speculative attacks within the space of twelve months, and they took place in opposite directions. Thus, the actual picture is much more complex than would appear from official statements.

Financial stabilisation in the late 1990s

During the reconstruction period of the late 1990s, the rate of inflation fell markedly from the peak of 1995, when the crawling band exchange-rate regime was introduced (i.e. the central bank devalued the forint

every month at a rate that was also pre-announced but reduced gradually as inflation decreased). However, progress with disinflation in 1999-2001 turned out to be disappointing. Average inflation for 2000, at 9.8%, barely budged from the 10% recorded for 1999 and was well above the government's target range of 5-7%. The reversal of the disinflation trend in mid-2000 initially reflected exogenous supply shocks – including higher world oil prices and the weaker euro. At the same time, core inflation was also rising, reflecting in part an increase in unprocessed food prices as a result of growth in external demand, but also the fact that domestic factors have been increasingly in play.

In recent years, monetary and exchange-rate policies have had to cope with the competing challenges of inflationary and capital inflow pressures. Early in 2000, heavy capital inflows kept the Hungarian forint at the strong edge of its narrow band, forcing the central bank to cut interest rates. By mid-2000, interest rates had been cut by more than 300 basis points, while the monthly rate of crawl was cut only once, from 0.4% to 0.3% in April 2000. This loosening of the monetary stance occurred against a background of a rekindling of inflation, a tight labour market, and strong economic growth. When capital market pressures subsequently cooled, and in response to an unforeseen jump in inflation in September, the National Bank of Hungary (NBH) increased its key policy rates by 1 percentage point. In the first two months of 2001, amid a steady increase in core inflation, capital inflows prompted the central bank to cut rates twice, by a total of 50 basis points. With a view to tightening monetary conditions, the monthly rate of currency devaluation was lowered from 0.3% to 0.2%, from 1 April 2001.

Financial destabilisation

These developments were followed by the introduction of a new exchange-rate regime. On 4 May 2001, to allow monetary policy more room for manoeuvre to fight inflation and to take a first step toward conformity with ERM II, the crawling band was widened from $\pm 2.25\%$ to $\pm 15\%$. At the same time, the NBH proposed to accelerate the capital liberalisation process through relaxing the restrictions on short-term capital flows and derivative transactions between residents and non-residents. A few months later the crawling of the exchange rate was completely eliminated and the forint was fixed against the euro. The

wide band, however, allowed the forint to appreciate by about 10-12% in the next year. By the end of 2002, the exchange rate was pushed to the upper limit by the monetary austerity applied by the National Bank to counterweight fiscal imbalance. The widened exchange-rate band and the appreciation of the currency significantly jeopardised the competitiveness of small and medium-sized companies. Furthermore, the lack of financial knowledge (hedge techniques, futures products, forward markets) of the economic actors can cause serious problems if the exchange rate fluctuates widely (e.g. the effects of a financial crisis in an emerging world country such as Turkey).

The general government deficit was successfully kept under control during the growth period of the late 1990s. By 2000 the deficit came in at 3.5% of GDP, in line with the government's target. The subsequent years, however, brought a progressive loosening in fiscal policy. The right-wing government attempted to disguise the emerging deficit through various techniques, but the new government in 2002 had no choice but to introduce EU standards and attempt to create a clean balance sheet. This resulted in the rise of the budget deficit to more than 9% of GDP in 2002.

The current account showed a similar trend during the same period. External competitiveness remained strong, with the external current-account deficit narrowing in 2000. Industrial labour productivity – up by almost 17% in 2000 – far outpaced real wage gains, leading to a depreciation in the real effective exchange rate (based on unit labour costs) over the year. Rising export market shares and strong corporate profitability in the export sector also support this assessment of solid competitiveness. During most of the year, export growth exceeded that for imports, tourism revenue boosted the services account, and fiscal policy was tighter than budgeted, contributing to an improved external position. Thus, despite the worsening of the terms of trade, the external current-account deficit narrowed to 3.3% of GDP in 2000, down from 4.4% a year earlier. However, the current-account deficit started to widen again in both 2001 and 2002.

With credit ratings approaching advanced economy levels, Hungary maintains ready access to external financing – but external debt levels remain high. Spreads on sovereign benchmark bonds are among the lowest in the region, and, attracted by Hungary's strong

economic fundamentals and convergence prospects, foreign investors' share of holdings of forint-denominated government securities have reached record highs. However, in contrast to 1999, strong net foreign direct investment (FDI) inflows were more than offset in 2000 by substantial portfolio equity outflows. Net external debt, as a proportion of GDP, is now almost half its 1995 level, gross external debt has fallen over the same period, and the debt-service burden has shrunk significantly. Nevertheless, external debt, at about 60% of GDP on a gross basis, remains high, although the public sector share has declined substantially, while private sector debt, mostly that of foreign-owned corporations, has increased from low levels.

Euphoria and positive speculation

The 2002 election campaign in Hungary was extremely heated. However, the left-of-centre coalition narrowly defeated the right, and announced a politics of reconciliation. The right, however, was not receptive to this. Street demonstrations challenged the results of the elections, and the new prime minister was attacked on the grounds of his service as a secret agent in the counter-espionage of the state socialist regime between 1978 and 1982.

The coalition's position was weakened by a few national institutions where the right-wing government had appointed chief public servants between 2000 and 2002, with mandates lasting for a number of years ahead. Such offices include that of the supreme attorney, the chairman of the financial inspection authority, and the governor of the National Bank of Hungary. This background is vital for an understanding of the policies of the three institutions. The latter institution is the most important for this analysis. Since 2001, the Bank had operated on an inflation target principle to impose monetary austerity in the face of rising inflation. Following the elections, the Bank twice increased interest rates, despite the constant decline in the rate of inflation. This attitude demonstrated that the Bank was actually aiming to undermine the government's attempts to fulfill its electoral promises. On the other hand, the government did not want to renege on its pledge to the electorate because municipal elections were scheduled for October 2002 and the right was actively challenging the legitimacy of the coalition.

By the end of spring 2002, it was clear that the state budget deficit would be higher than expected. By the end of the summer, it looked as though it would exceed 6% of GDP. By the end of the autumn, it was made known that, because of book-keeping corrections, the deficit was to be between 9% and 10% of GDP. However, that was the very time when the referendum in Ireland allowed the ratification of the Treaty of Nice, and the accession treaties were about to be signed in Copenhagen. Confirmation of EU enlargement generated an euphoria of portfolio investment towards Hungary and other countries in the region. The wilier central banks responded to that situation by cutting interest rates substantially. The National Bank of Hungary, however, ruled out that option, because of its alleged fear of inflation and the consequences of the serious budget deficit of 2002. Thus, while the strong forint and the high interest rates were already strangling the Hungarian economy, the markets expected further appreciation of the forint, and even a revaluation by shifting the band of the forint/euro parity downwards. In January, there was a massive inflow of funds, increasing the foreign-exchange reserves of the NBH by 50 per cent, before the bank eventually widened the so-called interest corridor and in effect lowered the rates on deposits.

Disappointment and negative speculation

Between January and June 2003, the financial markets made a 180 degrees turn in their attitude to Hungarian economic policy and financial sustainability. In June a minor currency crisis forced the central bank to increase interest rates from 6.5% to 9.5% in order to prevent a dramatic fall in the value of the Hungarian currency. This time, the currency crisis emerged from negative speculation against the forint, stimulated by a package of minor cuts in public expenditure and a small devaluation of the forint. In the first half of 2003, the fundamentals of the Hungarian economy also changed. The slowdown in the economy became apparent and the current-account deficit widened to a disturbing extent. Macroeconomic analysts of the markets and the government realised that the international economic recession was lasting much longer than expected. Economic growth in the euro area fell below 1%, and Germany, Hungary's most important trading partner, produced virtually zero growth. Through falling demand for imports, the slowdown in

Germany determined the growth opportunities for Hungary as well. It is thus a major achievement, if not a miracle, that the Hungarian economy in both 2002 and 2003 produced a growth rate of around 3%.

However, compared to other countries in the region, the Hungarian growth figures looked unimpressive. Between the first quarters of 2002 and 2003, Russia grew by 6.8%, Slovakia by 4.1%, Lithuania 9.4%, Latvia 8.8%, and Estonia by 5.2%. Only the Czech and the Polish figures, i.e. those most comparable to the Hungarian case, demonstrated a major slowdown. During the 'golden age' between 1996 and 2000, average annual export growth was about 20%. In the recession period, this figure fell to about 3-4%. In 2003 the deficit on the current account was expected to exceed 5.5% of GDP, i.e. EUR 4bn.

All the bad news came to a head when the government and the Monetary Council decided to shift the fluctuation band. The forint would have fallen slightly anyway, since the Bank had completed the sales of the funds that came in in January. However, the incoherent government measures triggered panic, and the outflow of speculative funds was only halted by raising interest rates twice, that is, through another blow to the real economy.

The emerging instability sharpened the debates in the expert community over the appropriate convergence strategy. While both the government and the NBH insisted on "accession as soon as possible", György Surányi, former governor of the NBH voiced his opposite opinion. Surányi had proposed to eliminate the budget deficit of 2002 by using inflation as one of the tools, and criticized the inflation targeting policy of the NBH that was supposed to cement the convergence programme. Another learned expert, Gábor Oblath of Kopint-Datorg research institute elaborated a scheme to achieve rapid transition to the euro and support it with a social pact with the trade unions. However, the trade unions did not want to be partners in a programme that impose a long run constraint on wage increases, and Oblath's proposal remained on paper.

Joining ERM II and spending a short or long time in it has also become a subject of analysis and speculation. János Kun is one of the experts proposing that ERM II should be joined as soon as possible but then the introduction of the euro should be delayed, since in that system members can expect the ECB to provide support in periods of

currency instability. On the other hand, Judit Neményi and László Antal insist that Hungary should spend a time in ERM II as short as possible, by both delaying accession to it and then introducing the euro if the test period provides positive results. Most of these positions had to do not only with the long term perspectives but first of all the immediate policies of stabilization and adjustment.

Currency reform as confidence-building

In July 2003 the government launched the financial operations related to the 2004 budget. Because of the slower than expected GDP growth and the larger than expected deficit for 2003, the drafting of the budget and the continuing reduction of the deficit demanded sharper corrections in both spending and revenue than had been previously envisaged. Even the Ministry of Finance was taken by surprise by the gap between expectations and real opportunities. The final draft for the budget policies was produced in the run-up to the scheduled government meeting, literally within two or three days.

In order to restore credibility in the face of a number of negative developments, the Hungarian government and the National Bank of Hungary announced in a joint declaration that the country would introduce the euro as national currency as of 1 January 2008. The agenda attached to this announcement was evaluated as voluntarist by most observers, but the government had a tool to rely on in the debates over the budget and general policy in order to enforce discipline. The joint announcement was also seen as a message for the financial markets about the determination of the government to bring the budget back towards balance and respect the convergence programme which is a basis for most portfolio investors for their long term calculations.

It should be noted that other governments in central and eastern Europe have been largely cautious in making a firm commitment to any specific dates for the transition to the euro. What is even more striking is that in Hungary no public assessment of the costs and benefits of the monetary reform, comparable to the five tests in the United Kingdom, has taken place. Both the NBH and the Ministry of Finance have produced materials about joining EMU, but the political elites, the policy community and the wider public take it for granted that the introduction of the euro would be beneficial.

On the other hand, all parties soon saw that a transition to the euro would demand substantial sacrifices. The budget for 2004 proposed tax increases as well as cuts in expenditure, and the lay-off of some 10 000 public employees was ordered. Even the prime minister had to abandon his position on motorway construction, which he had treated as the only untouchable item in the plans for the 2004 budget. The road to the euro as a way of national sacrifice has begun. However, the apparent adjustment did not save the country for another drop in the exchange rate of the forint at the end of November, which was halted by a 3 percentage point increase in the base rate by the central bank. This emergency measure looked inevitable, but it also destroyed the chances of accelerating GDP growth in 2004.

Endgame

Macroeconomic mismanagement and the lack of social and political consensus on the objectives of fiscal and monetary policy created a situation in Hungary which was hardly sustainable. By the end of 2003, an unsustainable exchange rate was replaced by an unsustainable interest rate. In 2004, the National Bank was extremely slow to reduce these ultra-high interest rates, sending by this a signal to the markets that the economic problems have not been sorted out despite repeated austerity measures on the fiscal front. The Monetary Council only started significant rate cuts after the elections to the European Parliament, and this timing again fuelled suspicion that their policy is biased for the political opposition against the government and the interests of the economy in general.

The continued monetary austerity of the Bank, explained by the doctrine of inflation targeting, has returned the forint to the euro parity of late 2002. This was, however, not sustained by economic performance or a general optimism among foreign investors as in 2002, but purely by a super-high real interest rate that provided a stimulus for speculative investment. The Bank continued this policy by rejecting that this would harm the competitiveness of the Hungarian economy, while it was clear that Hungarian producers are losing export share in Europe vis-a-vis Czech, Slovak and Polish rivals, and the deficit in the current account continued to grow to around 8 per cent of GDP.

The financial problems contributed to the political crisis

emerging after the EP-elections in the Summer of 2004. This process concluded in the fall of Prime Minister Péter Medgyessy, and the rise of his successor Ferenc Gyurcsány. Soon after the new government entered office, two Socialist and one Free Democrat members of parliament submitted a bill to change the regulation of the National Bank. An earlier amendment in 2001 made the Bank extra-independent. Only the governor had the right to nominate members of the Monetary Council. Thus the council had a capacity to become biased for the political tendency that had the opportunity to appoint the governor. The Socialist-Liberal proposal intended to change this situation and create a division of power between the governor and the Prime Minister. They also wanted to increase the number of council members which could have rectified the imbalanced situation immediately.

The proposal was rejected by the National Bank officials as well as the political opposition, and the European Central Bank also issued a statement that called the initiative problematic and unnecessary. Nevertheless, a somewhat moderated version of the original bill was passed by Parliament on 22 November, 2004. This was, however, not the end of the story. Governor Zsigmond Járαι announced that he would take the bill to the Constitutional Court and challenge its legality. On the other hand, a new Monetary Council would face the difficult job to orchestrate a soft landing for the forint instead of a crash that would otherwise be a logical outcome of the conflicts and mismanagement in the previous years.

Alternatives to Maastricht in the East

It was not easy to adjust West-European economies to the Maastricht criteria but it seems to be several times harder to do this in East-Central Europe. Hungary is not alone with her problems. The post-transition state of these economies does not provide an easy ground for fiscal and monetary convergence, let alone exchange rate stability.

In some countries disinflationary goals have been pursued as part of a balanced economic policy (Czech Republic, Slovenia); in other countries, where there was an excessive focus on inflation together with a lack of policy coordination, disinflation undermined economic growth either directly (Poland) or indirectly (through unmanageable exchange-rate volatility, in Hungary, where reckless wage policies

admittedly have also played a part).

An even more difficult task is that of meeting the fiscal criterion: almost all acceding countries are facing difficulties because of the need for fiscal consolidation as prescribed by the Stability and Growth Pact. An unresolved issue with regard to the fiscal policy of acceding countries is how the completion of transition-related reforms and the adoption of EU standards and regulations will comply with the requirement to meet the EMU's fiscal reference values in the forthcoming years.

In the mid-1990s, it looked as though the monetary criteria, i.e. inflation and the rate of interest, would be the most difficult to meet. More recently, the fiscal criteria, i.e. budget deficit and public debt, appear to have been the more testing aspects of convergence. Suddenly, however, the difficulties of meeting the exchange-rate criterion became of interest to analysts. The reason is that the adjustment and modernisation process associated with the economic transition has not yet come to an end. On the other hand, the job of the authorities responsible for monetary stability has become harder since the euro was introduced in the west and speculative funds turned their attention towards the east. This factor may have contributed to the decision of the Czech and the Polish authorities to float their currencies instead of pegging them, although they have already faced some repercussions of that decision.

In an article for the *Financial Times*, a distinguished expert in this area, Charles Wyplosz, explained the danger posed by speculative flows in the post-transition period. He argued that, along with the freedom of capital flows, ERM II is not an appropriate framework for the fiscal and monetary convergence of central and eastern European countries. A year later Wyplosz's concern was echoed by Willem Buiter, chief economist of the EBRD. These countries should either be allowed to carry out a fast transition to the euro – provided they comply with the fiscal and monetary criteria – or they should be allowed the same position as the United Kingdom enjoys, i.e. being inside the single market without joining the single currency (Wyplosz 2003). The Hungarian currency crises of 2003 that we discussed earlier in this paper provide ample arguments to justify Wyplosz's concern and support his proposal, though some draw the conclusions from the same developments that

only a fast transition to the euro can save us from similar problems.

Furthermore, the crucial issue of finding the parity at which the conversion to the euro should take place is far from being settled in most cases. It follows that the conditions for a responsible ERM II entry are not in place, not to speak of an early EMU entry. Therefore, the process of joining the euro area should not be hastened. A slower approach should not be viewed as a sign of weakness or lack of political commitment, but rather as a sign of a responsible attitude towards a sustainable and consistent convergence process.

We may expect, however, that in the long run the choice will be not only between fast or slow transition to the euro. The longer the transition takes and the more difficulties arise with it, the more third options can be developed. Creating a regional currency that would be pegged to the euro is one theoretical option for the Visegrad states, that would thus be prevented from applying competitive devaluation against each other, but allowed to carry out exchange rate adjustment vis a vis the euro if necessary. In case the pound area (i.e. the UK) and the krona area (i.e. Sweden and Denmark and possibly including Norway in the future) survive in the long run, an East-Central European currency area will have constituency too.

In principle, the rules of the transition have been laid down, but, with reference to new circumstances, and, with sufficient political will, they should be renegotiable. In this context, it is worth noting that the leaders of the EU must be reminded that they displayed an extreme lack of generosity when the financial framework of the enlargement was elaborated in 2002. This contributed to the falling popularity of the EU in the region (witness the low turnout at referenda on EU accession), and the strengthening of the US orientation of these countries. Wyplosz goes even further in the discussion of the potential consequences of western European attitudes: he warns that, if the rules do not change, the west will again be responsible for the crises of Central and Eastern Europe (see Wyplosz 2003).

Conclusions

The transition from national currencies to the euro is the final phase of economic transformation in post-communist central and eastern Europe. It follows, though not necessarily rapidly, accession to the

EU. In spite of declarations, the political elites and the policy-makers in the Visegrad countries do not view membership of the euro as a high priority, and do not resist measures that reduce the likelihood of a rapid abolition of national currencies. Some of them, like Hungary in 2004, have deliberately slowed down the convergence process in order to maintain greater room for manoeuvre, while in other cases macroeconomic fundamentals prevent governments from implementing a rapid currency reform.

Hungary has been a case where the policy community has developed unity around the need for introducing the euro, while deteriorating fundamentals and disunity on policies have created an unstable terrain for the transition. Impressive developments in the late 1990s were followed by fiscal and monetary disintegration. By 2003, the finances of Hungary have become more fragile than the economy itself, while it has been understood that convergence demands a higher level of policy coherence as well some sort of social contract in the medium term. The Socialist-Liberal government learned this expensive lesson when the 2008 deadline had to be postponed to 2010 as a result of adjustment difficulties. However, it still makes sense to consider

alternative monetary arrangements for east-west integration within the EU, which would result in a different path or a different outcome for Hungary as well as other countries in the region.

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Helen M. Morris

Does enlargement include minorities?

(1) Introduction

The strength of minority populations in the eight Central and East European new European Union member states ranges from around 1% in Poland to 41% in Latvia. The political criteria for membership articulated at the Copenhagen European Council in 1993 demanded that accession countries demonstrate ‘respect for and protection of minority rights’ (European Commission Enlargement Criteria). This article examines the EU approach to minorities and how this will influence those countries currently engaged in accession negotiations. It also asks whether the process of enlargement has affected the legal status and rights, social circumstances, and economic opportunities of the minority populations.

(2) Minority concern?

Historically, there has not been a European-level policy on minorities, nor has there ever been an agreed political definition of minority in Europe (Council of Europe). It should also be pointed out that the framework Convention contains no definition of the notion of ‘national minority’. The Convention, therefore, decided to adopt a pragmatic approach based on the recognition that, at this stage, it would be impossible to arrive at a definition capable of mustering general support

of all Council of Europe member states.

The European Commission is responsible for defending the treaties of the European Union, which do not include minority protection, and remains fundamentally concerned with issues of economics and trade. Since adoption of the European Union Charter of Fundamental Rights at Nice in 2000, there has been a degree of movement into the political realm of human rights. For example, during the recent accession process, the European Union developed an interest in the political issue of minorities. This interest evolved during debates over the status of predominately Russian-speaking non-citizens in Latvia and Estonia (European Commission press release 27 April 2004) and the increase in migration of the Roma population from Eastern Europe to existing members states (information from formal conversations with European diplomats, 3 June 2003 and 22 April 2004.) The issue of the Russian-speaking non-citizen population in Latvia and Estonia has continued to strain EU–Russian relations. In the recent negotiations to extend the Partnership and Cooperation Agreement to the enlarged EU, Moscow refused to sign the agreement until a paragraph mentioning minorities had been added to the protocol. However, the Copenhagen criteria were adopted into primary EU law in the Amsterdam Treaty with the exception of the need to show ‘respect for and protection of minorities’. This clause was left as a purely political rather than legal obligation. The fact that minority protection is not enshrined in the treaties means that it is not a requirement for the enlarged EU-25.

The treatment of minority policies during the enlargement process does not suggest that it is an issue which will become an internal policy concern at the European level. There is a difference in emphasis regarding the importance of minorities in European level policies. A number of officials at the Commission working with the accession countries believed that enlargement created a window of opportunity which allowed the Commission to indirectly influence areas where it had no legal jurisdiction. After accession financial support will continue to be given and post-accession governments are eligible to apply for funds on presentation of relevant projects – including those concerned with minority protection. The PHARE programme has been budgeted until 31 December 2003 but implementation of

projects may continue for up to three years after accession (European Commission Comprehensive Monitoring Report p.20). Issues such as the treatment of non-citizens in Latvia and Estonia and minority rights are not covered by EC jurisdiction; they are now under individual member state jurisdiction (information from interviews with European Commission Officials, Brussels, 20 and 21 November 2002). Officials focussing on human rights and external relations, while acknowledging that minority rights are not a European competence and remain at the member state level, continue to try and infuse all EU policies with a consideration of human rights issues (informal conversation with European Commission official, Brussels, 25 March 2004)

However, departments working on external relations may find it increasingly difficult to promote respect for human and minority rights if existing member states do not themselves take on the same strictures. The process of European Union enlargement has exposed the treatment of national minorities in the Central and East European candidate countries to unprecedented scrutiny and has advanced minority policies in these countries through reporting, inter-organisational support, and bilateral cooperation:

Regular reports

During the accession process, the European Commission published annual Regular Reports on Progress towards Accession which monitored governments' ability to assure the 'stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities', assessed candidate countries' compliance with the Copenhagen criteria, urged governments to improve the protection of ethnic minorities, and highlighted and promoted changes in the treatment of minorities (European Commission Enlargement Regular Reports) While the reports stated that the accession countries met the political criteria for joining the EU, reservations remain regarding minorities. A reading of the Commission Reports suggests inroads have been made in legislation and in creating integration programmes, but that implementation is slow and support from national governments is not guaranteed. This latter point is important when national money is required to match European funding.

The legal status and rights, social circumstances, and economic

opportunities of the over 12 million Roma living in Europe continue to cause concern. Treatment by police and other authorities as well as placement of a disproportionate number of Roma children into special schools, from where they are unable to advance to higher education, are frequently highlighted in European Commission reports (Petrova, 1999). The European Commission acknowledges the actions of the new member states during the accession process but states that living conditions of the Roma remain difficult. The 2003 Comprehensive Monitoring Report on the Czech Republic's Preparations for Membership stated that the multi-faceted discrimination and social exclusion faced by the Roma in the Czech Republic continued to cause concern. The report urged that efforts to define an incentive structure for Roma employment be intensified and phasing out special schools should be pursued. The report on Slovakia states that, despite continued efforts in all areas, the majority of persons belonging to the Roma community continue to be exposed to social inequalities, social exclusion, and widespread discrimination in education, employment, the criminal justice system, and access to social services. There has been no significant reduction in the gap between policy formulation and its implementation. The Hungarian report stated that the long-term Roma strategy announced by the previous government had still to be adopted.

The European Commission reports continued to report the gap between legislation and implementation of policies. The 2003 Comprehensive Report on Hungary's preparations for Membership noted the existence of draft legislation to transpose the anti-discrimination requirements of the acquis but emphasised that the situation of the Roma remained very difficult, with the majority of persons in the Roma community still exposed to social exclusion, inequality, and far reaching discrimination in employment, education, and access to public services.

Organisational co-operation

The enlargement period has also been witness to closer cooperation among European and international bodies in the field of minority policy. While cooperation is unlikely to be formalised, closer contact between, for example, country desk officers at the EU and the UN has facilitated

a more coordinated approach to policy. In the Balkans, for example, there have been joint projects with the Council of Europe, utilising their expertise and bringing in the political and financial weight of the Commission. Differences of emphasis remain (information from informal conversation with European Commission Official, Brussels, 25 March 2004). The European Commission Regular Reports were also used to highlight the programmes and recommendations of other organisations giving them greater political and financial weight.

The prospect of EU membership added significant weight to and supported the successful implementation of Organisation for Security and Cooperation in Europe (OSCE) and Council of Europe recommendations regarding the treatment and status of the non-citizen populations in Latvia and Estonia (Morris 2003) For example, behind-the-scenes and more overt pressure from the EU assisted in speeding up the relaxation of citizenship legislation in Latvia and Estonia. Following Latvia's failure to gain entry to the first echelon of EU accession talks as well as a continued deterioration in Latvia–Russian relations, widely criticised by the West, the Latvian government acted to amend the Citizenship Law and to abolish the 'windows' system, which only allowed persons in certain age groups to apply for citizenship, and to permit children born in Latvia to non-citizen parents to register for citizenship. In the run-up to the 1998 referendum on the amendments to the law, a considerable amount of pressure was exerted by EU diplomats behind the scenes to persuade the Saeima factions to back the amendments and promote a 'No' vote in the referendum (The question on the referendum was 'Do you want the law of 22 June 1998, "The amendment to the law on citizenship," to be repealed?' Therefore, if you were in favour of the amendments you had to vote 'No': information from interviews with EC Official, Riga, Latvia, 20 October 1998, Nils Muižnieks, Latvian Centre for Human Rights and Ethnic Studies, Riga, 19 October 1998, Boris Tsilevich, Member of the Party and Saeima Faction, For Human Rights in a United Latvia, Riga, 13 May 1999 and personal correspondence from Juris Sinka, Saeima Deputy For Fatherland and Freedom/Latvian National Independence Party, 30 November 1999).

The end of the current round of accession will make the work of the remaining OSCE Missions and of the OSCE High

Commissioner on National Minorities (HCNM) much more difficult, particularly if existing member states are not receptive to the HCNM's recommendations.

The OSCE High Commissioner on National Minorities aims to focus on the underlying issues and potential causes of conflict. He states that this can include a need to examine minority participation in local and national legislatures as well as public administration. Further underlying issues include minority education and language use. The Commissioner points out that he is regularly engaged in attempts to solve a specific grievance or incident while attempting to identify the underlying issues before positions harden and become extreme (Ekeus, 2003) The HCNM's office readily acknowledges that the effectiveness of its work has been greatly enhanced by the EU accession process and that already, as this process was drawing to a close, it was becoming increasingly challenging. The OSCE HCNM is likely to struggle to have their recommendations implemented in countries where prospects for EU and/or NATO accession are either very remote or non-existent. Key concerns for the OSCE HCNM remain: can the HCNM remain involved in the enlarged EU?; how will the EU relationship develop with Belarus, Moldova, and Ukraine and what impact will this have on the work of the High Commissioner; and how can the OSCE HCNM work most effectively in countries where NATO and/or EU membership is a long term or impossible goal? (interview with International Organisation Official, 21 April 2004).

Financial and expert assistance

The EU has utilised the PHARE programme to provide financial support to national governments for areas which include language training, education and campaigns to promote tolerance. In addition, support has been afforded to countries to develop a legislative and institutional capacity for countering racial and ethnic discrimination. In 1999, €9.6 million was allocated to improving the level of Roma participation in education and under the 2001 PHARE programme another €7 million was set aside for this. In conjunction with the Slovak government, a minority tolerance programme was co-financed, which included the training of 450 local public administrative representatives and opinion makers on minority issues and conflict resolution (European Commission

Protecting Minorities). While funding programmes to increase understanding between Roma and non-Roma populations and address concerns around police treatment of Roma populations, the Commission continued to express concern over the continued gap between concepts and policies and actual practice. Access to structural and cohesion funding after accession may be compromised by a failure to adopt the legislative framework completely, including EU rules on public procurement, state aid, and environmental protection. In addition, the Commission is concerned about a lack of a sufficient number of quality projects. Failure to improve procedures and institutions will cause a delay in benefiting from structural and cohesion funds (see European Commission Comprehensive Monitoring Report)

European Commission funding goes to projects operated by NGOs such as Search for Common Ground, which seeks a cooperative approach to conflict resolution utilising dialogue and media-based projects. Minority Rights Group International, at the request of the European Commission, advised upon what steps were required for Croatia to ensure minority protection in the context of negotiations for accession to the European Union (Minority Rights Group International 2003 p.6)

Bilateral cooperation

The accession process and the enlargement of the Union have offered the opportunity to develop closer cross-border integration and reduce inter-state tensions over minority disputes. The European Union has tended to focus upon political agreement rather than the righting of past wrongs. The process of joining international and regional organisations has widely encouraged reconciliation. Resolution of outstanding bilateral issues was an explicit condition for NATO membership and the EU strongly urged the signature of bilateral treaties between, for example, Slovakia and Hungary, and Hungary and Romania. These treaties normalised relations and committed all to respect ethnic minorities. The controversial Hungarian Law Concerning Hungarians who Live in Neighbouring States or 'Status Law' passed in June 2001, which conferred certain economic and social rights to Hungarian minorities in neighbouring states, prompted EU criticism and caused a marked deterioration in Hungarian relations with

Romania and Slovakia. Following intense pressure and a report from the Venice Commission, the significantly amended law takes on more broadly practised cross-border minority support removing practically all benefits outwith the cultural and educational fields.

(3) Border challenges

Declarations of maintaining a degree of openness towards countries outside the enlarged EU are being challenged by the strict enforcement of border and visa regimes in anticipation of Schengen Agreement membership. While much of the Schengen acquis leading to the lifting of internal frontiers will not apply immediately, preparations will have an impact (Apap and Tchorbadjivska, 2003). Some of the rules on visas, plus regulations on external borders and migration and asylum, must be implemented upon accession. Since the fall of the Soviet Union, open borders have fostered contacts among national minorities including Belarusians in Poland, and Hungarians in Ukraine, Yugoslavia, and Romania with their 'homeland'. The treatment of minorities within the enlarged European Union has ramifications for bilateral relations with these 'homeland' nations situated outside the EU-25. The necessary tightening of border controls and removal of visa-free regimes in anticipation of accession to the Schengen accords are hindering personal and professional contacts between minorities either side of the new EU border (*Transitions on Line*, 2003; Mite, 2003). While inclusion in the European Union enlargement has helped to smooth intra-EU bilateral tensions, lack of adherence to minority protection in future and recent accession states risks fuelling old hostilities.

Minority policies failed to gain a high profile during the Convention on the Future of Europe and the current Intergovernmental Conference despite intensive lobbying by the Hungarian delegates and government for its inclusion in a revised constitution as well as behind-the-scenes pressure from external organisations and NGOs. On 25 November 2003, the Italian Presidency of the European Union released proposals ahead of the Naples Ministerial Conclave. These included a proposal to respond to the request for a treaty reference to the rights of minorities and to equality of men and women by means of an amendment to the existing Article 2 on the values of the Union. If rights of minorities are included this could form a basis for sanctions

against existing or future member states who violate minority rights. In order to remain in the final constitution it must gain support from all the EU-25. However, now that minorities have been put onto the draft proposals, their removal will require debate rather than the simple lack of support shown thus far. The requirement to show 'respect for and protection of minorities' is not adopted as primary EU law in the Amsterdam Treaty, and thus remains purely a political obligation for new members. There is a risk that obligations towards minorities will be viewed as a condition of entry rather than of membership. Integration and minority programmes remain at an early stage of implementation, and economic, political and administrative constraints are likely to further hinder progress.

Economic constraints

National governments are likely to struggle to continue to implement programmes, because of already constrained budgets and multiple pressing policy priorities. The demands of the majority electorate may override considerations of minority interest. Gaining funding is often viewed as a zero sum game where money given to a minority population is seen as a loss for the majority population (Personal correspondence with UNDP official, 15 December 2003).

These countries have already faced an enormous burden of post-communist domestic reforms in conjunction with demands for rapid and comprehensive political and economic transformation ahead of EU accession (*Oxford Analytica*)

Administrative capacity

While there will be more funding available post-accession, inadequate administrative capacity may hinder the effective implementation of projects. A major concern for the Commission has been the systemic problems connected with the public administration's capacity to deal with the huge influx of funds which, post-enlargement, will be far greater than existing assistance (European Commission Comprehensive Monitoring Report). The implementation and monitoring of programmes may be compromised by the limited numbers of qualified officials already overburdened by carrying out domestic reforms. The complex application and reporting procedures of PHARE programmes

may have limited the involvement of minority NGOs (Pre-Accession Funding NGO Position Paper). The increased funding available after accession is also likely to be under-utilised by these groups unless a simplified application process is introduced.

Political will

Governments and majority populations which have felt forced to comply with EU demands for minority protection may be less likely to comply with further demands post-accession. There is particular resentment that the same standards have not been required of existing member states. If the expectations of the population of a new member state are frustrated by lengthy delays in the disbursement of structural funds, budgetary curbs become too heavy, and the European Court of Justice floods the country with judgements for failure to implement the *acquis*, issues of minority protection are likely to slip down the political agenda.

(4) Future monitoring

The attention given to minority issues during the accession process suggests little involvement from the EU post-accession. The Commission deems that the rights of minorities are part of principles common to all the EU-25 contained in the first paragraph of Article 6 of the Treaty on European Union. Further EU integration has the potential to stimulate continued legislative adjustments and to enhance minority protection. The amendment and creation of domestic legislation to meet the requirements of the anti-discrimination race and employment directives could sustain the momentum of minority protection. The emphasis here is on reducing disadvantage and ensuring equal opportunities, not promoting ethnic differences, but the implementation of legislation could be a lengthy process.

Council of Europe

Given the lack of specialised institutional capacity within the EU to deal with minority issues, monitoring of minority rights in the enlarged EU may fall to the Council of Europe, which has established monitoring mechanisms through the Framework Convention for the Protection of National Minorities (FCNM).

Although it has been ratified by all accession countries except for Latvia, the FCNM remains a politically and legally weak instrument which has not been ratified by all existing member states. As a form of international supervision, it contains no directly applicable provisions. It is left to the national governments to create legislation and instigate practices to protect minority rights. The authority of the FCNM to monitor and improve the treatment of minorities may be further weakened and rendered ineffective without the carrot of EU membership to reinforce their advice. Nevertheless, the first round of monitoring has been largely taken seriously by participating states (interview with Antti Korkeakivi, Secretary of the Advisory Committee on the Framework Convention for the Protection of National Minorities, Directorate General of Human Rights Council of Europe Strasbourg, 12 June 2003). A number of minority groups have expressed satisfaction with the FCNM as a means of furthering minority protection but the process will require political and financial input from the Commission to remain effective post-enlargement. The second cycle of monitoring has commenced and it will now become clearer whether issues highlighted in the first round have been addressed (*ibid*).

Anti-discrimination

Further EU integration has the potential to stimulate continued legislative adjustments and to enhance minority protection. Article 13 of the Treaty of Amsterdam demanded that we connect one group of minority with another providing for a multiplicity of discriminations. However, Article 13 had no direct effect and therefore legislation was required.

The amendment and creation of domestic legislation to meet the requirements of the anti-discrimination Race and Employment Directives could sustain the momentum of minority protection. The emphasis here is on reducing disadvantage and ensuring equal opportunities, not promoting ethnic differences, but the implementation of legislation could be a lengthy process.

(5) Conclusions

The slow pace of reform during the accession process coupled with the gap between policy intentions and actual practice suggest that minority policy issues are likely to be a low priority for governments squeezed

financially and administratively. The protection of minorities post-accession will require a coordinated effort at the EU level in order to address inequalities of access to education, employment and healthcare. John Packer, formerly of the OSCE HCNM's office, advocates the inclusion of language in the remit of anti-discrimination policy at EU level, along with the incorporation of the Charter of Fundamental Rights into the new constitutional treaty framework (Packer, 2004). However, any such move will face strong opposition from existing member states, including France and Greece, which fail to recognise minorities.

The areas which remain exclusive to member states, including education and national identity, are extremely unlikely to be surrendered to closer European level involvement. The EU will struggle to retain credibility and influence in minority policy which may compromise internal stability within border regions hoping to join the EU in the long term. If respect for and protection of minority rights is not viewed as a requirement to change fundamentally elite political and popular perceptions of minority treatment, it will be extremely hard to maintain momentum in minority protection in the Balkan states and Turkey ahead of those countries' accession and in EU relations with third countries such as the Caucasus and Central Asia. Reforms are already proving challenging, as policymakers' incentive to carry out difficult and unpopular transformations is reduced as the prospect of accession recedes.

While the accession process will prove to be a window of opportunity for furthering minority rights, momentum might be lost once final agreements have been signed. Member states are likely to concentrate on economic and institutional reform post-accession, leaving minorities vulnerable. Lack of political or legal strength in this field will limit EU policy influence in minority issues within and beyond its borders.

The accession process has created an increased awareness of minority protection issues. However, different roles and agendas of European institutions, the varied understandings of how to define a minority within and among European countries and an ever-changing political climate renders the creation of a long term and effective minorities strategy unlikely and, perhaps in the interests of particular minorities, undesirable. Minority protection is likely to remain at the

level of a basic framework such as the FCNM. Of more lasting benefit could be the creation of structures which allowed the development of policy at the grassroots level tailored to specific needs of the minorities concerned.

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Heather Grabbe

How enlargement will change the EU

The imminent enlargement of the EU will change Europe greatly, everybody agrees. But how? After May 1st 2004, when ten new members joined, the EU has become larger, poorer and more diverse. It constitutes a more important market and will soon become a bigger zone of passport-free travel with a single currency for nearly half a billion people. But beyond these basic facts, little is certain. The long-term political and economic impact of EU expansion are largely unknown.

So far, people in the EU have mostly worried about how much enlargement will cost them, and whether the Union's institutions can cope with 25-plus members. The people in the applicant countries, meanwhile, are concerned about what effect joining the rich-country club will have on their identity, and whether it will raise prices. But the debates on both sides have been fairly limited so far. This is a pity because EU enlargement will have a much more profound impact on Europe than most politicians and commentators expect. It will change the Union forever – mostly for the better, but after a rocky start – and it will have far-reaching effects on economies, political systems and societies right across the European continent.

The EU will change much more than it has prepared for. For the past decade, the EU has been trying to reform itself to prepare for enlargement – with disappointing results. European prime ministers

and presidents have gathered together three times in just over a decade – in ‘inter-governmental conferences’ (IGCs) – to decide on changes to the EU’s institutions and decision-making procedures so that it can cope with enlargement. They have never reached a long-lasting solution, hence their attempts in 2003 and 2004 to try to hammer out a new constitution to consolidate all the EU’s treaties and prepare for expansion to 25 and more members.

Yet more reform is to come, creating an almost perpetual revolution in the EU’s structures over the next decade. Enlargement is the beginning, not the end, of major changes to the EU’s institutions and policies. Once the new member-states join, they will add to the burden on an institutional machinery that is already wheezing and shaking with just 15 countries. Under these new pressures, much more radical change is inevitable towards the end of this decade.

People will also matter to what the new members bring into the EU. . Enlargement will bring a whole new set of personnel to Brussels. Thousands of hopeful Central and East Europeans have taken part in the competition to become Brussels bureaucrats, and several thousand will start working in the EU’s institutions after enlargement. Ten new commissioners have already been appointed for an initial stint of six months. Many of them are exceptionally talented politicians, well above the average quality of commissioners that the old member-states have appointed over the years. They could make a significant difference to the EU’s future development.

MEPs from Central and Eastern Europe will arrive after the June 2004 elections to the European Parliament. The candidates on party lists in the new member-states are also above average quality, as this first chance to move to the European stage has attracted many rising stars from national politics. Future elections will probably draw into the European Parliament the usual mixture of bright young politicians seeking to make their names; party loyalists gaining the reward of an MEP’s perks in return for many years of behind-the-scenes work at home; and mavericks. The new members will start to look like the old ones in the European Parliament, as elsewhere in the EU.

Acrimonious negotiations ahead

The first few years after enlargement will be a turbulent period for

European politics. The ten newcomers will upset the balance of power between the existing 15 members, and the dominant mode of behaviour is likely to be dogged defence of national interests.

After the warm words of welcome in May 2004, battle will commence on the EU's most fiercely contested issues. The new members are joining just as the EU is finalising its new constitution, and deciding the tricky questions of representation and allocations of money. The 25 countries have already argued fiercely about institutional reform in the 2003 inter-governmental conference. It is evident that Poland will be as feisty as Spain in defending its voting weight and demanding greater representation in decision-making, both in the Council and the Commission. Within months of joining, the EU-25 will also start work on allocating the EU's central budget after the current settlement runs out in 2006. These debates could quickly turn acrimonious. The old members will be trying to hang on to their acquired rights – Spain to its regional aid and Britain to its budget rebate, for example. Meanwhile, the Central and East European members will fight very hard for more budget funds. The new members want to make up for what they lost in the accession negotiations, in which the 15 old members used their greater muscle to keep more than 90 per cent of the funds for themselves.

Once inside, however, the new ten will have votes and veto powers. They will want to exercise their rights to the full, to ensure that they get better deals in future. At the same time, both the net contributors and the net recipients among the old 15 will be trying to hang on to their long-standing privileges. This combination of defensiveness among the old members and resentment among the new ones will make for longer and more bitter arguments than before – and reduce any sense of solidarity between countries. These battles will also be hard-fought because their outcome will last for many years to come. The budget settlement will share out the spoils until 2013, and the new constitution will decide the voting power of each country in future negotiations.

Negotiations in the EU will become more complex too, because the ten new members are wildcards in the game. The current 15 know each other well. When starting a negotiating round, each usually has a pretty good idea of its partners' positions and the strength of the

opposition to its own stance. But the addition of two-thirds more players will alter the balance of forces. Where problems had previously reached stalemate – such as tax competition or agricultural policy – the new members could break the impasse by taking one side or another. On many issues, their governments have no position yet, so each can be courted by one faction or another.

What kind of member-states will the easterners be?

A few issues unite the newcomers, but they have different views on many others. The unifying factor of being candidates will dissolve after accession. Other splits in the EU – for example, between big and small, Atlanticist and Europeanist on security and defence – are likely to become much more important than divisions between old and new members.

The new members will all concentrating the EU's budgetary funds on the poor areas of the Union, most of which will lie in Eastern Europe. But on issues like economic policy and defence they are unlikely to vote as a bloc. Estonia has perhaps the most liberal economy in Europe, whereas Polish instincts are often more protectionist. A small rural country like Lithuania does not necessarily have the same objectives as wealthier central European countries, such as the Czech Republic and Slovenia, with their diversified, export-oriented industries. Poland, with 40 million people, will behave differently in the EU from Latvia with its 2.5 million population.

It is already clear that the new members are unlikely to be always meek policy-takers, especially Poland. They will bring in new ideas and priorities too. The new members have a decade of experience of economic reform and democratisation – so they could become impatient with the EU's slow progress in structural reform. Several of them have active relationships the new neighbours of the Union, which will be an asset in EU foreign policy. Poland's engagement with Ukraine will make Warsaw a strong advocate of a more active eastern policy for the Union, while Hungary will contribute to the EU's thinking on its southern neighbours in the Balkans. In foreign policy, New/Old Europe is not a division that will last long. The Iraq war was a special case.

On foreign policy and defence, the new members will be close to the position of British Prime Minister Tony Blair. Like him, they do

not want to have to choose between Europe and America. They see no contradiction between supporting NATO and building up a European security and defence policy at the same time. The members-to-be want a strong transatlantic alliance, but they also want the EU to have an effective foreign policy, especially in the Balkans and its 'near abroad' to their East.

Some of the new members could be very active in their neighbourhood policies. Poland will seek allies – especially in Germany – in building up a more substantive EU relationship with Ukraine and other eastern neighbours. Hungary and Slovenia are both keen to see the EU continue to take responsibility for the Balkans. The new members could thus be at the heart of coalitions on the EU's neighbourhood policy, even if they are only peripheral members of other groupings.

But can they put up enough money to pull their weight in new defence initiatives? They are already spending more as a proportion of GDP than most of the old members: over 2 per cent in the case of Poland. And many of them have impressive niche capabilities – Estonia's expertise in de-mining, for example, and the Czech chemical weapons specialists. But given their relative poverty, economic growth and levels of prosperity will have to rise continuously if the new members are to make a significant contribution to Europe's overall military capabilities.

In their views on the future of European integration, the new members are unlikely to be as federalist as the Benelux countries have been in past decades. The first test was their involvement in the debates in the Convention on the Future of Europe, which met over the course of 2002-03 to draw up a new constitution for the EU. The contributions of the representatives from the new member-states showed that most of them are concerned to ensure that the large member-states do not dominate the Union. However, politicians in the region are less sure about whether the traditional 'Community method' of law-making should be applied in all policy areas – for example, foreign policy.

Initially, the new members might behave rather like the Netherlands: they will generally follow mainstream opinion in the Union, but occasionally they will fight for their interests in issues that really concern them. But as their experience of the EU grows and their policy preferences become clearer, the new members will take firmer positions – and that will upset many of the long-standing

political alliances in the Union, on issues ranging from foreign policy to agriculture.

A Union of shifting coalitions

The new member-states are starting to take up positions in the EU's internal debates, joining long-standing coalitions of the old members. The current members already form alliances on different issues, whether they be the budget, foreign policy, or economic reform. In some areas, the coalitions are evenly balanced, and further decisions are blocked by stalemate. But the new members will upset these patterns by appearing unexpectedly within one constellation of member-states or another, depending on the issue in question.

The constellations of new and old stars will change as the EU moves from one policy to another. There will be few permanent alliances that constitute power-blocs in the enlarged EU. So the new members' views on each specific issue matter, even though most are small countries, because they could tip the balance in favour of one or other coalition of countries on any given issue.

The new members are unlikely to be interested in all the areas of EU activity. They are finding it difficult to define their interests in many EU policies, and they are still at a formative stage of finding their positions. It will take a few years before the new members are fully engaged in every part of EU business.

They are unlikely to form an 'eastern bloc' on most issues. Rather than acting in unison, they will team up with the existing member-states depending on the issues at hand. Enlargement could thus change the debate in areas such as tax competition or defence policy. For example, Poland will join the UK in opposing tax harmonisation and supporting NATO, but it could be a friend of Spain in wanting to increase EU budget spending on poorer regions.

Over time, this pattern of shifting coalitions could fundamentally alter the course of the EU's development. New priorities - like eastern policy and protection of minorities - could take over from old policies such as agriculture and energy. This slow revolution will be unwelcome to many of the old members. In France, Germany and Belgium, there is much talk of forming a 'core Europe' that would comprise only members committed to the original ideals of European integration.

This concept is unlikely to work - because of practical difficulties and the opposition of the new members. But discussion of such ideas shows that some of the current 15 are beginning to understand that enlargement is not just a question of greater numbers but of new political dynamics too.

Enlargement after enlargement: where will the EU's borders end?

Another four countries are already knocking on the EU's door, and more countries, particularly from South-Eastern Europe, will start demanding entry over the next few years. At the front of the queue are Bulgaria and Romania, which hope to finalise their accession negotiations in the course of 2004. However, they have so far mainly dealt with the easy parts of the EU's rulebook, and difficult negotiations still lie ahead. The EU has endorsed their accession target date of 2007. But it has warned Romania in particular that the date could be jeopardy unless the government reinforces its efforts to tackle corruption, reform its economy and improve its inefficient state bureaucracy.

The EU has officially offered the five Western Balkan countries and Turkey the prospect of eventual membership - but it has made no such promise to the other countries on its new, expanded borders. Belarus is too authoritarian, Moldova too poor, Ukraine too large and Russia too scary for the EU to contemplate offering membership anytime soon.

Croatia and Macedonia have lodged official applications for membership. Croatia's economy and public administration are in good shape, at least in comparison with Bulgaria and Romania. Croatia has a good chance of catching up with Bulgaria and Romania quickly, but it probably cannot finish the whole accession process before 2009 at the earliest.

Turkey - the EU's longest-standing applicant - is also hoping to inch closer to membership soon. The EU will reconsider Turkey's bid to join in December 2004. If Ankara continues playing a constructive role in Cyprus and shows consistent improvements in respecting human rights, improving the treatment of the Kurdish minority, and keeping the military out of politics, the EU will probably agree to start accession talks in 2005 or 2006. Those negotiations could last many

years, however, and none of the 25 members is keen on Turkey joining rapidly. Even those member-states which support Turkey's eventual accession are concerned that the country would bring in problems that are on a completely different scale from the other would-be members. Turkey has a large and rapidly growing population that may well exceed Germany's at the time of accession. It also has a large farm sector that could overwhelm the Common Agricultural Policy in its current form. And although the EU is not a Christian club, many in EU are uncomfortable with the thought that its most populous future member-state is predominantly Muslim.

Even if these applicants do their utmost to prepare for accession, there is no guarantee that the EU will enlarge again any time soon. The Union is getting more and more exacting in its requirements as it gets more experienced with enlargement. Moreover, many of the current 15 members are wondering whether the EU has already bitten off more than it can chew. The EU will suffer from a lengthy digestion period while it absorbs the first round of Central and East European newcomers. Once the full impact of enlargement on the Union's institutions and policies becomes clear, the 25 members will have little appetite for another round. Their immediate priorities will be the new constitutional treaty and budget. Both of these debates will provoke soul-searching about the nature of the Union, and whether it should set geographical limits to its expansion.

The new members' attitude to further enlargements is uncertain. They support the integration of Bulgaria, Romania and the Western Balkans, which border Hungary and Slovenia. All of them are keen on the EU developing a more effective 'neighbourhood policy' for the countries lying to its east. But will they welcome Turkey? At the moment, they are as divided as the old member-states are. Former Polish Prime Minister Leszek Miller and former Czech President Vaclav Havel have argued publicly in favour of eventual accession for Turkey, but many others politicians in the region express doubts privately that Turkey can or should ever join. The new members are unlikely to block a decision in December 2004 for the EU to open accession negotiations with Turkey, but neither will they push hard for it. The key issue for all the new members is whether the integration of further countries would divert EU funds away from them, and diminish their status.

Deepening leads to widening

In France, there is a widely held view that the new members will be pro-American rather than committed Europeans and that they will seek to turn the EU into little more than a free trade area – as the British have long been suspected of doing. But the East Europeans have not made enormous efforts to join the Union to turn it into a European NAFTA. They have reaped many of the economic benefits from integrating with the EU already ahead of accession. What they want from membership is full participation in the EU's political decision-making – including foreign policy, security and defence.

Politicians, academics and journalists frequently assume that the 2004 enlargement is so big that it will reduce the scope for further integration. Behind this view lies the belief that if more countries are involved in the EU's decision-making, the Union will be less able to develop new projects that will extend the scope of European integration.

But, in fact, the new members joining in 2004 will encourage the EU to develop new areas of integration. Enlargement will force the member-states to work more closely together on issues where they already have significant co-operation either inside or outside the framework of the EU's treaties. The new members will bring particular problems into the EU – from unemployment to administrative weaknesses – and these will force the EU to develop new measures to deal with them. For example, the EU will have greater social and economic disparities; it will have new borders with even poorer countries to its East; and it will be more diverse politically and ethnically. In responding to these challenges, the enlarged EU will have to develop new policies, which will take it into new fields of integration.

The challenges that the EU will have to address through its policies after enlargement include the following:

The EU will have to return to convergence policies of various kinds, to deal with social and economic disparities, and also economic divergence in the eurozone. But such policies are likely to take the form of target-setting and benchmarking rather than transfers from the EU budget. Public investment will be needed to encourage catch-up, to raise standards, to build new infrastructure. The EU will help to some extent, through its regional funds and loans from the European Investment

Bank. But mostly these improvements will have to be financed by the new members themselves.

Management of external frontiers will become even more important and political sensitive. ‘Neighbourhood policy’ – relations with the countries surrounding the enlarged Union – will become a significantly more important part of the EU’s foreign and security policy.

Good governance will be crucial for successful integration into the Union. The new members need to improve the quality and capacity of their public administrations to ensure that they can implement and enforce EU law properly. Problems with widespread petty corruption could also affect the easterners’ performance as EU members. If corruption expands unchecked, it will affect the quality of democracy, the ability of economies to grow, and also the effective use of EU funds in the region. The EU will have to develop new policies in ‘good governance’ to help the new members to comply, lest its single market and other policies be undermined.

Integration of minorities, particularly the Roma, could become more of an EU issue. Most European countries are facing the question of how ethnic and national minorities can be integrated and socially included more effectively – albeit to different extents. If Roma populations start to move around Europe more than they have done historically, member-states will have a strong incentive to co-ordinate their policies.

The Union will therefore not necessarily face a trade-off between deepening and widening. Moreover, the new members will also add their own priorities to the EU’s agenda. For example, Poland will push for a better policy for countries neighbouring the enlarged Union, while Hungary will want additional measures to protect the rights of minority groups. The new members will thus push the EU’s foreign policy eastwards, and encourage the development of some new policy areas.

Just like all the previous newcomers to the EU, the Central and East European countries will start to shape the EU in their own image soon after they join. They bring important lessons from the past decade of post-communist transition, when reformers in the region managed to bring their economies from central planning to the market, and their societies from authoritarian rule to democracy. If they can encourage

the Union to reform itself as effectively as they have transformed their own countries, the new members will open a bright new chapter in the history of European integration.

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Milica Uvalic

The Impact of the 2004 European Union Enlargement on South Eastern Europe

1. The issues

Although the region of the Western Balkans - comprising Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Serbia and Montenegro (or the SEE-5) - is rather heterogeneous, these countries today also face a number of similar political and economic problems. Due to extreme political instability during the 1990s, the transition to multiparty democracies and market economies has clearly proceeded at a slower pace in SEE than in many other former communist countries.

After the disintegration of the Socialist Federal Republic of Yugoslavia in 1991, the region experienced military conflicts in all five of its successor states, nationalistic policies which imposed priority of political over economic objectives, ethnic strife and policies of ethnic cleansing, accompanied by massive migrations of the population both within the region and abroad. One of its successor states, the Federal Republic of Yugoslavia, remained isolated from the rest of the world throughout most of the 1990s, undergoing political and economic sanctions from the international community and the NATO bombardments in 1999, which have had additional destabilising effects on the whole SEE region. The political situation has recently improved, following the radical political changes in Croatia after President Tudjman's death, and in Serbia after the September 2000 elections

and the end of the Milosevic regime. Still, the continued presence of protectorates/semi-protectorates and the March 2003 assassination of Prime Minister Djindjic, are clear signs that permanent stabilisation in SEE has not yet been fully achieved.

The highly unfavourable political circumstances in SEE throughout the 1990s have left very deep traces on the political, economic, and social characteristics of the single countries: they have substantially delayed not only more radical political reforms towards democratisation and establishment of functional states, but also economic and institutional reforms, with negative implications also for the process of integration with the European Union (EU). Economically, the SEE-5 countries are today in a less favourable situation than the more advanced transition countries - regarding growth recovery, foreign trade deficits, savings and investment rates, inflows of FDI and structural reforms. Although progress with macroeconomic stabilisation and institutional reforms has been achieved in all SEE countries, there are still major impediments to more permanent economic recovery and self-sustainable growth (see Uvalic, 2003a). The SEE countries are characterised by low levels of development (a GDP per capita at 10-30% of the EU average), extremely high unemployment rates (20-40%) and huge imbalances on the external account. In Bosnia and Herzegovina, continued reliance on foreign resources has led to the problem of “aid addiction”, which today is replicated in Kosovo and could easily also emerge in Montenegro, FYR Macedonia, and Serbia. Although the first decade of transition in Central and Eastern Europe has produced important lessons concerning the sequencing of reform measures, in those SEE countries which have embarked on radical reforms later, mistakes from the early years of transition have been forgotten only too easily (see Uvalic and Nuti, 2003).

Most SEE-5 countries have also greatly delayed establishing closer relations with the EU. It was only in 1999, after the end of the NATO bombardments of FR Yugoslavia, that the EU launched the Stabilisation and Association Process for the five countries of the Western Balkans, which introduced a series of important measures to support transition in this European region, including generous trade preferences, contractual relations through Stabilisation and Association Agreements, ongoing political dialogue, the CARDS programme of

financial assistance (€ 5 billion over the 2000-06 period), and even the prospect of future EU membership. In December 2002, the Copenhagen Council underlined a European perspective for the countries of the Western Balkans. More recently, at the June 2003 Thessaloniki Summit, the EU again confirmed its determination “to fully and effectively support the European perspective of the Western Balkan countries” (Presidency Conclusions, Thessaloniki European Council, 2003).

Nevertheless, there is still today a great deal of uncertainty as to when and how (or even whether) the SEE-5 could join the EU. A clear strategy for integrating the SEE-5 into the EU still seems to be missing. One of the key elements which is going to influence future developments in EU-SEE relations is the impact of the 2004 EU enlargement. With ten new states joining the EU in May 2004, what will be the effects for the countries left outside? In what follows, we will discuss some of the possible implications of the 2004 EU enlargement for the SEE-5 (section 2); give some suggestions for how their integration into the EU could be speeded up through EU measures (section 3) and SEE countries’ policies (section 4); and end with a few concluding remarks.

2. Impact of EU enlargement

There has been growing concern that after 2004, the five countries of the Western Balkans will be left on the margins of the new Europe. It has been argued that the most recent EU enlargement could lead to an impending “crisis of 2004” in the Western Balkans, characterised by a deterioration of the overall situation in the region (see ESI, 2002 and 2003; Grabbe 2001). In order to look further into the main elements of such concerns, four groups of effects of the 2004 EU enlargement ought to be considered, related to trade, aid, foreign investment, and border regimes.

The trade effects of the forthcoming EU enlargement for the SEE-5 are likely to be positive, though probably minimal. Privileged access to EU markets has already been secured through a uniform system of trade preferences extended to all five SEE countries in November 2000. These autonomous trade preferences provide for the elimination of duties and quantitative restrictions for around 95% of goods from the Western Balkans entering the EU market, including

agricultural products and sensitive industrial products. The only exceptions are some fishery products, baby-beef, and wine, while trade in textile products is covered by bilateral agreements; Serbia and Montenegro has not yet concluded such an agreement, but benefits from quotas granted unilaterally by the EU. In the case of Croatia and FYR Macedonia, these trade provisions have been incorporated into the Stabilisation and Association Agreements signed in 2001, which until ratification are governed by the Interim Agreements (see Commission, 2003).

The incoming members will fully adopt the EU Common Commercial Policy upon accession, which will supersede all other trade agreements, implying that they will remove trade restrictions which previously existed vis-à-vis the SEE-5 and this will clearly provide greater export opportunities for the latter. After May 2004, the SEE-5 will be able to benefit from a much larger export market, consisting of twenty-five, instead of the present fifteen, member states. But despite such increased export opportunities, the actual trade creation effects may turn out to be low for several reasons.

- For the SEE-5 countries, the EU has in recent years been their most important trading partner, whereas trade with the incoming ten EU member states, in most cases, is fairly low (usually not surpassing 10% of overall exports). Let us take the example of Serbia and Montenegro, the last SEE country to liberalise its trade regime (in early 2001) and to be included in the system of EU trade preferences (Nov. 1, 2000). In 2001, its exports to five incoming EU member states, with which it had some trade - Cyprus, the Czech Republic, Hungary, Poland and Slovenia - amounted to some US\$ 143 million, which was only 7.5% of Serbia and Montenegro's overall exports. In the case of Croatia the percentage is somewhat higher, around 12%, mainly because of the importance of exports to Slovenia, which account for the largest part of this figure. Moreover, the Western Balkan countries already have a free trade agreement with some of the incoming EU members with which they trade most, either on a bilateral basis, or because they have jointed CEFTA (as in the case of Croatia). For example Slovenia has concluded a free trade agreement with Bosnia and Herzegovina, Croatia and FYR Macedonia, and was negotiating one with Serbia and Montenegro, but after having officially become an EU member on May

1, 2004, it has had to break all such agreements with non-EU countries.

This implies that the 2004 enlargement will not substantially change the existing trade regime governing Western Balkan countries' exports to the EU, since the largest part - namely exports to markets of their most important trading partners - has already been liberalised. There will be trade liberalisation with those incoming EU member states which so far have not had any special trade arrangements with the SEE-5, but considering that these countries are also marginal trading partners of the Western Balkans, this is likely to have minimal trade creation effects. Some positive trade effects will probably derive from the replacement of previous bilateral and multilateral free trade provisions by the EU Common Commercial Policy, because of simplifications introduced by a more uniform system of preferences in SEE-EU trade relations, but the overall effect will most probably not be substantial.

- The beneficial trade effects of the 2004 enlargement will also depend on the growth prospects in the enlarged EU (and in SEE). If enlargement is to boost economic growth among its member states, then we can also expect spill-over effects for the Western Balkan countries and an increase in SEE-EU trade, but this remains uncertain.

- In the area of agriculture, one can envisage negative trade effects of the 2004 enlargement for SEE exports. Given that after 2004, incoming member states will be entitled to subsidies from the Common Agricultural Policy (CAP), this is likely to render their agricultural products relatively more price competitive in EU markets than those produced by the SEE countries. Considering that most SEE countries have comparative advantages in certain agricultural products, the extension of the CAP to the new member states is likely to substantially decrease - and not increase - export opportunities for the Western Balkans in the enlarged EU market. A more detailed analysis of recent trade patterns by product categories would be necessary to confirm this hypothesis, but it is likely to be the case at least regarding some agricultural products.

- Finally, it is yet to be seen what the position of the incoming ten new member states will be regarding EU trade preferences for the Western Balkans. It is not to be excluded that, under rising competitive pressure within the EU internal market, the incoming members could exercise pressure to re-introduce certain trade barriers vis-à-vis the SEE, at

least in some sectors of major importance for their own economies (e.g. textiles).

The impact of the 2004 enlargement on EU financial assistance to the Western Balkans is uncertain, because it is not yet clear what these countries will be entitled to receive from the EU in 2005-2006. After May 2004, the ten new EU members will be receiving increasing amounts of EU assistance - € 9.9 billion in 2004, rising to € 12.6 billion in 2005 and to € 14.9 billion in 2006. These are maximum enlargement-related appropriations for commitments envisaged for the ten new member states, including Heading 1 (Agriculture), Heading 2 (Structural Fund and Cohesion Fund), Heading 3 (Internal policies and transitional expenditure), Heading 5 (Administration). During the same period, the Western Balkan countries will probably be receiving decreasing amounts of aid within the CARDS programme, in 2006 probably no more than € 500 million. This is according to some estimates (see ESI, 2002), as these sums have still not been decided, nor has a detailed financial perspective been prepared for 2005-06. According to the initial proposal of the CARDS programme, which envisaged a total amount of € 5.5 billion (instead of the € 4.65 billion that was decided later), the total amount of aid to the SEE-5 was to decrease after 2003, to € 750 annually in 2004, 2005 and 2006. The proposal of the June 2003 Thessaloniki Summit, to ensure an additional € 200 million of financial assistance for the Western Balkans, is highly insufficient for covering the enormous needs of SEE countries over the next years.

The impact of the 2004 enlargement on Foreign Direct Investment in the Western Balkans could prove to be negative. In previous EU enlargements, FDI inflows have in various cases increased to the country joining (although the evidence is mixed). It is possible that the 2004 enlargement will bring about an even stronger bias in favour of those transition economies which have attracted by far the largest amount of FDI over the past ten years (Czech Republic, Hungary, Poland), also because of legal harmonisation, reduced risk, lower transaction costs, and other favourable changes accompanying accession (see Grabbe, 2001). This may imply that even less private capital will be available for the Western Balkans, due to a further geographic redistribution of FDI in favour of the more advanced

transition countries. Though FDI to the SEE region has substantially increased in recent years, the overall amount invested over the whole 1989-2001 period has been around US\$ 9 billion, or barely 6% of total FDI into all 27 transition economies. The presence of continued political risk deriving from unsettled borders (Kosovo, Serbia and Montenegro) remains an obstacle for an upward trend in FDI inflows into SEE; Croatia may be an exception, having already attracted more than 60% of total FDI in the SEE-5 region (see Uvalic, 2003a).

Other factors could, however, act in the opposite direction - including lower labour costs as the SEE countries' main comparative advantage; further improvements in the business environment through more favourable legislation; or the emergence of a large regional market of 55 million consumers, following the creation of what is practically a free trade area among eight SEE countries (the SEE-5, Bulgaria, Moldova and Romania), as envisaged by the Stability Pact's Memorandum of Understanding on Trade Liberalisation and Facilitation signed in June 2001.

Finally, EU enlargement will have a notable impact on borders, as new dividing lines will be created due to the EU border regime. The 2004 enlargement will lead to the elimination of all remaining visa-free travel regimes between the new member states and the countries in the Western Balkans, except for Croatia which enjoys a visa-free status in all Schengen countries. In addition, preparations for the next enlargement, presumably in 2007, have already imposed the obligation on the two candidate countries not joining in 2004, Bulgaria and Romania, to re-introduce visas for the non-candidate countries in the Western Balkans, thus closing borders and impeding links with their neighbours well before accession. Croatia has maintained visas for its southern neighbours, though for somewhat different (internal) reasons, throughout the 1990s, a policy that was relaxed only in mid-2003 (despite various previous announcements of such intentions).

The motivation for such EU policies is understandable, as they are to ensure protection of its external borders, but such policies also contradict and hamper the implementation of another important EU objective - that of regional cooperation. Though strongly supported through various initiatives of the Stability Pact for SEE, regional cooperation among the SEE countries will not take place in conditions

of closed borders. The creation of a free trade area among the eight SEE countries will do little to stimulate trade flows, business links, and joint regional projects, if some SEE countries maintain visas for neighbouring countries. The current visa regimes are directly impeding the full realisation of this important objective of the EU. In addition, the differentiated treatment by the EU of single Western Balkan countries also has negative psychological effects, as it perpetuates the division into “acceptable” and “non-acceptable” (first and second class) citizens from the Western Balkans, clearly contributing little to reconciliation among the peoples in SEE.

In conclusion, the 2004 EU enlargement is likely to produce significant costs for the Western Balkans, which will probably by far exceed the potential benefits - considering that some trade expansion seems to be the only positive effect. Under such circumstances, instead of catching up with the other EU countries, the Western Balkans would fall further behind, which could make the objective of regional stabilisation and integration with the EU even more distant. What could be done to prevent the anticipated general deterioration of the situation in the Western Balkans after 2004?

3. What EU policies after 2004?

There are several groups of measures that the EU could implement to strengthen its Stabilisation and Association policies. These measures fall into three main categories: EU instruments, EU financial assistance, and SEE countries status.

- *EU instruments*: The EU could use various additional instruments in the SAP countries, by drawing on the rich past experience of the enlargement process:

(1) A new development approach for the Western Balkans would be highly desirable, as proposed last year by the Greek Presidency (see Greek Foreign Ministry, 2003). Considering their present low level of development, most SEE countries are likely to face serious difficulties in catching up with the more developed EU countries. If the Western Balkan countries are to become EU members, as they have been promised, their faster economic development ought to be a priority today – otherwise the development gap will indeed increase further.

Although political conditionality will necessarily remain the

main EU instrument for implementing its policy objectives, it should be applied in a flexible way in order not to undermine the attainment of other important objectives, such as faster economic development. Development aid should not necessarily be linked to the strict observance of EU political conditions, but ought to be given priority. It is through economic development that we can most effectively fight criminal activities, corruption and terrorism.

(2) The EU should also extend to the SEE-5 all pre-accession programmes offered to the present candidate countries, including environment and transport investment support under the ISPA programme, agricultural and rural development support through the SAPARD programme, facilities provided under TAIEX (Technical Assistance Information Exchange Office), or Twinning projects. In December 2003, the Commission indeed proposed to extend participation in tenders under PHARE, ISPA and SAPARD programmes to the Western Balkans. Another EU programme which has greatly contributed to creating regional EU-CEE university networks and substantial research in economics, is ACE (Action for Co-operation in Economics, within PHARE). The ACE programme provided funding for two main purposes: the participation of scholars from transition countries at international conferences, and multi-country research projects undertaken jointly by CEE and EU economists. In the second half of the 1990s, Albania, Bosnia and Herzegovina, and FYR Macedonia had access to ACE funding through the PHARE programme, but not the other two countries (Croatia and Serbia and Montenegro). Nothing similar is available at present for the Western Balkans to stimulate regional research and university networks. Funding could easily come from the CARDS regional programme, considering that currently the CARDS regional funds are under-utilised (what has been earmarked so far is far lower than the planned 10% planned of the total).

• *EU financial assistance*: The EU has been the major donor to the SEE region in recent years. EU financial support must not be allowed to decrease after 2004. The allocation of no more than €500/600 million in total annual assistance to the countries of the Western Balkans in 2005 and 2006 is not sufficient to cover their enormous needs. There are two possible ways to achieve increasing assistance. One is to increase the CARDS financial allocation after 2004, in line with the recent

proposal of the June Summit in Thessaloniki. Another possibility, as a supplement to the CARDS programme, would be to make the Western Balkans eligible for the pre-accession funds which are presently reserved for candidates only. Until the end of the EU budgetary period in 2006 there will be some € 3 billion in the pre-accession budget, which includes € 1 360 million for Bulgaria and Romania and €250 million for Turkey. Providing more aid to the Western Balkans could be much costlier if implemented with delay, not only because of the immediate economic consequences but also because of the negative side-effects of poverty and underdevelopment.

Increasing EU financial assistance to the Western Balkans is clearly no guarantee of fast economic development. The empirical evidence has yielded inconclusive results concerning the impact of foreign aid on growth. Limited aid absorption capacity of the beneficiary country has frequently been an obstacle for more effective assistance. Still, the urgent objective of accelerating economic development in SEE will undoubtedly be easier to achieve with more, rather than with less, EU money.

- *SEE official status*: Of the seven SEE countries, only Bulgaria and Romania are official EU candidates, expecting to join in 2007. Croatia applied for EU membership in February 2003. FYR Macedonia has also applied for EU membership in April 2004. The remaining three countries - Albania, Bosnia and Herzegovina and Serbia and Montenegro - are further behind, as they have still not concluded a Stabilisation and Association Agreement. In 2007, will Bulgaria and Romania actually enter the EU and will Croatia be able to join them? If this indeed happens, the other SAP countries will probably need to be offered some additional incentives to continue implementing fundamental market and democracy-oriented reforms, or there will be a further divergence in performance within the SEE group. The current rather uncertain prospects of EU membership may not be sufficient as an anchor to the reform process.

The most powerful incentive would be to offer the SEE-5 a change in status. All Western Balkan countries should be accepted as official candidates, once they apply, without inventing additional conditions and roundabouts, as seems to be the case today. The Western Balkan countries could be upgraded from non-candidates to “pre-

accession candidates without negotiations”, along the lines of the 2002 EU decisions on Turkey (allowing them to take future assistance from the pre-accession budget, even though accession negotiations have not started). There are probably equally powerful strategic arguments for extending this new category to the Western Balkans, treating these countries as pre-accession candidates without the obligation to open negotiations on membership until they are ready (see ESI, 2003). This could represent a strong political message to these countries that the EU is committed to their European future.

Such a change in status - upgrading the SEE-5 - would have another very important indirect effect. As in the case of the more advanced transition economies, accession prospects have had a substantial positive impact on FDI inflows and the process of preparing for accession in itself has in most cases promoted FDI (see Kekic, 2003). Bevan and Estrin (2000) have shown that the EU commitment to enlargement in 1994 has helped to reinforce positive perceptions of the transition countries suitability as investment locations, thus increasing FDI (though their results have been questioned; see Kekic, 2003). A similar positive effect on FDI inflows could be expected from the change in status of the SEE-5 countries. The 1999 radical change in EU policies towards the Western Balkans - the launching of the SAP announcing prospects of membership - has already contributed to higher FDI inflows into SEE. This trend of increasing FDI would be further reinforced with even firmer EU commitment to future enlargement to SEE.

4. What SEE policies after 2004?

There are also a number of measures that could be undertaken on the part of the SEE-5 in order to speed up integration with the EU. In addition to the more obvious ones which involve ongoing political, economic and legal reforms, in line with the recommendations of the Second SAP Report (Commission of EC, 2003), there are also other measures which would be beneficial for SEE countries' preparations for future integration with the EU. Precisely because the prospects of EU membership for the SEE-5 are medium to long-term, these measures are mainly directed towards greater integration within the SEE region, through the strengthening of all areas of regional cooperation (on the

various positive effects of regional cooperation in SEE, see Uvalic 2001).

Over the past three years, many positive results have been achieved in regional cooperation, thanks both to the changed climate in SEE, and its promotion through the Stability Pact and the EU CARDS programme. In the area of economic cooperation, the SEE countries have liberalised trade by concluding bilateral free trade agreements, and this policy has led to visible results in terms of an increase in intra-SEE trade. Contrary to the trend in previous years, in 2002 two SEE countries - Bosnia and Herzegovina and Macedonia - actually traded more with the other SEE countries than with the EU (see Uvalic, 2003b). Still, a number of measures further promoting regional cooperation in SEE could be undertaken.

- *Creation of regional institutions*: It would be desirable to go in the direction of even greater intra-SEE integration through the creation of a customs union - in spite of the political opposition such an idea may provoke. More could also be accomplished through forms of functional integration, the creation of regional institutions for resolving specific problems – in the area of macroeconomic policies, banking and payments and in specific sectors such as energy, transport and agriculture. Creating stronger regional linkages among SEE countries could help them resolve some of their current problems.
- *Removing obstacles to regional cooperation*: It is important to remove remaining obstacles to closer cooperation in the SEE region. Despite all the positive results achieved in recent years, there are a number of open problems – the questions of borders, visa regimes, return of refugees, property, legal insecurity, system of payments and transport links. Very poor infrastructure and the lack of other adequate means of transport (air connections) still significantly hamper the renewal of cooperation in different fields among SEE countries.
- *Resolving internal political problems*: All efforts to promote regional cooperation will not be sufficient to create a new era of collaboration and reconciliation in the Western Balkans, as long as internal disputes continue. The resolution of a number of political questions within individual countries must be given top priority, as they still today represent a threat to stability in the SEE region - southern Serbia, stabilisation of Macedonia, status of Kosovo, fuller integration of

Bosnia and Herzegovina and the redefinition of relations between Serbia and Montenegro.

- *Regional strategy*: In line with the emphasised need for “policy ownership”, it would seem advisable that the SEE countries jointly devise a regional strategy of integration, in order to develop a more coherent approach towards the EU. Although SEE countries are presently competing in their queue for EU membership, a regional strategy would actually be beneficial for all countries concerned, as it would strengthen the SEE negotiating position vis-à-vis the EU. Despite encountering resistance, the idea of a SEE regional strategy seems to be gaining ground.

5. Concluding remarks

The 2004 EU enlargement is unlikely to have many beneficial effects for the Western Balkans; on the contrary, the costs could turn out to be higher than the benefits, in terms of negative trade effects deriving from lower competitiveness of SEE agricultural products on EU markets, reduced FDI, declining EU assistance, and the closing of borders with both EU acceding and candidate countries. In order to take advantage of the increased opportunities which will be created by the enlarged EU market of 25 member states, the Western Balkan countries will clearly need to continue implementing fundamental economic and political reforms towards democratisation of their societies and marketisation of their economies. They will also need to invest all efforts to speed up these processes, in order to try and catch up with the other transition countries which have joined the EU in May 2004.

The key responsibility for these processes clearly lies with the SEE countries themselves, which ought to find the most suitable solutions for a fastest possible integration with the rest of Europe. Nevertheless, an important part of the responsibility for the future of SEE also lies increasingly with the EU, not only because US engagement will be diminishing in the future, but because most political problems in the region are closely inter-related and have become increasingly internationalised (Uvalic, 2003a). Unless the EU puts in major efforts to help resolve some of the remaining very complex political issues in the SEE region which presently clearly cannot be handled by the countries themselves - such as the final status of Kosovo and therefore

also of Serbia and Montenegro - the unsettled question of state borders will continue to be an element of instability. These unresolved political issues are also an impediment for the inflow of more FDI, faster economic development, and progress towards integration with the EU. Perhaps the time is ripe to address these issues, for the sake of finally achieving more permanent stability in the SEE region.

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Brendan Young

**The EU, the Draft Constitution and GATS:
constitution a victory for the liberalisers**

The years 2004-05 will be seen as a turning point in both European and world history. Unlike 2003, which was marked by a return to US military adventurism unseen since the Vietnam war, the markers for 2004-05 are the qualitative changes that are taking place in processes already in train. Closest to home is the enlargement of the EU to 25 member states of approximately 450 million people, and the (likely) establishment of an EU Constitution associated with this enlargement.

Further afield is the transition whereby the urban population of the world will, for the first time in human history, outnumber the rural. But within the urban population of 3.2 billion (now equal to the rural population), almost one billion marginalised and impoverished people are living in sprawling slums (see Davis 2004). While on the face of it there is no apparent link between EU enlargement and the growth of the world's slum population, the neo-liberal forces that are shaping them are the same.

This paper will discuss the enlargement of the EU in the context of the conditions under which it is taking place; the existing inequality and regional dynamics of the Eurozone economy and their implications for enlargement; the draft EU Constitution in relation to enlargement and to the GATS (General Agreement on Trade in Services); and the further erosions to sovereignty, democracy and accountability inherent

in this process.

Setting the scene: after the fall of the Wall

The fall of the Berlin Wall and with it the disintegration of the CMEA (Council for Mutual Economic Assistance - the inter-state trade network of the USSR and CEECs) were the preconditions for an enlargement to include the Central and East European Countries (CEEC's) now joining the EU: Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia and Slovenia - with two more (Bulgaria and Romania) in the process of implementing Accession Agreements with a view to entry in three or four years time. But prior to the fall of the Wall, these countries - especially Poland and Hungary - had substantial debts to Western European states and Germany in particular (Gowan, 2000).

All of these countries experienced debt crises - the need to reduce state spending in order to pay the interest on their debt (as instructed by the IMF and agreed by the EU) - during the 1980s. Faced then, with a choice of re-federation with the Russian-dominated CIS or turning 'West', the experience of Stalinism in the CEECs and the pre-existing financial relationships dictated that the Western road would be the one to be followed. After German re-unification came a series of Accession Agreements between the CEECs and the EU - the precursors to full membership.

The collapse of the CMEA created a deeper crisis for the CEECs. Collapse of trade led to increased debt. The IMF solution was the 'shock treatment' of privatisation of state enterprises, cuts in state expenditure (especially subsidies to industrial enterprises) and economic policies geared to servicing debt - particularly the creation of conditions for export-oriented FDI (foreign direct investment). This resulted in de-industrialisation, with falls in GDP of more than 20%,

The discussion in this paper on the draft EU Constitution represents the views of the DAPSE group (Democracy and Public Services in Europe dapse@eircom.net). Other analysis and arguments are the views of the author. I would like to thank Miriam Murphy for her advice and comments in the drafting of this paper.

and unemployment of more than 20%. It also resulted in the growth of trade deficits with the EU countries (especially Germany). The IMF 'shock treatment' applied in the CEECs is similar to the 'structural adjustment' enforced upon debt-laden countries in Africa and Latin America - and produced similar results (Fagan and Kilmister, 2001).

The Treaties of Association concluded with the EU from the early 1990s created what was in essence a free trade area in Eastern Europe. They required the privatisation of state enterprises, facilitated increased imports from western Europe, and promoted FDI that bought up existing enterprises and set up new plant. But the pattern of inward investment was towards capturing the market for consumer goods (foodstuffs, tobacco, detergents, textiles) and some production (cars and heavy electrical) for export to the EU, using the cheap labour available. The trade deficits of the CEECs are primarily in consumer goods rather than capital goods, indicating that the de-industrialisation of the 1980s and 90s has not been reversed (see Heidenrich, 2003; DiW data set, 2001).

Fagan & Kilmister (2001) have argued that the combination of IMF conditions and EU Accession Agreements have placed the CEECs in a peripheral position relative to the core countries / economies of the EU: Germany, France, Britain, the Benelux countries and Italy. There is a persistent indebtedness: the CEECs run continuous and significant debts with the EU core countries, especially Germany. There is a dependence on the core countries for imports and exports—on the EU in general, and especially Germany. (see OEF 2004) There is a dominance by the core states over the international division of labour (what is produced where): western European multinationals are dominant in the CEEC economies and further economic development is dependent on FDI, which is inadequate and damaging to the domestic economies (destruction of indigenous industry). And there is a dominance over the legal/financial systems: the Association Agreements and imposition of the *acquis communautaire* (the body of EU law and practice) are really an opening up of the CEEC economies to international finance and the establishment of legal systems that preserve the dominance of the western financial institutions. EU social legislation is secondary to legal frameworks for the accumulation and movement of capital.

As to agriculture, the present enlargement will double the area of agricultural land in the EU, and more than double the agricultural

workforce. The number of Polish farmers is at present more than the total for France and Germany combined (Boduszynski, 2003). Agricultural unemployment, almost 40% in south-eastern Poland, (Third Cohesion Report, 2004) will be worsened by the CAP, which favours large-scale farming over smaller units. 27% of the Polish workforce is in agriculture; and EU estimates are that only 600,000 of the estimated 2 million Polish farms will survive full EU membership.

The Commission's plans for the implementation of the CAP in the CEECs merely stave off the point at which its complete revision is required: farmers in CEE member countries will only get CAP payments in stages, with full payment available only in 2013. In the meantime Bulgaria and Romania – both with substantial agricultural output and workforces - will probably be EU members. And with 'decoupling' – payment of farm subsidies unrelated to current output but based on previous farm output – unlikely to work in the CEECs due to the lack of administrative capacity and infrastructure, a serious crisis for the rural population of Eastern Europe is on the cards. This of course, will have significant knock-on effects in Ireland, especially on small farmers.

Within this peripheral framework a degree of development is taking place, but in a very uneven fashion. The indications are that the capital city regions and the western border regions of the CEECs will have a growth of investment and employment (Heidenrich 2003; DIW 2001). The EU's Third Cohesion Report 2004 also acknowledges that FDI is concentrated in western and city regions. So the de-industrialisation that has occurred in the CEECs and the subsequent pattern of uneven development are likely to become entrenched.

Several factors underpin this process. There is a general problem of slow growth in the Eurozone economy and of structural unemployment (underlying unemployment that persists unrelated to the capitalist cycle of expansion and recession) of between 7 and 8% (see Boltho 2003). The performance of the European economy is also intimately related to that of the US economy. A substantial part of European (especially German) exports go to the US and European recessions have closely followed those in the US over the past 20 years. (see Brenner 2004).

Combined with this is the more global phenomenon of a declining rate of profit, especially in manufacturing, over the past 20

years (see Brenner 1998). The present capacity use in US manufacturing is approximately 73%, which means 27% of industrial plant is not being used because the owners can't sell what they produce. At the same time the US is running a record trade deficit – importing (buying) more than it exports (sells) – to the tune of \$450 million per annum. But most of these imports are coming from China and East Asia, where labour costs and regulations on production are very low.

For European manufacturers and capitalist investors therefore, there is no incentive sharply to increase industrial investment other than to increase the productivity of existing plant. This is the stimulus for the 'Lisbon Agenda' – "to make the EU the most competitive knowledge-based economy in the world" during the coming years. The ideology of 'Lisbon' propounds life-long learning, e-integration, amelioration of regional poverty, etc. What is really at stake is market share in the world economy; and the need for European-based capital to increase labour productivity and reduce costs. But for European workers, competition with an increasingly capitalized Chinese economy, where millions of peasants are moving to growing cities and providing a vast pool of cheap labour (see Davis 2004), is a race to the bottom. What's not in the Lisbon Agenda is the re-industrialisation of the CEECs or any effective measures to redress the regional imbalances in production, employment and income levels that exist not only in Eastern Europe but across the countries of the 'existing' EU 15.

The European Commission acknowledges the critical situation facing the CEECs in its report 'The impact of eastern enlargement on employment and wages in the EU member states', May 2000, which says:

any realistic policy scenario has to acknowledge the fact that large differences in per capita incomes... between the EU and CEECs will persist not just for years but for decades.

And again:

Current investment rates demonstrate that the convergence of capital stocks [industrial plant] between the present EU members and the CEECs will take a very long time. Even if viewed optimistically, the convergence of capital stocks and per capita incomes will require decades rather than years.

This means continuous trade deficits (see OEF 2004), debt, low levels of industrial development and chronic mass unemployment. It is worth noting that more than ten years after re-unification and financial transfers that dwarf anything on offer from the EU to any country - approximately €100 billion per annum 1991 to 1999 - 'East' Germany remains de-industrialised, due to privatisation and competition from the 'West'; and unemployment is over 20% in the 'Eastern' Lander, as compared to 9% for Germany as a whole. Meanwhile the EU has agreed a 2004-07 development budget of €22 billion for the ten new Member States (Irish Times 20/12/2003) - €7 bn p.a. for approx 75 million population, a far cry from recent transfers to Ireland and quite inadequate to reverse current economic trends.

To summarise: the conditions of entry into the EU of the CEECs have peripheralised these countries and created large regions of low GDP per capita, high unemployment and poverty – which EU policies will do little to qualitatively change.

Regional inequalities across the EU

Can the EU, and especially EU Cohesion and Regional policies, reverse this? I would argue not, since regional inequalities are a structural feature of the EU. Regions that are already peripheral to the core regions of advanced accumulation in Europe include those with long standing under-development in which agriculture predominates and where there are high levels of unemployment. The south of Italy has 12 – 24% unemployment, compared to 9% average for Italy as a whole; Greece, 10% average; west, central and southern regions of the Spanish state, 18% compared to 11.4% average; south-west and central France +12% compared to 8.7% average; Portugal 5.1%, but with low GDP per capita and low income levels, and Ireland (BMW 5.5% compared to East 3.8%).

Others are once-industrialised regions now in decline: Nord-pas-de-Calais 13.4% compared to 8.7% French average; the north of England 7% and Wales 6% compared to 5.6% average (though official UK unemployment data can be of questionable accuracy – see Morgan & Price 1999 who cite economic inactivity rates of up to 30% in the South Wales Valleys); Wallonia, 12.6% compared to 8.6% Belgian average; and some German regions: Nordrhein-Westfalen 8% compared

to Baden-Wurtemberg 4.7% (All data for 2002, data source: EU Third Cohesion Report, Main Regional Indicators. 2004).

The top ten regions of the EU in terms of capital investment, productivity, GDP per person, wages and other socio-economic indicators are in the 'golden banana' (so-called because of the pattern of the glow of lighting as seen from space) spanning Greater London, the Netherlands and Belgium, the Paris Basin, the Rhinelands, Switzerland and Northern Italy.

Notwithstanding historical changes in the location of production, agglomeration (the geographical concentration of advanced production and accumulation of capital) is a persistent feature of capitalist development. It is a fundamental feature of 'combined and uneven development', whereby advanced production and accumulation in one region is necessarily accompanied by backwardness in production, underemployment and lower incomes in other regions (see Mandel, 1995; Lowy, 1993).

Combined and uneven development is a generally accepted concept in Marxist discussion on development. But whether we posit our analysis within this theoretical framework, or use world systems theory as Fagan & Kilmister do, the pattern is easily observed in the levels of GDP per person in different regions in any country. For example, GDP per person is over 120% of the Irish average in Dublin, while it is below 70% in parts of the West. It is also noteworthy that Ireland's Western Development Commission has reported that of 20 IDA-backed projects initiated in the first half of 2003, only 7 were outside Dublin and Cork (Irish Times 14/7/2003). The Commission has also warned of significant job losses in the BMW region if Ireland loses Objective 1 funding due to enlargement

This would indicate that EU Cohesion funds have not stimulated the accumulation of capital and productive activity in the West of Ireland to the degree that employment at current levels can be sustained without continuous direct payments from the EU. This is in a context of €7 billion transfers to Ireland between 1997 and 2002. It is also noteworthy that the Spanish government demanded that its Objective 1 funds should be sustained after enlargement as a condition for its support. The German Finance Minister has argued for a reduction in EU contributions from 1.24% GDP to 1% in the coming EU Budget

on the grounds that payments to the poorer regions of the CEECs will be taken from payments to impoverished German regions (*Irish Times* 11/2/2004).

The 'golden banana' pattern and other regional disparities have persisted in Europe since the founding of the EEC in 1958. (see Dunford 1988; Heidenrich 2003) Neither EU regional policy nor the setting up of the European Regional Development Fund (ERDF) in 1975 have altered the pattern. Both the Second and Third Cohesion reports from the EU indicate that regional disparities – differences in GDP per capita, income and employment levels – have not changed significantly and in some cases have actually increased since the 1980s in the EU 15 countries (see DIW 2001).

EU Regional policy uses infrastructural development and education as the levers to encourage capital investment in poorer regions. But as the overriding political drive of EU policy is neo-liberal, removing any obstacles to capital accumulation, the economic effects of its regional policy are marginal – since the underlying tendency is towards agglomeration in the core regions. The ERDF and EU regional policy are in reality more important as political instruments to placate, incorporate or undermine social or national movements that might pose a challenge to the political status quo in economically peripheral regions. In summary: EU Regional policy will not bring an end to regional inequality in the CEECs or elsewhere in the EU.

So the chickens are coming home to roost. Flowing from the EU and IMF's neo-liberal policies, an enlarged Union including Bulgaria and Romania would have approximately 153 million people living in regions with GDP per head below 75% of the present EU average, almost a third of a total population of approximately 485 million people (*EU Third Cohesion Report*, 2004).

We can therefore expect to see an increase in the scale of regional disparity, and a deepening of disparities as the instruments for amelioration become increasingly ineffective. Calls for increased competitiveness will do little for impoverished regions other than drive down wages and conditions for production of labour-intensive goods, (see Janicki & Wunnava 2004) since the tendency is for high-value-added production to locate in core EU regions where such activity is already located – a fact acknowledged passively in the Third Cohesion

Report 2004.

None of the core EU states is willing to increase its EU contributions to bail out peripheral regions in the CEECs at the expense of their own constituencies; and even if they were to do so, the levels of taxation required would be such as to make European-based production less profitable than capital located elsewhere – a project that is politically untenable for any of the present mainstream political parties.

Competition between poor and very poor

So what we are faced with is a competition for scarce resources between the poor of the peripheral regions of the EU 15, whose GDP per capita is below 75% of the EU average (the criterion for receipt of Cohesion funds in the Objective 1 category), and the very poor of the CEECs, where average GDP per capita is approximately 50% of the EU average (not to mention Bulgaria and Romania, where GDP per capita is approx 30% of present EU average - Third Cohesion Report 2004). As the EU's budget Commissioner Michael Schreyer put it, enlargement poses "huge difficulties in economic terms" since the EU population will increase by 28%, but overall income by 6%. This change in relative incomes will mean that having received €1.5 billion from the EU in 2002, Ireland will pay €21 million into the EU budget in 2004 (*Irish Times* 7/2/2004).

The political effects of regional inequality within the EU 15 are already evident. In Italy the Liga Norde and in Belgium the Vlaams Blok campaign for reductions in transfers to the poorer regions. In Germany people from the former 'East' are scapegoated for the socio-economic problems of the country as a whole, as are Turkish and other migrant workers (the ones who build the Mercedes and BMWs). And throughout Europe there is increasing suspicion and hostility to immigrants, with Commission President Romano Prodi recently arguing for the proposed 1.24% EU-GDP budget on the grounds that citizens would in the future want increased protection against illegal immigration (*Irish Times* 11/2/2004).

It is not as yet clear how social tensions in the peripheral regions of the CEECs will pan out. Should the regional inequalities be contained as regional issues within the countries concerned, the political impact

may remain one of being a problem for domestic politics. But should the regional inequality continue to be of national proportions (for example, the relative impoverishment of whole countries and persistent high levels of unemployment, as in Poland at 20% - OEF 2004), then there may be destabilizing effects on the EU as a whole. The Commission will, no doubt, do what it can to ensure the former scenario is the one that predominates.

The Draft EU Constitution

So how does the proposed new EU Constitution fit into this socio-economic situation? There are a number of areas in which the Constitution advances the further centralization of power into the institutions of the EU, in particular the establishment of a 'legal personality' for the EU, which will enable it to act in the manner of a state in international diplomacy. Concomitant to that is the creation of a Foreign Affairs Committee and an EU Foreign Minister; and of a related military and security structure.

However, the burning issue of the moment is the decision-making process at the heart of the EU's institutions: voting weights for Qualified Majority Voting in the Council of Ministers. The present disputed proposals are that a QMV vote should be based upon a double majority: at least 50% of the Member States, representing at least 60% of the enlarged EU population. Recent reports (*The Guardian*, 27/3/2004) suggest that the Polish government would compromise on a double majority comprising 54% Member States representing 64% of the population.

What is not being publicly discussed however, are the new issues on which QMV would apply. A key change from the provisions of the Treaty of Nice that would facilitate the further advance of the neo-liberal project is the introduction of QMV into decisions on international trade in public services. Nice provided Member states with a veto on decisions to open international trade negotiations in health, education, and audio-visual Services. Apart from a weak caveat on trade in audio-visual Services, the veto on these services has been removed from the EU's Common Commercial Policy as contained on the draft constitution. Under the new Constitution, the final decisions on trade in these services would be by QMV (see Draft Treaty, Constitution for Europe, July 2003:

Article III-216 and 217, Common Commercial Policy).

The European Commission would have exclusive right to make agreements at the WTO through the GATS agreements. As at present, these negotiations would be secret until deals are finalised. The Irish government does not say what services it is willing to put on the Commission's 'list of offers' to trade nor does the Commission publish the list of offers it takes to the GATS. No details of voting are published, so Irish citizens do not know how Irish representatives in the Council of Ministers vote. We only find out what services they decide to open to trade after the deal is finally agreed – by which time it is too late to seriously challenge the agreement.

This process entails a serious erosion of accountability and democracy, since neither citizens nor legislators are told what the Irish government (nor any other government) is offering or requesting from other countries in the GATS. We know neither what they are doing, nor if they are doing what they say they will.

A recent request by 22 TDs and a number of MEPs for access to Irish government documents being presented at a meeting of the Art. 133 Committee (which formulates the EU's submission to the GATS) in Dublin on February 20, 2004 was refused by the Department of Trade and Industry and Minister Mary Harney (DAPSE, Feb 20, 2004). And leaked documents from the EU's submission to the GATS in 2002 show that the European Commission has submitted requests to a number of developing countries to open their water supply and treatment services to international bidders – contrary to the EU's publicly stated positions (see WDM Sept. 2003).

The exclusive right given to the European Commission to negotiate GATS trade deals in all services, combined with the commitment in the Common Commercial Policy to liberalise trade in all services, means that the draft constitution would create a framework that would facilitate education, health and cultural / audio visual services being provided on a commercial or business basis. This framework, as part of the constitution, is one that democratically elected governments would be powerless to change in the future.

Supporters of the draft constitution may argue that Articles 16, III-179-7 on Health, III-183-1/4 on Education and III-217-5 of the Common Commercial Policy on the delineation of the competences

of member states as against those of the EU would protect the rights of the member states to determine policy on health and education. But these articles would offer little legal protection against the provisions of Article 12-1, which gives the Union exclusive right to determine Common Commercial Policy. Hence 217-1 of the Common Commercial Policy, which includes the right to make 'trade agreements in relation to trade in goods and services' would hold.

Trade proposals would be in any aspect of a service that could be defined as commercial. That would include any part of the service that could be contracted out. What comes to be defined as the commercial aspect of a service may be determined by the Article 133 Committee, the Commission or the WTO, or may result from a offer / request made by a another member in the GATS negotiation process. Article 217-1 of the Common Commercial Policy would allow the Commission to make deals in the GATS based on these definitions, subject to a final QMV vote in the Council of Ministers.

At present the availability of a veto on trade in health, education and audio-visual services means that bartering within the Article 133 Committee and the Commission on trade offers is limited, because all parties know that a member state can use their veto in the final vote in the Council of Ministers. But if the veto goes, pressure to barter trade commitments for the GATS in the previously state-provided services will grow - and the proponents of QMV are aware of this (see below).

The commercial aspects of these services are not defined in the constitution or elsewhere. So in the event of pressure, or of a QMV vote, to include in a GATS offer sectors that a member state did not wish to open to trade, the final recourse of that state would be a challenge to the Council decision (which would be based on Commission proposals) in the European Court of Justice. That state would have to show that the Commission was opening trade in non-commercial aspects of these services. This would be a very difficult legal argument to make, since many parts of these services can be broken into individual functions and contracted out. Examples of this can be seen in the education and health services both in Ireland and especially in Britain.

Article 1.3 of the GATS Treaty (see the discussion below) is instructive as to the inadequacy of the protection provisions in the draft constitution. The arguments that the existence of commercial

competition between providers means that there should not be exemptions from trade in the health and education sectors could easily be put to the Article 133 Committee and the Commission, flowing from pressure to make offers to open services in the GATS and from the EU Common Commercial Policy. Conflicts over the Commission's / Council's proposals would have to be finally resolved in the European Court of Justice.

Effectively therefore, decisions on the way health or education services are provided could be made by a Court of Justice interpretation of the constitution. Alternatively such conflicts could end up being decided upon by the Disputes Resolution Panel of the WTO – where states representing the interests of 'their' businesses fight for market access that is most favourable to them. The victory for the US against the EU's preferential trade in bananas with its African-Caribbean-Pacific ex-colonies in the WTO is a harbinger of the future (WDM April 2003).

If we are concerned with sovereignty and democracy, then we must take very seriously the potential for a serious erosion of our sovereignty that these trade policy decisions entail. The Article 133 Committee is appointed by the Council of Ministers. It operates in secret, both at national and EU level, and lacks any mechanism for transparency or accountability. Neither the European Court of Justice nor the WTO Disputes Resolution Panel are accountable to any electorate. Nor are they tied by democratically decided policy decisions. Rather they make decisions based on legal arguments flowing from international treaties, which are framed to advance the liberalisation of trade and protect property rights within capitalist norms.

To those who say that member state control of education, health and cultural / audio visual services are protected by various articles in the draft constitution, DAPSE would say this: protection by such articles is contradicted by giving the EU exclusive rights to make international agreements to open trade in these services and by the likely pre-eminence of the Common Commercial Policy in any conflict of interpretation.

If democratic control is to be retained, decisions to open trade in these key services must remain unanimous. Any member state must have the right to use a veto in the Council of Ministers against proposals to open trade in these services that would conflict with its commitments

to provide services on a non-commercial basis.

Background to the changes to QMV

One interpretation of the draft Constitution is that there is simply a contradiction between the stated competences of the member states to determine policy on health and education and the competence of the Commission to make trade deals relating to these services in the GATS, and that this contradiction will be resolved in favour of the member states, either on the principle of ‘subsidiarity’ (further discussion below), or because the EU’s social commitments would not allow for commercialisation of these services. A contrary interpretation is that the proponents of QMV for trade decisions are aware that this change will facilitate the progressive liberalisation of trade in health, education, and cultural & audio-visual services.

An examination of the background to the change to QMV reveals that the latter interpretation is the more plausible. For starters, the EU Trade Commissioner, Pascal Lamy, said at the signing of the GATS agreements in 1995 that he believed health and education were “ripe for liberalisation” (see WDM. Nov 2002.)

He later told the US Council for International Commerce “if we want to improve our own access to foreign markets then we can’t keep our protected sectors out of the sunlight. We have to be open to negotiating them all if we are going to have the material for a big deal. In the US and EU, that means some pain in some sectors but gain in many others, and I think we both know that we are going to have to bite the bullet to get what we want.” (June 8th 2000 <http://europa.eu.int/comm/trade/speeches/articles/spla23.en.htm>)

Then on 18 December 2000 he declared:

Let me get really controversial. ... I am talking, of course, about updating the EU’s common commercial policy as set out in Article 133 of the Treaty [of Nice], to permit qualified majority voting in the Council to determine our position in international trade negotiations in services, intellectual property and investment. (Speech to the American Enterprise Institute, Washington DC)

Commissioner Lamy was unable to present a ‘consolidated

list' (ie: any EU offers), at the GATS talks in March 2003 because of his inability to get unanimity in the Council of Ministers on offers in relation to health and education. A qualified majority however – especially one composed of 13 out of 25 states representing 60% of the population – is much easier to achieve. It is worth noting that in response to the lack of an EU offer in 2003 the assistant US trade representative told a conference co-organised by the US Coalition of Service Industries (a US industry lobby group), that an audiovisual exemption for the EU is 'not something that we could agree to' (WDM Sept 2003).

As to who would benefit from liberalization of trade in health and education services, the American healthcare industry is candid. Dean O'Hare, the outgoing president of Chubb - one of the world's biggest insurance companies - led the lobbying for GATS in Washington. He told Congress: "We believe we can make much progress in the negotiations to allow the opportunity for US businesses to expand into foreign healthcare markets." (see WDM Nov. 2002).

In addition there is the European business interest, the European Round Table of Industrialists (ERT) – a forum of around 45 leaders of large internationally operating companies based in Europe. These include Vivendi, Siemens, Fiat, Unilever, Nestlé, BP and Diageo. The ERT's objectives are to get the best operating environment for business. To that end the ERT carries out intensive lobbying of the European Council, the European Commission, the Council of Ministers and the European Parliament. In its discussion paper on EU Governance published in May 2002, the ERT states: "In the view of the ERT, QMV should be extended to all areas relevant to effective cross-border business within the Single Market as well as to external economic relations." This is a perfect fit with the approach of Pascal Lamy and the Commission.

The implications of liberalization are highlighted by Liese Prokop, President of the Assembly of the European Regions. Referring to the draft Constitution and commenting on a recent European Parliament decision calling for unanimity in Council of Ministers votes as provided in the Treaty of Nice, she said ... "concerning European decision making processes in the field of culture and of the media; currently, these open the way towards liberalization and further commercialization in cultural and audiovisual services and are

likely to jeopardize cultural and linguistic diversity in Europe” (AER press release, 26/1/2004. See also European Parliament Resolution A5-0477/2003, passed 14/1/2004).

This is not to allege any conspiracy by Pascal Lamy: he has been explicit in where he wants EU trade policy to go. He and his co-thinkers – like the conservative European Peoples Party leader Elmar Brok, the paid lobbyist for the Bertelsmann publishing and media multinational and a participant in the drafting of the constitution – want de-regulation of European public services and access to US and other markets for the European service industries. They are seeking to facilitate trade in the GATS – in vital services like health and education – as part of the overall liberalization process. But that process entails an erosion of political accountability and democracy.

Why all the fuss about the GATS?

But why all the fuss about the GATS and about how trade deals in the GATS are made? Because trade deals in the GATS increasingly impact on the formation and implementation of domestic policy, such as public service objectives and provision.

The GATS is not just something that exists between governments. It is first and foremost an instrument for the benefit of business” declared the European Commission in 1998. Central to the GATS is the principle of progressive liberalisation. Article XIX.1 mandates WTO members to ‘enter into successive rounds of negotiations, ... with a view to achieving progressively higher levels of liberalisation.’ Should countries want to withdraw a commitment, they have to embark on a complex ‘modification’ procedure outlined in Article XXI. The arduous nature of this reversing procedure has led even the WTO Secretariat to call the agreement ‘effectively irreversible’ (D Hartridge, Director of Trade in Services Division, WTO, as quoted in WDM Nov 2002.)

The rules and commitments in the Agreement apply to all national, state, regional and local government measures affecting services. The GATS does state that countries have the ‘right to regulate’, but this is only mentioned in the preamble so is not legally binding. Conversely, the specific articles of the GATS requiring deregulation,

such as Article VI on domestic regulation and Article XVI on market access, are legally binding.

In order to provide a meaningful basis for its rules, the GATS uses a list to define the sectors it covers. The current list is as follows: Business Services; Communication Services; Construction and Related Services; Distribution Services; Environmental Services; Financial Services; Health Related and Social Services; Recreational, Culture, Sport; Tourism and Travel Related Services; Transport; 'Other Services Not Included Elsewhere'. These sectors are further broken down into 160 sub-sectors which are further broken down into defined activities. See the WTO's website (www.wto.org) for the full text of the GATS.

The GATS covers all provision of services in the listed sectors except, as stated in GATS Article I.3, "services supplied in the exercise of governmental authority." These are defined as services "supplied neither on a commercial basis, nor in competition with one or more service suppliers." This article is perceived as exempting from GATS rules the provision of public services by governments.

However, a range of problems exists with the wording of Article I.3. When it was asked for an interpretation of the GATS Article I.3, the WTO Secretariat recently declared:

The coexistence of private and public hospitals may raise questions concerning their competitive relationship. The hospital sector in many countries is made up of government and privately owned entities which both operate on a commercial basis. It seems unrealistic in such cases to argue for the continued application of Article I.3 and/or maintain that no competitive relationship exists between the two groups of suppliers of services." The WTO says that "subsidies or similar economic benefits" must either be abolished or be given to private competitors. (Nick Cohen, *New Statesman*, December 2002).

This would undermine the principle of access for all citizens to health care, because the upshot would be an increasing polarization of public and private services – due to the presence of private companies providing services based upon ability to pay. Although still under Irish control, the difference in the quality of service between the 'Mater public' and 'Mater private' hospitals shows what can happen when the

state provides only a residual public service. As Titmuss put it, “Services for the poor were always poor services” (quoted in Baumann 1998).

Further liberalisation can only make this sort of service inequality worse. Indeed it may only be a matter of time before the Irish government offers market access to the Irish health insurance industry in its GATS commitments. The Irish government may in the future decide to sell the VHI to an American or European insurance corporation, but that cannot be predicted here. The arrival, through GATS, of other private companies operating in competition with the VHI, combined with the possible definition and prohibition of the Irish regulation on community rating as ‘overly burdensome’, would bring pressure on the VHI to act in a purely commercial way. Commercial considerations then would determine its premiums and range of cover to the likely detriment of high-risk categories of clients.

This is because private healthcare or educational companies are in business to make a profit – otherwise they go out of business. That profit either comes from cherry-picking the most lucrative parts of a service, free-riding on state-owned facilities, higher charges – to the state or the service-users – or a lower level of service. Private provision of services means that some of the funds that should go into a service go into the pockets of the shareholders.

The ‘liberalisation’ winners are the service companies. The people who lose out are the service users – especially women and people on low incomes – and the people who work in the services. When it comes to having high-quality public services, democratically accountable and available to all, who provides them does matter.

‘Subsidiarity’

In its response to the European Commission’s Green Paper on Services of General Interest (public services), the Irish Government argued that

in accordance with the principle of subsidiarity, we believe that the member states are generally better placed to design regulatory policies in specific sectors... (available from National Forum on Europe: www.forumoneurope.ie).

Subsidiarity is generally defined as the implementation of EU law at the most appropriate level closest to the population. In

this instance it means the competence of member states to develop and implement national policy preferences within the overarching framework of EU policy.

But such competence is undermined by the enhanced powers being granted to the Union vis a vis the member states in the draft Constitution. Article III-6 states that in relation to the ‘principles and conditions’ whereby public services are provided, ‘these principles and conditions are laid down by European law’. This goes against the principle of subsidiarity and would give the Union a competence that at present it does not have in some services - such as drinking-water supply, waste and wastewater disposal, social services as well as education and culture.

Similarly, giving the Union exclusive right to negotiate trade agreements in Services means that Member States and regions lose their rights to determine policy for those Services. Subsidiarity would be made meaningless. Once again there is an erosion of democracy, as the electors would lose their democratic right to determine how services are structured and delivered through the election of parties on account of their commitment to provide public services.

Article III-6 also undermines Regional Policy. Article III-117 states that the Union’s policies and action should take into account the objectives of reducing disparities between the levels of development of the various regions. Determining policies on the basis of ‘European law’ - as provided for in Article III-6 – would give primacy to competition rules and thereby undermine measures to reduce regional inequality - such as providing subsidies for regional projects that would not be commercially viable on their own.

The rail network in Poland, for example, would probably collapse if required to run on a commercial basis – leaving large parts of the country without a public transport system. How it will survive the continuing public spending cuts of €11 billion – designed to bring the Polish budget deficit to 4% of GDP next year under the requirements of the EU’s Stability and Growth Pact – remains to be seen (*Irish Times* 30/3/2004).

Some regional governments are critical of the powers that the constitution gives the EU. The Austrian Länder are opposed to decisions on how public services should be provided being determined by the

EU. They argue that giving exclusive rights to the EU to make trade agreements for these services means the rights of regional governments are at an end; and that considerations other than commercial values should be taken into account in the provision of public services. In this they are defending democratic accountability and a 'social' model for the EU - as against the commercial framework in the new EU constitution (see *Austrian Länder*, 2003).

The Irish government are happy to make complaining noises about the loss of the veto in the areas of foreign policy and taxation policy but have completely ignored the implications of the loss of a veto when it comes to the possible forced liberalisation of core public services.

If we are concerned with sovereignty and democracy therefore, both the entire GATS framework and that of the Common Commercial Policy in the draft EU Constitution must be challenged. For what would be the value in electing a government committed to providing universal access to essential services such as health, education, water or environmental services if those very services are being progressively commercialized through GATS agreements which require that they be opened to provision by transnational service companies – for whom the priority is making a profit. Likewise a challenge must be raised against the provisions of the draft constitution which remove the veto on trade in health, education and cultural & audio-visual services and give the Commission increased power to make deals on these services in the GATS.

Summary

In summary, the enlargement of the EU to include ten new countries (eight CEECs, Malta and Cyprus) with Bulgaria and Romania to follow shortly has been done on the basis of neo-liberal socio-economic policies insisted upon by the EU and the IMF. These conditions for EU entry have created increased regional disparities, with the peripheralisation of the CEECs and within them the creation of impoverished regions with low GDP per capita, high unemployment, poverty and social deprivation. These regional disparities are not seriously addressed by EU Cohesion Fund measures. In all likelihood, the current pattern of development around capital city and western border regions will

persist, since EU policy is anchored on a neo-liberal model of FDI export-oriented development.

This model has failed to redress the historic pattern of regional disparity within the existing EU 15 countries, and has been disastrous in developing countries (see Davis 2004). But a qualitatively new situation is emerging, where almost one third of the population of the enlarged EU will be living in regions with GDP per capita of less than 75% of the current EU15 average. There is thus the potential for increased social tensions, including an increase in racism as immigrants are scapegoated for socio-economic problems generated by the policies both of the EU and the Member States.

In these circumstances the draft EU Constitution is a step to further deepening the neo-liberal trajectory of EU policy, facilitating the commercialization of key social services and entrenching neo-liberalism as the doctrine of the EU. Far from providing steps towards a solution to present and future socio-economic problems, this constitution would take us further into the quicksand. The provisions of the draft EU constitution which facilitate trade in essential services through the GATS are an attack on democracy and should be resisted.

The solution is not a neo-liberal free-for-all, with unaccountable transnational companies profiting at the expense of the standards of living – and in the case of developing countries – the lives of millions. Nor is it a return to national protectionism, as will tend to be the case if Europe-wide solutions cannot be found. The gains of the far-right are a warning in this regard.

The first step in any solution that puts people before profit is to break with neo-liberalism. This would mean an end to the deregulation drive, and in particular an end to the anti-democratic GATS. It would also mean opposing the draft EU constitution and in particular the priority given to the EU to make international trade deals in public services.

More appropriate is the proposal for a united Europe from Ireland to the Urals, free of militarised borders and tariff barriers (why should the Ukraine, Belarus and Russia be excluded from development as part of the rest of Europe?). The implementation of neo-liberal measures should not be the condition for access to western European markets and financial aid for any country, and especially Eastern European countries

that wish to become part of the Western European trade bloc. Central EU policies should not be price and currency stability but full employment, reduction of working time, social and environmental protection.

There should be substantial financial transfers from wealthier to poorer regions and planning mechanisms to control location of capital investment. Trade relations with the countries of Africa, Latin America and Asia should be restructured for the benefit of the non-European countries. As to the institutional structures of the EU, the Commission and Council of Ministers should be downgraded, with policy formulation being given to the Parliament. While current arrangements remain, all states should have equal say. The states of the EU should withdraw from PfP and NATO, and there should be no development of an EU military power.

Whether the draft EU constitution is agreed and ratified, or the ruling classes of the EU are forced back to the drawing board, their agenda of developing the EU on their own terms will remain. An opposition based upon democratic accountability and prioritising the needs of Europe's working people will therefore continue to be necessary during the coming years.

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Hugo Radice

Globalization, Regionalization and Restoration:

Reconfiguring the East-Central European Political Economy

Introduction

The presence at this conference of four panels on the theme of globalization and East-Central Europe (ECE) indicates that at last this aspect is moving centre-stage in ongoing critical study of the region. Stimulated as much by the approach of EU accession as by continuing economic integration, it now seems clear to many that, like the construction of socialism after 1945, so the restoration of capitalism after 1989 was not just a matter of applying a proven blueprint for the construction of a New Jerusalem on each national territory: rather, it was the result of intense social conflicts whose outcomes were importantly shaped by the specific historical context of the global political economy. In particular, it has been argued that the worldwide shift since the 1970s, from a broadly social-democratic or developmental 'mixed' political economy to a broadly free-market neoliberalism, effectively ruled out 'reform communist' or 'third way' options in favour of 'market Leninism' (Glasman 1996:133).

At the same time, the salience of regional (that is, European) processes in the restoration has raised the question of whether the capitalism emerging in ECE has some specifically European characteristics, which might suggest an alternative trajectory of

development when compared with one shaped ‘simply’ by global social forces. In the centre-left of West European politics, the impending accession of ECE and Baltic states seems to offer both threats and opportunities. The threat is that the new member states appear as potential trojan horses, both for undermining the living standards of existing EU workers by offering low-age-cost competition, and for their apparent enthusiasm for US unilateralism in world affairs. The opportunities lie in the enhanced potential for cross-border labour solidarity within the EU, and the (admittedly slight) possibility that enlargement will spur efforts for democratic reform of EU governance.

This paper aims to clarify the relationships between globalization, regionalization and postcommunist restoration in the ECE region. The first section summarizes the overall argument about the global shaping of restoration, in the context of debates on how to develop a critical analysis of globalization. The second section considers how the regional ‘integration’ of ECE can be understood within the global context.

Globalization and Restoration

Globalization

The past decade of globalization debates centre on a number of trends of the past 30-40 years: increasing cross-border trade and investment flows, integration of national financial markets, expansion of transnational institutions of regulation and governance (both private and public), enhanced global transportation and communications networks, growing awareness of global environmental threats, etc. These trends not only entail deepening economic interdependencies, but also the ‘transnationalization’ of cultures and politics. This paper is developed within a particular conceptual approach based broadly on the historical materialist tradition, notably on the following propositions (these

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are set out in more detail, and contrasted with other views, in Radice (1999a) and (2000a)):

(1) Globalization does not entail a simple, unilinear historical transformation from a 'world' of nation-states and their 'inter-national' relations, to one of a unified global society. It does, however, signal a distinct period in the history of capitalism, which has always been a global system: the global dimension or aspect of capitalism has become increasingly significant, and has taken on some distinctive, historically-specific features which amount to the 'global reconstitution' of capitalism.

(2) Like all significant social change, this global reconstitution is fiercely contested and very uneven in extent and consequences. Contestation centres on the basic class relation of capitalism, between capitalists and workers, but as always it takes a wide variety of forms and is strongly influenced by distinct historical legacies in different locations.

(3) Because this particular 'reconstitution' of global capitalism centres on the revival of liberal ideologies enshrining private property and electoral democracy, it appears most frequently as a simultaneous struggle between market and state, between economics and politics, and between the national and the global. However, market and state are both institutional domains of class struggle which are closely intertwined; the separation of economics and politics is an ideological tool designed to deflect attention from the contradiction between the formal equality of trader-citizens and their real inequalities; and society - in the sense of a coherent ensemble of institutions and practices within which we live our lives - is produced and reproduced simultaneously at many levels from the local to the global.

(4) As in other major periods of social change, the dominant self-understanding of society, in the form of mainstream sociological thinking, finds itself wrestling yet again with the Gordian knot of the structure-agency problematic. For historical materialism, this is another misleading and ultimately futile antinomy: the dominant neo-liberal ideology of globalization has been elaborated by 'epistemic communities' of lobbyists, politicians, bureaucrats, academics, journalists and others, but only took root in the historical context of growing structural inadequacies in the post-1945 model of global

capitalism: ‘embedded liberalism’ and the welfare/warfare Keynesian or developmental nation-state.

(5) At a more concrete level, the reconstitution of capitalism in the present phase of globalization entails significant changes in the scale, scope and content of social action in both markets and states. The explosive growth of transnational ‘governance’ organizations has exposed the limitations of the multilateralism and intergovernmentalism enshrined in the post-1945 order, limitations which take the form of a crisis of national sovereignty. Among the very diverse results of this crisis have been constitutional changes at the national level, such as devolution and the reordering of the relative power of ministries and/or branches of government, and forms of regional integration.

(6) Nationally- or regionally-distinct institutions and practices appear to provide both obstacles and opportunities in increasingly disorderly economic, social and cultural relations. Adaptation, in areas such as labour relations, welfare and corporate governance, may not eliminate differences in the face of local or national ‘embeddedness’ and ‘path-dependence’, but increasingly there are common (global or regional) forces at work and a common direction of change. Indeed, it is at least plausible to argue that class forces are increasingly transnational in character.

(7) Despite an increasingly homogeneous formal governance framework, indicated by membership of intergovernmental bodies and adherence to their rules and norms, and despite the almost universal national presence of electoral democracy and market-regulated consumption, the unequal distribution of wealth and power both within and between nations is staggering and arguably increasing.

Restoration

For the most part, ‘transitological’ studies of ECE, and the Soviet bloc as a whole, since 1989 have only incidentally acknowledged the significance of the global context in which capitalism was restored (what follows builds in particular on Radice (1996) and (2000b)). Mainstream Western social scientists offered blueprints which in principle instructed each new national political regime in the art of ‘transition’ from the Soviet model of central planning and the one-party-state, to liberal-democratic capitalism. These blueprints centre on the construction of a

market economy based primarily on private ownership, the rolling-back of the state as collective owner and provider, and in the political sphere free elections, democratic constitutions and the rule of law. While at a more concrete level the transition programme entailed the liberalization of foreign trade and capital movements, and potentially accession to a range of 'Western' intergovernmental bodies such as NATO and the EU, these were treated as natural components of a programme of national economic, political and social change. The basic expectation was that the newly-freed citizens of the ECE states would take the advice of their mentors, and elaborate national policies which would allow them successfully to rejoin the mainstream of European history.

One reason why restoration was seen as an explicitly national project was the ambivalent role of nationalism in ECE during the communist period. Communist regimes appropriated national history and symbols as part of their struggle for legitimization, even if the extent and timing of these efforts varied according to differing national and historical circumstances. To the extent that they failed in this regard, opposition movements could then bend the nationalist tradition to their own purpose, as an alternative to adopting a social-democratic or liberal ideology.

A second reason for the national focus of restoration was the natural continuity of ECE governments from a form of regime that remained institutionally far more exclusively national than the West European norm had become after some 35 years of integration efforts: both the Warsaw Pact and the CMEA remained strictly intergovernmental in form (if hegemonic in content) and in socio-cultural terms the influence of 'transnational social actors' was far less apparent.

A third reason was that, in the relative absence of organized social interests and institutions of 'civil society', it fell very largely to the state itself - constituted as a conventional nation-state - to manage directly the very complex processes of institutional change that followed the end of communism. Finally, given that deeper reflection and analysis of the problems of restoration have been largely the province of academics and other 'public intellectuals', it is important to note the 'methodological nationalism' of Western social science that has plagued attempts to theorise the wider context of globalization. For a

rare explicit discussion of methodological nationalism see Gore (1996), whose study of the East Asian case raises some interesting parallels with that of ECE.

The direct role of transnational or global factors in shaping restoration in ECE centres, as already noted, primarily on the terms of economic and political restructuring. At one level, this can be viewed as a series of empirical questions. If we look at economic restructuring, it is clear first that ECE exports and imports, especially after the demise of the USSR, switched rapidly from being on average mostly within the Soviet bloc, to being with Western Europe. Despite continuing difficulties in gaining market access in those export sectors deemed by the EU to be 'sensitive', this shift has effectively restored the pre-communist historical geography of ECE trade, making due allowance for the greater role of extra-European trade today; at the same time, the relative 'trade-aversion' of the central-planning period has diminished significantly.

More significant is the question of foreign investment. Until the mid-1990s, foreign direct investment (FDI), whether greenfield or by takeover, was widely seen as being both pitifully low, and largely directed towards local markets in goods and services that were in short supply and therefore highly profitable. This apparently poor performance in attracting FDI (the exception always noted was Hungary, which had the advantage of the substantial changes in economic institutions and practices since the 1968 New Economic Mechanism) was seen a sign of continued marginalization or exclusion from global capitalism. Many commentators also noted political opposition to foreign ownership in the region: not only were 'extreme' left or right nationalists raising the issue, but emerging new élites fought with considerable success to secure economic assets for themselves through limiting the role of foreign investors in privatization programmes (once again Hungary was the exception: both the MDF government and its MSZP successor preferred the policy of selling to 'strategic investors', regardless of their nationality). Thus, writing as late as 1997, Martin (1998) could conclude:

On the one hand, the wish to be incorporated into the international economy has led to economic policies designed to encourage FDI On the other hand, domestic political considerations

require a balancing of commitment to such internationalization with sensitivity to increasingly articulate nationalism and maintenance of social cohesion and social welfare (p.23).

However, both the level and nature of FDI in that period are largely explained by two factors: first, the very high level of risk stemming from inadequate economic information and political uncertainties; and second, the competing attractions of supercharged growth in East and South-East Asia (especially China), and (for US investors) the new economic liberalization trend in Latin America. Sure enough, once some degree of economic and political 'normality' became apparent, and especially after the peso, East Asian and rouble crises of 1994-8, direct investment accelerated significantly. At the same time, foreign portfolio investment also expanded with the growth of ECE stock exchanges and the tapping by governments of international bond markets. Today, the great majority of large firms across most sectors and countries in ECE are under foreign ownership and/or control, and they are responsible for the bulk of ECE exports of manufactured goods.

Just as important as the pattern of economic internationalization has been the role of 'external' social forces in political change. Important though economic stagnation was in the eventual demise of communism in ECE, it was the call for traditional democratic rights that united the very disparate voices of the opposition movements throughout the communist period. After 1989, however, a significant minority of those voices were happy to espouse political authoritarianism if they could not achieve power through democratic electoral means. In these circumstances, those committed to democracy could rely on Western intergovernmental bodies such as NATO and the OSCE to reinforce the new political settlement, with the vocal support of Western academics, thinktanks and the media (including the continuing role of Radio Free Europe, as well as the foreign-owned media in the region). Expert advice, not to mention financial support, was available to favoured parties and groups, both from 'open' organizations such as the Soros Foundation, and from more covert sources. Extending for a moment our geographical scope, the role of such external forces seems clear in the departures of Meciar and Milosevic, as well as the failed attempt to unseat Lukashenko in the 2001 elections in Belarus.

Most important of all, however, has been the role of the EU

through the lengthy process of negotiating accession. This is not to deny that ECE élites have, for the most part, both a genuine commitment to liberal democracy in its modern form, and the capability to adopt and adapt democratic political institutions and norms of behaviour, drawing on contemporary international practice as well as their own pre-communist history. But their success in ‘selling’ accession (as witnessed by the various referendum results in the region), despite the delays and the financial niggardliness of the EU in the early desperate years, has depended crucially on convincing their electorates that full participation in trans-national governance at both the European and global levels is the best guarantee that the 21st century will register some improvement on the political catastrophes of the 20th century.

‘Europeanization’ - but in the context of global capitalism

The dominance of the EU in ECE exports and inward investment, as well as the EU’s role as ‘actor’ in the construction of postcommunist politics, may suggest that the ‘external’ factors in the restoration should more properly be depicted as ‘European’ rather than ‘global’. This question is important not simply for developing prognoses about the future of the ECE’s political economies, but also for the important wider debate about the relation between ‘the global’ and ‘the regional’. ‘Globalization sceptics’ such as Hirst and Thompson (1996) and Wade (1996) argued that the economic trends at the centre of the arguments advanced by ‘globalists’ should more properly be regarded as ‘regionalization’, because so much of the growth in cross-border transactions has been within regional groupings, notably those of Western Europe, North America and East/South-East Asia. At the same time, specialists in regional economic and political integration have hailed the ‘new regionalisms’ of the 1990s as a qualitatively distinct phenomenon in political economy, when set against the limited and (with the single exception of the EEC/EU) failed regional initiatives of the 1960s and 1970s.

Like the debate on globalization, that on regionalization is complicated by the admixture of normative arguments. Analytically, we can distinguish two main interpretations of the new regionalisms: first, as a ‘way-station’ towards global integration and therefore in the long run to be understood as a component of that wider trend; and

second, as a robust, realistic and lasting alternative to globalization. Both these positions can include an emphasis on the 'us-too' or demonstration effect, in which other regions seek to emulate the EU's evolution; or they can instead interpret the very uneven development of regionalisms as an indicator of regional specificities. Liberal internationalists (economic free-traders and Kantian cosmopolitans alike) may accept the 'way-station' analysis, and be willing to accept inter-regional boundaries as a necessary compromise in the long-run interest of democratic global governance; or they may fear that the new regionalisms represent the revival of mercantilist protectionism and the threat of war on an enlarged scale. Those who reject neo-liberalism, and wish to restore the social virtues of collective welfare provision, market regulation and economic redistribution, may seize upon regional initiatives as potential bulwarks against global market forces, or indeed as a springboard towards the restoration of adequate market regulation or the revival of socialism; or they may see the new regionalisms as an attempt by business élites to limit the hard-won democratic rights enjoyed at the national level by empowering unelected (or indirectly elected) bureaucrats who will be unaccountable to the people.

How do these arguments play out in East-Central Europe? As already noted, our interpretation of the restoration of capitalism as shaped by 'external' or 'global' social forces does look empirically as predominantly European in flavour. But is this merely an accident of geographical proximity - the resumption of a 'natural' intensity of interaction between neighbours? Or is it the specific consequence of the timing of restoration, in a period when in some sense global capitalism has opted for a more 'regionalized' structure? The first step towards an answer lies in the empirical examination of what social forces and interests, both in ECE and outside, have pointed the region so firmly towards 'Europeanization': but we also need to examine more closely the content and meaning of this term.

Foreign direct investment and ECE economic restructuring

Part of the problem is that the pursuit of ECE accession has been based on very different and often conflicting motives on the part of different actors. From the point of view of EU-based multinationals, having an almost inexhaustible adjacent supply of cheap labour seems

to provide a strong motive to secure a political settlement that would guarantee its exploitation; yet in a world of far-flung global investments there seems no reason why that settlement should take the form of EU accession, rather than merely membership of the IMF, WTO, etc. One possible argument is that it is not so much the simple cost of ECE labour that is attractive, but the combination of low cost with relatively high productivity based on the legacy of strong education and training systems.

In this view, long-run success for ECE capitalism depends on the development of modern high-technology manufacturing and service sectors which generate high-value-added employment. These in turn can be aided by inward FDI, if it involves 'deep integration' embodied in sophisticated corporate production networks and tiers of well-maintained suppliers; since geographical proximity and institutional compatibility are likely to be necessary if not sufficient conditions for such investments, the obvious source is Western Europe. Students of FDI in the region have looked hard for signs of such developments, whether in the form of new 'industrial districts' along the lines championed by regional geographers as a route to successful restructuring, or in the form of more equal co-production arrangements between the 'national champions' of the region and global TNCs.

A review of recent literature of the nature and consequences of FDI in the region suggests that such developments are relatively rare, and the appearance of substantial 'networks' of investment and growth often conceals highly unequal power relations vis-à-vis the Western TNCs involved. Space precludes a detailed review here of this literature, but this statement is based on (most recently) Smith (2003), Kalantaridis et al (2003), Pavlinek (2002), Dornisch (2002), Dyker (2001), and Sokol (2001), as well as the Regional Studies special issue edited by Swain and Hardy (1998) and references therein. Part of the reason is the very uneven financial, political and technological capabilities of ECE national governments, local governments and firms - capabilities that are necessary in order to attract 'high-quality' investments or contracts, to bargain for a larger share of the value added, and then to plough that back into investments in physical and human capital which can set in train a 'virtuous circle' of local or (sub-national) regional development. It may also be that the present 'unreformed' nature of labour market

institutions and processes in the main EU investor countries makes it likely that EU firms will only seek to transfer relatively low-grade work eastwards, while maintaining high-level jobs at home; and that the advantages of 'highly-institutionalized' production networks have been significantly exaggerated, as well as the need for geographical proximity.

However, the most intriguing possibility is that supply networks in relatively complex sectors such as automobiles and electronics have changed in character: instead of relying on captive localised hierarchies of suppliers, as in the Toyota model, first-tier suppliers have themselves become highly trans-nationalised. As a result, skills and knowledge apparently 'embedded' in local supply networks become 'disembedded' through TNC takeover: those local suppliers retained by TNCs become specialized branch-plants of TNCs themselves, and technological benefits are captured by their parent corporations. This suggestion is based in particular on two recent doctoral theses, by Parplies (2001) and Tufton (2002). However, it is also apparent in Pavlinek and Smith (1998). The argument is supported by Pavlinek and Smith's conclusion that

Deeper forms of embedded institutional development therefore seem largely to be absent and the enrichment of skills, increasing wages and productivity and high levels of co-operation and partnership, which have been identified as key components of an offensive strategy for regional restructuring, are largely absent (1998: 619).

Two further points should be noted about the patterns observed in ECE studies of FDI. First, they are very similar to the results observed in studies from developing regions - that is, from those countries where any significant manufacturing FDI takes place - and also from less-developed regions of advanced industrial countries: in other words, this is a global phenomenon, not just a European one (space precludes references but a bibliography can be supplied covering countries such as Mexico, South Korea, China (PRC), South Africa, India, Brazil, Spain and Scotland, among others). Secondly, many of the investor (or contractual purchaser) TNCs originate outside Western Europe, especially from the USA and Japan, and their global

production networks serve global markets - as do those of EU-based TNCs. There seems little reason to doubt that the forces shaping the internationalization of production in ECE countries are global, rather than specifically European; the concentration of EU states as trading partners and sources of investment is explicable by the simple economics of proximity. Such a conclusion is also supported by the still-increasing degree of investment interpenetration between the 'triad' regions, and the continued pressure from business lobbies (national, regional and global) for the standardization and multilateralization of investment regulation.

Democratic normalization and transnational 'governance'

If FDI patterns and consequences in ECE suggest evidence of 'regionalization' as a form or part of 'globalization', surely in the political sphere the European integration project is substantially distinctive? In particular, does the scope and depth of the *acquis communautaire* represent a distinctively European political trajectory for the region's capitalist restoration? Or is it liberal democracy as a universal ideology - and in its contemporary garb - that underpins the legitimacy of the EU's role in ECE political reconstruction? In order to answer these questions, we again have to look not only at the evidence from the politics of the ECE as such, but also at the changing politics of the EU and the wider world. While we could examine this empirically in terms of domestic politics and international relations considered separately, the two are seen, within the approach set out earlier, as intrinsically linked - and it is the historically-contingent specificities of the links that provide the key to the puzzle.

Consider first the 'normalization' of domestic politics - the emergence of political parties competing electorally, the rebuilding of the state in (some kind of) capitalist form, and the reconstitution of civil society from the private sphere (the 'second society') to the social. As already indicated, the EU and its member states have played a central role in steering and validating the restoration of democratic politics in the region. Concerning political parties, a process of sedimentation has led to the emergence of a variety of patterns, with parties based on the traditions of social-democracy, liberalism, christian-democracy, communism, nationalism and agrarianism: for each ECE country,

counterparts can be found in the EU. Constitutionally, too, the relations between legislature, executive and judiciary, the forms of electoral representation, terms of office, bicameral legislatures, and a host of institutional and procedural details, can all be seen as falling within the 'normal' EU range. If we consider areas in which the region is widely seen as having, at least in some countries, a domestic 'democratic deficit', for example with respect to minority rights or media freedom, then cases can readily be found of similar deficits in member states (Indeed, no ECE EU accession states have shown such prolonged failures to resolve internal political conflicts as those of Spain and the UK. Nonetheless, it is questionable whether this represents something specifically European, except by reference to Eurocentric conceptions of modernity in which, effectively, the 'modern world' as a whole is treated as 'European' - an approach which in any case makes redundant the idea of 'Europeanization' as specifically a regional phenomenon.

Rather, the argument for a European regionalism shaping ECE politics refers specifically to the 'multi-level governance' that is intrinsic to the transnational (rather than intergovernmental) aspect of the EU, and therefore linked to the evolution of the EU's 'international relations'. Insofar as Europe has had to be 'imagined' and 'socially constructed' (Rosamond, 2002), these processes have been and still are undertaken primarily by actual or potential trans-national actors, drawn primarily from business, political, administrative and cultural élites; and these same élites within ECE have almost universally (if with delays in some cases) supported EU accession (and of course membership of NATO, WTO, etc. and laboured mightily to convince their electorates of the necessity for this. The emergence of a 'Europe from below', culminating in last year's European Social Forum, represent the small beginnings of contestation for the élite-led model. Bieler (2002) deploys a neo-Gramscian approach to the politics of enlargement, arguing that European transnational capital has been the main proponent of deeper integration and the transfer of policy competences to Brussels; and that its alliance with state élites in ECE has been crucial to the latter's accession.

However, both Rosamond (2002), and more strongly Bieler (2002), place especial emphasis on the increasingly neoliberal content of the EU project, particularly (for Bieler) with regard to ECE accession.

Rosamond emphasizes the role that the concept of ‘competitiveness’ plays in the ‘imagination’ of the European economic space - a competitiveness directed outwards, and closely-related to Cerny’s concept of the ‘competition state’ (see e.g. Cerny 2000). Yet we can see at once that neoliberalism has been a world-wide project - indeed one that has come to Western Europe later than almost anywhere else (spurred on by Britain’s ‘new Labour’ government, see Radice 1999b). For the collapse of communism, and the at first ambivalent assumption of a ‘missionary’ role for capitalism in ECE by the European Union, came at precisely the time when the Washington Consensus reached maturity, as a code of practice for debt-dependent less developed countries.

Also related to the politics of neoliberalism is the convergence of policy platforms among apparently-competing parties, and the reshaping of electoral politics as a whole from a mass-party basis to a periodic media-driven ‘beauty contest’: for ECE, this pattern emerges clearly from a recent study by Toole (2003), while the broader context - the global reduction of democracy to electoral rather than participatory politics - is vividly argued by Cammack (1998). Further support for this view is offered by Janos (2001), who outlines a hegemonic process of ‘imperative coordination’, in which liberalization and democratization are joined by security concerns as Western objectives: for him, the continued involvement of the USA in European politics also makes the project less specifically ‘European’, a point also stressed by Gowan (2000).

Conclusion

The imminent accession to the EU by the first wave of ECE applicants takes place at a time of deep crisis in the post-1945 international régime. The régime’s deep divisions over the US/UK invasion of Iraq threatened briefly to upset the accession process with the provocative identification of a ‘new Europe’, including much of ECE, as firm allies of the USA; if the recent G8 summit and the run of accession referendum results appear to have smoothed some ruffled feathers, that still leaves enormous uncertainties, not only over the ongoing process

of EU constitutional reform, but more importantly over the future of the US role in Europe. At the same time, there are unprecedented (at least since the oil crises of the 1970s) uncertainties over the short- and medium-term future of the world economy.

In this context, the concerns of this paper seem both less important, and less certain in outcome, than they did when the paper was first proposed in mid-2002. Nevertheless, the conclusions to the original questions seem to be clear. The regional characteristics of both the 'politics and international relations' of EU accession, and the 'economics' of foreign investment in ECE, are firmly inscribed within the wider processes that are reconstituting global capitalism: they are variants upon common themes, and they do not add up to a distinct and alternative trajectory of 'regionalization' for global capitalism. What really matters is the content of these processes, and within the ECE the way they unfold in interaction with distinctive regional and national legacies.

Finally, if the processes of change in the political economy of global capitalism appear at present to centre on 'disciplinary neoliberalism' (Gill 1995), this is by no means inevitable, and contestation appears in many forms: the so-called anti-globalization movement since the WTO's Seattle meeting; the revolt among economists (Stiglitz, the 'post-autistic economics' movement); the outcome of recent elections in both South Korea and Brazil (and following Kirchner's victory in Argentina, the promotion of Mercosur as a viable alternative to the US-sponsored FTAA project), as well as union elections in Britain - to name but a few. Undoubtedly, just as neo-liberalism functions today at a variety of levels from local through national to regional and global, so the location of challenges to it will vary in time and space according to contingent factors.

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David Harvey

The New Imperialism and the Global Economy of Dispossession

An Interview

Z. Can you briefly give us an overview over your political and scientific background?

H. I was trained as a geographer. This is very close to the study of urban and environmental issues in a global context. So I've always been interested in those questions. Towards the end of the 1960s it seemed to me important to take a more critical perspective on this and that's when I started to engage with Marxist theory, and I worked through Marxist theory and chipped it over to these urban environmental issues. It was not always easy to bring together Marxism and the study of urbanization and environmental questions. One of the things I jokingly said to my colleagues is that it was easier to bring Marxism in the area I am interested in than to take the area I am interested in back into Marxism. So that has been part of what I have been trying to do the last twenty or thirty years as a sort of political agenda. I am not an organizer, but of course I was trying to support urban social movements

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around various topics and to integrate the social movements through that kind of work.

Z. Can you give us some examples for such urban social movements?

H. For example we had in Baltimore, when I was living there and teaching at Johns Hopkins University, a living wage campaign, a very vigorous campaign, to try to transform the minimum wage – living wage is different from a minimum wage - and force major institutions like the city and in the end my own university and the hospital into agreeing to a living wage configuration. There was a struggle over that for several years. It was modestly successful, but the living wage campaign in Baltimore was the first living wage campaign set up in the United States. And it then became a campaign that went to many cities. Many cities had living wage campaigns and living wage legislation. This was one of the things that I worked on. Over the 1990s I worked very much in this living wage campaign.

Z. What are the current projects you're working on?

H. Get Bush out of office. Get America out of Iraq. I haven't got any specific political projects right now. In Baltimore I was very much concerned with those local projects, but increasingly, I think, since I've moved to New York, in the last two or three years I've become much more involved in this sort of ideological level trying to get something happening in relation to US-Media, to create a public awareness at all levels: trying to get into the mainstream media – not successful so far - but also through teaching at various universities around the country. Things of that kind: to try to influence publications, to try to create a critical presence in American intellectual life at a more general kind of level: Raise issues about imperialism, what it is doing, US-imperialism in particular. I keep struggling on that front.

The New Imperialism

Z. In your book "New Imperialism"—published last year—you argue, that imperialism has changed its face. What is new about imperialism?

H. What I wanted to do is to try to differentiate between different imperialisms and to say that US-imperialism has always had a very specific way of approaching the world. What I first wanted to say is that US-imperialism is different from European imperialism and different from other forms of imperialism. So the book stresses a specific form: the US-form as it evolved during the last century. And then what I wanted to do was to talk about the specific way in which US imperialist strategies had changed, particularly since the 1970s, and then ask the question: What is different about the US move into direct military intervention of the sort that is current in Iraq? Is it any different from what it did in Haiti or in Lebanon and so on? It's often sent the marines places at various times, but is there something strategically different here which may be about almost a permanent US military presence in the middle east? And if so, why are they there? Also, I wanted to differentiate between what I call neo-liberal imperialism and this shift into what I call neo-conservative imperialism. I don't know whether this neo-conservative experiment is going to last. Even if Bush is removed from power it's going to be very difficult for any administration that comes in afterwards to change track in the Middle East without a real radical transformation in thinking. So my aim was to highlight the special qualities of US-imperialism but also some of the shifts that have occurred over the last thirty-one years in terms of US imperialist tactics.

Z. Can you describe the shift from neo-liberal to neo-conservative imperialism more precisely?

H. US imperialism was historically based very simply on the idea of indirect control through comprador governments, and it brought this out most clearly in Nicaragua in the 1920s and 1930s when it came up with the idea to put some Somoza in power there. He does what you want, and at the same time you give him some financial assistance and military assistance and he can become personally rich and those around him become personally very rich. He loots his own country and, at the same time, he doesn't prevent US corporations from looting the country either. So the US does this by a mix of coercion but also

consent on the part of some ruling group. And this of course was what the US did in Iran, when it overthrew the government and put the Shah of Iran on the throne back in 1953. This is what it was engaged in when it overthrew Allende in Chile and put Pinochet in charge. This is the way US imperialism works. This is the general model.

The neoliberal model, however, really arose after 1970 and really was experimented with in Chile. After Pinochet was put in power all kind of questions arose about what kind of economic model was going to be implanted. And it was the total privatization of everything. They brought in economists of the University of Chicago – they came down as the Chicago Boys – to reorganize the economy: it was a free trade model that would be implanted there. And it was one that was going to be essentially controlled by financial means.

The US took to what might be called a neoliberal agenda particularly during the 1980s and 1990s by using the power of finance capital to dominate certain countries around the world. With the idea that those countries would have to have open capital markets, open commodity markets, no barriers to foreign investment, no barriers to repatriation of profits back to the United States. And the US started to use financial power to bring this about: particularly they used things like the IMF structural adjustment programs, international institutions like the WTO, bilateral trade agreements like NAFTA and things of that kind to try to create such a neoliberal free trade model. Essentially, what it would do was to involve the world in a sort of a credit based expansion. When things went bad, as they did in Mexico in the 1980s and again in the 1990s, as they did in Brazil, as they ultimately did in South East Asia, when countries get into financial difficulty, they have to go to the IMF and then the IMF says: “Open your capital markets!” This is the neoliberal strategy: opening the world to trade in this kind of way.

In this the US had had some support, of course, from finance capital in Japan and in Europe. So this was not an exclusive US project, it was also a multilateral project on the part of the major capitalist powers. I think that this neoliberal project brought US-imperialist practices – the traditional forms – closer to a new form of collusion between European and Japanese capital to engage with the world in this way through these institutional arrangements at the same time as the US tried to maintain its privilege by the fact that it still had very

close relationships with the ruling regime in Chile, the ruling regime in Nicaragua or the ruling regime in Saudi Arabia. The US was mixing its traditional politics of indirect control with its financial politics during the 1980s and the 1990s.

This began to break down towards the end of the 1990s. What everybody recognizes about this neo-conservative shift, which grew up with the Bush administration, was that it doesn't abandon neoliberalism: it keeps the neoliberal argument in place. But it essentially becomes much more militaristic in the way in which it's going to impose this neoliberal order. For instance, what they are imposing on Iraq is a neoliberal order of institutional arrangements which are exactly those which were imposed on Chile. But in Iraq they are doing it by military force. What they would like to see this imposed upon all of the Middle East. And initially when they went into Iraq they were talking about "after Iraq we'll go to Iran and then they we'll liberate Syria", and they would actually create a neoliberal order throughout the whole region. This was what I think the vision was. Of course, this was connected with the idea that they were delivering freedom to the whole region. And I think some of the neo-conservatives genuinely believe this. They believe that the only form of freedom is the freedom given by the market and market institutions and freedoms of trade and all those kinds of things. So for them it is all one package. So when Bush says: "We brought freedom to the Iraqi people and our idea is to bring freedom to the whole Middle East", it's about bringing freedom of trade and bringing freedom to the capital markets.

In this instance, this is a crucial region because of its geopolitical significance as well as the importance of its oil. So the neo-conservative project is recognizing that there are limits to which you can push this freedom argument into a region like the Middle East. In part because oil states do not get into credit crises – they are not like Mexico, which has oil but is not an oil state – and can't be disciplined by the IMF. Oil states have financial power in relationship to the West as much as the West has in relationship to them. It seems to be a military strategy to bring the oil states into the neoliberal world order by force if necessary.

Accumulation by dispossession

Z. In your recent book you maintain that the New Imperialism is shaped

by a specific principle of accumulation which you call "accumulation by dispossession". What exactly do you mean by this term?

H. Part of what neoliberalism is about is enforcing privatization: You open your capital markets, but you also have to open everything that was once in a public domain for private accumulation. One of the big conditionalities that the US and the other capitalist powers put on giving IMF assistance or getting financial assistance was that the recipients should agree to privatize, and at the same time they should also dismantle certain aspects of the welfare state which were seen as barriers to free labor markets. What in effect this means is a new round of enclosure of the commons. Rights, which were common property rights, were made private responsibilities and private rights. And a lot of this meant dispossessing people of their common rights, dispossessing people of some of the economic resources that they once had and putting them in the private domain. Through the credit system, what they often did was to take perfectly good economic activities, refuse them credit, force them into bankruptcy and then force them to sell at a very low cost and then big capital could go in and buy it up. This happens not just in the periphery; it's also happening in the United States. Look at what's been happening to family farming in the US: family farms have been dispossessed because they were sucked into the credit system. Then the credit system was suddenly cut off and they couldn't cover their bills and they went bankrupt. Then agribusiness could come in and buy up all the family farms. We find over the last thirty, forty years a tremendous transformation in US-agriculture away from family farming to agribusiness.

This is also analogous to what happened to, say, the Mexican peasants, who had a common property agriculture system known as the Ejido System, which protected indigenous populations through collective rights to the land. As a result of the credit crisis the Mexican government had to agree to privatize this system. This meant dispossessing people of their traditional rights and, of course, you then get revolts. If you look at the Zapatista revolt in Southern Mexico, it's very much about trying to regain collective rights. This process of what I call accumulation by dispossession is a very important aspect of what happened during the 1980s and 1990s.

Just a general comment: I like to distinguish between accumulation that occurs through what we call "expanded reproduction" (through the development of the labor process and exploitation of labor in production) and accumulation that occurs through thievery, fraud and dispossession. Rosa Luxemburg had always insisted that those two aspects of accumulation have to be kept together. We haven't really kept them together. Especially during the neo-liberal era accumulation by dispossession became much stronger, and accumulation by expanded reproduction became much weaker. Accumulation by dispossession reallocates assets and growth.

For instance the US became a very strong growth center in the 1980s and 1990s largely because it was sucking in stuff from the rest of the world through the debt crisis and other things that were occurring elsewhere. That was redistribution of wealth and value rather than a creation of value. The neoliberal order and what the neoliberal imperialism is about very much rested upon accumulation by dispossession. In the period before in the 1950s and 1960s there was a much stronger kind of dynamic of "expanded reproduction".

Z. Is there a difference between "dispossession" and "expropriation"?

H. Expropriation, it seems to me, is a kind of legalistic term: the state has a very important role to play in expropriation. And the neoliberal state has played a very important role in expropriating people from the land etc. Dispossession is a broader kind of process of which expropriation is a part. Dispossession occurs, for instance, through the credit system. When people go bankrupt, they are forced from the land and it appears more as their own fault.

The imperial state

Z. Now and then you could get the impression that accumulation by dispossession refers only to that, what you call the "logic of capital". Where is the state, particularly the imperial state?

H. I distinguish between what I call a territorial logic of power and a capitalistic logic of power. They are not reducible to each other, which doesn't mean they are autonomous of each other. They are very closely

interconnected. If you ask what's the role of the capitalist state: that is, of course, to create an environment in which accumulation can occur. It is also, if it is interested in sovereign power, – which it will be - trying to construct a world internally and externally by means of which capital accumulation processes are going to come together in that territory rather than in some other territory. So you're constantly competing to try to bring capital accumulation in there. At the same time you're trying to structure the external world in such a way that you allow resources to be pulled into your particular area. For example the US-state has a great interest in making sure that neoliberal states are created outside of it, because it can then use its financial power to go into those states and suck out resources from there by this process of accumulation by dispossession.

How does it create a neoliberal state somewhere else? Look at how it did it by violence in Chile and is doing it now in Iraq. But how did it do it in Mexico? It did not invade Mexico. It said to Mexico, if we have good trading relations, we will lend you money. The Mexicans then got into a debt crisis. The US said: the IMF and us will lend you money to get out of the debt crisis provided that you undertake institutional reform of your state apparatus etc.. The Mexican state began to dispossess peasants from their land rights. Who buys it up?: the agribusiness of the United States.

That's how it works. Business is working hand in hand with the state apparatus to create a situation which allows private capital to buy up dispossessed goods etc.. And when there is resistance to this, Washington says to Mexico: oppress the peasant movements, don't allow any political revolt to take place. Citibank was advising the Mexican government to use tanks and military to kill off the Zapatista movement immediately, because otherwise the Mexicans wouldn't get any investment from the Citibank. So here you find again a relationship between capital and the state, which have become very closely integrated.

The transatlantic relation

Z. How would you rate the current relations between Europe and the

US? Do you see a deeper conflict?

H. I think it is important to look at the communality. You could see it most clearly at the Cancun meetings where Europe, the United States and Japan were insisting that all countries around the world should open their capital markets. India, Brazil, China, South Africa and other countries got together and said: We are not going to do that unless you open your agricultural markets. Whose agricultural markets are protective? Europe's, the US', and Japan's. All three of them said: "No!" So there is communality there. Basically, the powerful nations always try to structure international institutions to their own advantage. The Europeans were even worse than the US about opening up their agricultural markets. So on certain issues they have a common policy. The neoliberal stuff exists with certain communality.

Where you get the difference is that the Europeans, it seems to me, have a much stronger idea of constructing some sort of international order to which everybody should comply, including themselves. The United States believes in constructing an international order to which everybody else in the world should comply, but which exempts the US because it is a good country with terrific values. The clearest example is the contest over the International Criminal Court, which would make judgments concerning crimes against humanity. The Europeans are saying: "This applies to everybody"; the US says: "It should apply to Milosovic, but should not apply to Henry Kissinger, should not apply to us."

Actually, what you've been seeing is that the US is beginning to move this way in relation to the World Trade Organization (WTO). The US violated the WTO rules on steel tariffs and my guess is that (within a little while) the US might abandon the WTO, much as it abandoned Kyoto, much as it abandoned the ABM. I think the Europeans are much more invested in the WTO than is the United States. The US is going along with it, gets benefits from it. But if you look closely, the USA is mainly structuring its relationships around the world by these bilateral agreements, with Singapore, with Chile etc.

So I think there is a very different concept of world order at work here and how the world order is going to be constructed. The US sees it as being hierarchical: We are here. Japan and Europe are the subservient

level, slightly beneath them are the rest of the world. The Europeans want to see it differently, with all on the same level. We should all be together, working together. And actually during the Clinton years it was more like that. What Bush has done, is to say: “No, it can’t be like that.” We are above it and outside of it. It is a difference of philosophy, almost a philosophical positioning which has come to the fore under the Bush Administration. The Clinton Administration was imperialist, but it was more concerned to have a negotiated imperialist presence in the world along with Europe and Japan.

The other difference is geopolitical. The US sees the Middle East as a crucial geopolitical region which they’re not going to relinquish control of to anybody else. It used to be that the US had power mainly in terms of production and finance. Now it is just one power among several in the world of production and finance. It no longer has dominance in those areas. So it’s exerting military domination over the Middle East as its trump card over anybody who tries to confront the United States about anything in any kind of serious way.

Contradictions of New Imperialism

Z. What are the specific contradictions of the New Imperialism?

H. This depends very much upon how you interpret the current situation. My own interpretation is that the United States at the moment is far weaker than many people characteristically think. It no longer dominates the world of production. It used its domination in the world of finance during the 1980s and 1990s to gain terrific advantages. But now it’s got itself into an incredible indebtedness in relationship to the rest of the world and it has lost a lot of that financial advantage. It is drawing ca. 1.5 billion dollars a day of capital inflow into the United States to support the US-economy. Nearly all that money is coming from East and South East Asia with China being in a very powerful position right now. The US is left with a form of domination which - in the past - it has been reluctant to use except in extremes. This is the military form of domination. What we are seeing in Iraq is the weaknesses even of military power. The weakness is not a weakness from 30.000 feet with high technology. The US has immense destructive power; nobody

is in a position or will likely be in a position very early on to really challenge the US in terms of its technological, military supremacy. Nobody is even trying. Maybe the Chinese are doing a little bit of it, but not much. But when it means troops at the ground, occupation force on the ground, the US is already short on military manpower in Iraq. It doesn't have a military force that will last there much beyond another six months, and that's why it's going around saying: "We want (for example) people from Poland", and they're even paying the Poles to be in there. So even militarily it's not powerful from the standpoint of an occupation of a large territory over a long period of time. The US is not as dominant as many people believe. On the other hand: nobody else is in a position to challenge US military superiority in the air and in technology and all the rest of it.

There is a difficulty there, and the difficulty goes even back further. Because when you say, how much is this war and all this military stuff costing the United States, the answer is: it's costing a hell of a lot. Who is funding it? The Chinese are funding it. Here you have one of the paradoxes of the situation. The US is becoming even more indebted because of all this activity it is engaged in. It's becoming incredibly indebted internally – with consumer debt, with government debt – and externally. The problem is, if a serious debt-crisis breaks out in the United States the rest of the world is going to be in a terrible condition as well. So the rest of the world is – I think - sitting there saying: "We have to prop up the US because that's the only way we can keep going ourselves." That is why the Chinese continue to fund the US debt – it's because the US buys Chinese products. Here you have a really dangerous situation - if a debt crisis breaks out in the US, there will be tremendous impacts globally.

Then, the other side of the problem is: what's happening in China is fundamental to what's happening in the global economy right now. If the Chinese growth machine breaks down or gets unstable, or China goes into a political crisis, then the US will also be in a mess.

There is a strong sense of dependency between the US and China and to a lesser degree with Europe - and I don't think there's much of a chance really to break out of that dependency. So you can see instability right throughout, and I think it is going to bring US imperialism into a crisis of the following sort: They either going to have to give up this

push for global domination and say: “Alright, US-power is over as a global dominance, we’re just one player amongst many, we’ve got to come to some sort of collaborative vision of how the world is going to work, including collaboration with China, India and Brazil, even Russia.” This is very unlikely to happen.

They either go that way, or they run into such a crisis that you get a real right wing neo-conservatism, Bush squared, which will become highly militaristic but also highly unstable.

Z. The first possibility sounds a little bit like the European model.

H. Yes, except that perhaps there has to be much stronger negotiations with China, India, Brazil and the rest of it. They’re starting to talk to each other. China and India are now talking to each other, which they haven’t done for a long, long time. Lula recently negotiated a bilateral trade agreement with India. You can see how this is working out: for instance, you take an area like the pharmaceutical industry in India and Brazil, which is capable turning out generic drugs at about one-twentieth of the cost of what is being charged by the monopoly pharmaceutical companies with intellectual property rights in the United States and Europe. Now, either all of that goes (and that’s what they’re trying to do through the TRIPS Agreement, to force India and Brazil to relinquish their capacity to produce those generic drugs at these very, very low costs) or Brazil and India say: we’re not going to do this. I think, this is what’s beginning to happen. At that point there’s going to be a huge confrontation. Not in the classical way, that the South is producing the raw materials. That group is no longer producing raw materials; they’re producing pharmaceuticals, aircrafts, machinery etc. - they’re an alternative kind of production machine and they know it now, they’re likely to push very hard on it. They’re going to create a tremendous problem for the North and imperialist practices in the North in the next ten years.

Z. Are there any alternatives? What should an anti-imperialist strategy be about?

H. The first thing is to pose the question: who is apposed to

neoliberalism. It is a vast constituency around the world: people who have been hurt by neoliberal policies, who have been dispossessed, forced into bankruptcy, expropriated, and so on. And of course there's a vast area of exploitation continuing to operate, for instance in labor processes in East and South East Asia. So, you have a vast constituency of people who don't like the existing system and who are opposed to the existing system. Many of them have launched social movements: peasant-movements in India, landless peasant movements in Brazil, the Zapatista Movement in Mexico, the trade-union movement which is emerging in Indonesia, the labor-rights movements that are emerging in some areas, even in China. So you have vast areas of political movements. It seems to me that in the midst of that we have to start to conceive of the emergence of some sort of alternative global order. The difficulty is, first, that many of these social movements are movements that have particular targets. So it is very hard to bring these movements together, because they are fragmented and highly differentiated. The second problem is that, even if you start to bring them together, there are radically different conceptions of what kind of alternative should emerge. Just to give you some examples: On the one hand, there are many people who now argue that all solutions should be local solutions and to hell with the global order. There are other people who are saying: "No, we should be talking about an alternative global order from the top, and local solutions should be embedded in a conception of a global order." There are radical differences in, for example, the approach to environmental questions: In what ways should a new global order prioritize the relationship to nature? There's such a range of ideas, from deep ecology to a developmentalist perspective that says: "Well, we may respect some of the ecological constraints, but that has to be set against the idea of an alternative development strategy."

There are different dimension over such issues as: to what degree is there room, and in what respects, is there room for fundamental cultural differences? And you go all the way from the notion that "every single cultural variation should be respected", which could include everything from genital mutilation to particular practices in relationship to women or homosexuality. If a particular community wishes one of those things, do you say "that's fine, because it's their culture and that's it"? Or do you say "no, there are some global rules,

some universals that we're going to go for" and say "no, some things are not acceptable"? Therefore there are some struggles to be waged in and around cultural differentiation.

So there are all of these complications as to what the alternative would look like; and so it seems to me that one of the intellectual tasks (and when I say "intellectual" I do not mean that it is up to some privileged group of intellectuals to work on this), is to try to work out formulations, modes of representing what the nature of the problem is, ways of thinking about difference, ways of understanding fragmentations in such a way that we are in a much better position to challenge the existing order around a coherent alternative project. These are the things we should be working on, and we should be prepared to lay out particular views and hope, through critical engagement in relationship to those views, that we can come to some sort of – not necessarily - communality – but at least come to the notion that if we wish to defeat neoliberalism, if we want to have an alternative to capitalism, then, indeed, we have to be able to work through some of these problems in such a way that we can have a common front against capitalism and against imperialism. Not an easy task, but one of the problems, I think, at the moment, is that we're not really addressing that task in this kind of way. It's a difficult task, but I think we should be able to get to it in some way.

Peter Gowan

Europe and the New Imperialism

The post-Cold War world has been marked by a quickening tempo of military aggression and military interventions by the Atlantic powers: at present we have the troops of these powers engaged in a barbaric occupation of Iraq, counter-insurgency in Afghanistan, military intervention in Haiti (after overthrowing its democratically elected leader), a difficult military intervention and military confrontation with the elected government in Cote d'Ivoire, tense military control in Kosovo and Macedonia and a continuing protectorate in Bosnia. More discrete, low profile military interventions are taking place elsewhere from Columbia to the Philippines and we have threats of other wars from Iran to North Korea as well as coup plots, so far foiled, against the Venezuelan government. Many, used to this kind of thing during the Cold War, expected it to end when its legitimating basis - Communism - disappeared.

But in some ways as significant as the new militarism is a novel Anglo-American campaign - the demand to explicitly repudiate what had been a cardinal principle of the official international order: the principles of state sovereignty and of sovereign equality.¹ Tony Blair

¹ Blair declared in his famous speech on the 'Doctrine of International Community' in Chicago on April 22nd 1999 that 'the principle of non-interference [in other states] must be *qualified in important respects*.' (Emphasis added).

and various American leaders have been campaigning for sovereignty to be made conditional.

Interestingly enough, Tony Blair and other such leaders had been convinced about the need to undermine the principle of sovereignty before he and others had made up their minds as to what they could legitimate their aggressive intervention within states as being for². For some, like the so-called International Committee on Intervention and State Sovereignty, it is for stopping actual or expected 'large scale loss of life' or 'actual or expected ethnic cleansing'.³ For others, it should be what the ICC calls 'crimes against humanity' – a category which evidently includes murder, slavery, imprisonment and 'other inhumane acts of a similar character intentionally causing great suffering'. For yet others, it should be for reversing the overthrow of democratically elected regimes and for 'massive abuses of human rights'⁴. Some also argue for 'systematic racial discrimination'. A more recent one is, of course, to attack states whose regimes the United States is on bad terms with which are suspected of building a nuclear deterrent or other forms of deterrent such as chemical weapons. And yet another one is the right to attack states which support armed resistance movements against military occupations perpetrated by the US or its allies and are thus deemed guilty of harbouring or having links with terrorists. And given the concoctions of reasons produced recently to justify Atlantic aggression, one cannot but call to mind the wise words of the great Wall Street-City of London banker, J. P. Morgan: 'A man always has two reasons for the things he does – a good one and the real one'. The task of commissions of experts seems to be to generate lists of good reasons. Political leaders like Tony Blair are required to select one from the list and pin it in front of 'the real one'. But what seems like blundering

2. Blair disarmingly acknowledged this in his Chicago Speech in 1999. He declared that 'the most pressing foreign policy problem we face is to identify the circumstances in which we should get actively involved' in such interference.

3. International Commission on Intervention and State Sovereignty, *The Responsibility to Protect* (Ottawa, International Development Research Centre, 2001)

4. Thomas G. Weiss, 'The Sunset of Humanitarian Intervention? The Responsibility to Protect in a Unipolar Era' *Security Dialogue*, Vol. 35, No.2 June, 2004, pp135-155.

ineptitude occurs when you design a raft of humanitarian and human rights justifications for one war and then openly and defiantly flout that same raft of sacred principles in a rapidly following war.

A connected debate concerns which state or group of states should have the right to decide to attack sovereign states. French and German leaders, along with most of the rest of the world, say it should only be the UN Security Council. Tony Blair has suggested a more elastic formula: ‘the international community’. But Condoleeza Rice, speaking for the Bush team, has declared bluntly that ‘there is no such thing as an “international community”’. The Bush administration has declared that it alone has the right to decide when and why to withdraw the protection of the institution of sovereignty from a target state and destroy its regime. Tony Blair had foolishly declared in his historic ‘Doctrine of International Community’ speech that ‘One state should not feel it has the right to change the political system of another’ but one should not take the doctrinal speeches of a British prime minister seriously. The Bush administration should be taken seriously and it makes an explicit claim that it has the right to engage in preventive war (or, in its euphemism, ‘pre-emptive war’) against states which it judges to be a threat to the security of others. Some authors supporting the Bush administration have pointed out that preventive war has a historical pedigree in the United States.⁵ But their historical references relate to the 19th century. In the 20th century, the use of the doctrine of preventive war to justify aggression was confined to Wilhelmine and Nazi Germany and Imperial Japan and in the latter two cases the result was trials by tribunals established by the United States and death sentences on leaders for the crime of aggression.⁶

These developments signal returns to imperialism in the most blatant sense that imperialism negates the principle that states have the right to determine their own internal arrangements, subject to treaty obligations that they voluntarily taken on, and insofar as they respect these same rights for other states: the principle of the sovereign equality

5. J L Gaddis has mounted an incontrovertible case that the US had a long 19th century tradition of preventive war and is evidently proud of that tradition.

6. The great Yale historian of Europe, Arno Mayer, makes this point in ‘Beyond the Drum-Beat: Iraq, Preventive War, Old Europe’, *Monthly Review*, July-August, 2003.

of states laid down at the San Francisco conference inaugurating the United Nations. It is, of course, true that in the 19th and early 20th century the European powers rejected the norm of sovereignty for all but the racially acceptable white powers: the norm was accepted that the others could be invaded and, if necessary their states could be completely destroyed and replaced by colonies. On occasions the colonists might also engage in exterminist activity against the local population.

In fairness to the historical record, it should be said that barbarities of 19th and early 20th century imperialism and colonialism were rarely justified by ideologies glorying in such barbarism.⁷ Instead they were justified in terms of stamping out barbarities, such as the slave trade, or by the need to civilise the local population, or to protect the principles of free trade or to develop the land, etc. But a favourite one was a responsibility to protect the local population from evils. And it is this that has come back as a favourite today.

During the Cold War the right of imperial aggression was no longer proclaimed. Both the official ideology of the Roosevelt administration and the reality of the Soviet victory in 1945 and the emergence of the Soviet superpower ensured that the principle of sovereignty and sovereign equality were enshrined in the American-designed UN Charter. And during the Cold War, with the Soviet Bloc and the non-aligned world strongly upholding the Charter, no US administration was ready to openly denounce its own creation. So for imperial practice defensive formulations were preferred and a preference for covert action and proxy interventions was evident. But there was also a strong ideology of the necessity and moral imperative to take all necessary action to crush communism and communists.

But it is interesting to note that the return of the open justification of the practice of aggressive imperial war should be a return of exactly the same types of legitimation in terms of protecting local people against atrocities and barbarities used by 19th century European imperialists. The questions which we wish to address in this article are four:

7. Racial Darwinism was a powerful ideology across Western Europe but it was by no means the main legitimating ideology of late 19th century and early 20th century European imperialism.

- (1) Why is this turn towards a new and openly acknowledged phase of imperialist practices occurring?
- (2) What are the deeper sources of the recurrent and indeed endemic impulses towards imperialism on the part of the Atlantic powers?
- (3) What are the current and likely roles of the main West European states in this new imperialism?
- (4) Is there a trend towards a collective and autonomous European imperialist project?

We will begin by taking up some preliminary theoretical issues which are central to our discussions: first, the contradiction between the national and the transnational within capitalism; secondly, the dynamics of capitalism; and thirdly the relationship between international political and international economics in the capitalist world. And we will also take up the role of the US in the context of these issues.

Part 1. Some Basic Parameters

There are two strong, clear explanations for the new imperialist turn. One is that the world lives in an American empire. The other is that the era of national capitalisms is over and we live in a world with a transnational and indeed global capitalist class. No one could deny the huge resource base of the American state and the extraordinary combat power, scope and reach of American military power, which has military ascendancy over the sea, the sky and space, if not land. But this does not necessarily give the US the capacity to do more than destroy human life on the planet. For the US to attempt to use the threat of the 82nd Airborne to end capital controls would seem excessive and rather bad taste on the part of China or even Malaysia. The bluff might not work. And if it wasn't bluff it would cause counter-productive chaos. Military power is a potent instrument for inter-capitalist politics but it is by no means sufficient in itself to positively shape the social power relations of the capitalist world.

The argument that states as organising centres of capitalism are finished and that we now have a global capitalist class is more enticing. Some argue that the geopolitical fragmentation of the world into an inter-state system is an historical accident, not a necessary feature

of capitalism at all.⁸ And others claim that the coercive power of the US and of other capitalist states is now in the service of a collective, ‘deterritorialised’ transnational capitalist class, whether we call it Empire after Negri and Hardt or call it a ‘nebuleuse’ after Robert Cox.

These claims challenge us to explain why the capitalist world is divided into an inter-state system. We will argue that it is necessarily just such an inter-state system. We will claim that capitalism generates two logically contradictory principles as integrally necessary to capitalism at the same time. To capture these two principles we can use a spatial metaphor: a vertical axis expressing a state social entity; and a horizontal axis expression a transnational social linkage system: it is a transnational axis because it unifies social forces within the state social entities.

Along with this historically peculiar set of organising principles, capitalism also expresses another set of united polarities: that of politics and economics. While unlike earlier social systems capitalism bifurcates social interactions into separate institutional orders for conducting political conflict and policy making on one side and for conducting economic interactions on the other side, these two separate orders are nevertheless simultaneously pulled together as integrated social power structures. This is a second logical contradiction.

Most mainstream social science has lacked the categories and logic for grasping these two sets of contradictions as central drivers of change and stability in capitalism. So we get some offering purely statist images of the world that see only the vertical axis: the resulting picture might suggest a world dominated by the US. Or we get horizontalist images offering us a vision of a globalised world of dissolving vertical structures. And similarly, we get images of a world driven by ‘economics’ or of a world driven by ‘politics’ as if these were either/ors and disconnected opposites.

The vertical axis

8. Some Marxists have argued that the geopolitical division of capitalism into an inter-state system was the legacy of pre-capitalist political forms and is logically contingent. See for example, Hannes Lascher, *The International Relations of Modernity: Capitalism, Territoriality and Globalization* (forthcoming).

The inescapable necessity for the vertical axis - territorial socio-political entities with command centres extracting large resources from the population and exercising coercion authoritatively - derives from the security needs of capitalist classes. They need far higher levels of collective security than earlier modes of production because they have to throw their property forward in time to make it expand. So they need not only physical security for their fixed assets but a largely predictable future for a whole complex range of social relations between classes (including basic stability of legal frameworks, tax structures, market structures, etc.) because capital is not a thing but market-mediated social relations between capital and labour. (Those who miss this and think capital is a thing such as finance can easily fall for the idea that an inter-state system is not needed.)

And it is important to note that the animals in these capital-labour social structures are human beings, not Pavlovian dogs. So however much institutional structures are designed to make market-dependence plus state coercion compel particular kinds of behaviour, these mechanisms have historically proved inadequate, often generating a great deal of disorder and threats to the security of capital from below.

As this became clear in late 19th century Europe, new capitalist security measures were adopted: the development of state welfare provisions going hand in hand with the taking up of the idea of the nation and giving it an ethnicist-chauvinistic twist as a way of convincing subordinate classes that there was an identity between them and the ruling class: the old aristocratic idea that the ruling class was entitled to rule precisely because it was different from the mass was dissolving. And then came the search for a way of co-opting the demand by labour for democracy with the aim of both convincing the mass that there was an identity between them and their governments and ensuring that no such programmatic identity between the labouring masses and government policy actually occurred. All such mass integration methods have gone hand in hand with producing integrated national mass cultures. And they all necessitate the fragmentation of capitalism into geographically divided political entities.

Alongside these trends in the search for political stability and integration has gone another trend which is very marked even if it is simultaneously masked by free market ideology: the need for

heavier public activity to make the capitalist market system work in an advanced capitalist economy. Large resources have to be extracted from the population for public activity to supply a very wide range of infrastructures and to solve a host of co-ordination problems within capitalist societies. While some of these tax resources are devoted to achieving political stability and integration, very many of them are not. To take the example of Britain, even after two decades of swinging cuts in the welfare state and privatisations, some 40% of national income is still devoted to the state. These expenditures are necessary supports for the functioning of British capitalism and its multinational companies. Any trend towards the replacement of state forms of organisation would show itself in some other bodies acquiring the authority to extract such resources and deploy them in support of the capitalist system. Yet that trend is not visible.

The horizontal axis

There has always been a horizontal axis in the economic and political fields between geopolitical entities: trade linkages and diplomatic-war linkages. But under capitalism the horizontal social linkages can expand enormously and become not only international but transnational. The separation of state territorial security functions from economic ownership and the protection of exchanges through law-based force rather than brute relations of force enables a far broader expansion of economic linkages. And industrial capitalism thickens the range of linkages in ways that were not possible when economics was overwhelmingly agricultural. Capitalists from one country can thus set up operations in other capitalist countries, etc.

The result has been a far deeper international division of labour in capitalism than in earlier systems with the prosperity of large social groups in one country being directly or indirectly dependent on transnational social linkages with social groups in other countries. And these transnational linkages as well as the domestic social production structures inside individual countries are constantly shifting and changing. So the state authorities within a territorial state are constantly having to shift social relationships internally to cope with negative or positive shifts in the transnational linkages of the various groups inside the society. And these horizontal social linkages are not purely

economic. They include political and cultural linkages of different classes within states with counterparts in other states. The societies of capitalist states are thus never just confined to the social groups within their territories.

The theorists of the death of the inter-state system should argue that these transnational linkages have reached a point where states have lost control to these linkages over the shaping of social relations within their jurisdictions in the service of their capitalism. This seems very premature as far as core capitalisms are concerned. It has precisely been these capitalist states which have driven forward a campaign for all states to open their jurisdictions wider to transnational linkages. This suggests that these core centres are confident that they can shape the transnational linkages in the interests of their own capitalism: the new linkages are precisely in fields where they can hope to dominate. They simultaneously vigorously deploy the argument that they have lost control but they do so in order to justify the reduction of their own welfare commitments to their populations. The state executives of Western Europe have been vigorously legislating in the EU to tie their own hands in relation to spending commitments and to macro-economic powers for generating full employment. They then turn round to their working classes, throw up their hands and declare that globalisation has tied their hands. This is a rather transparent piece of trickery.

Yet the reality of these transnational linkages and of their impacts on the internal social relations of capitalist social formations is obvious. Competitive pressures from the world economy change the locations of states in the international division of labour. We see the rise of the new growth centre in East and South East Asia reshaping international linkages. We also see how moves by the Atlantic centres to open the capital accounts of states to movements of private finance generate new, powerful horizontal linkage forces. So do technological changes such as the internet. And the transnational linkages do not just apply to economic processes. They apply also to cultural and ideational flows.

The dialectics of vertical-horizontal interaction

The result of this peculiar vertical-horizontal structure of social interaction in capitalism is the continuous sets of chain-reactions between

‘domestic’ and ‘transnational’ shifts. The institutional structure of international relations developed in Europe and incorporated in international legal concepts was designed to cope with this structural pattern in peaceful ways. Juridical sovereignty gave states autonomy to shape and reshape internal power relations internally autonomously. At the same time states were expected to override domestic law when they voluntarily entered into international treaty obligations.

But the actual geopolitical divisions into territorial states and the actual levels of development of the productivity of capitalist economies resulted in huge disparities of military capabilities and state resources between states. And the transnational economic linkages resulted in some states being much more dependent on the preservation of these economic linkages than other states .

Thus inter-state relations at all levels were marked by ‘hierarchies’ of power capacities. At the same time, the horizontal linkages of the capitalist world have to be institutionalised in a whole series of international regimes, the most important of which is the international monetary regime – an international monetary unity of account, a balance of payments system and a system for adjustments in exchange rates, etc. The powerful states in the system then generally decide the shapes of these institutions (in ways that favour them) and less powerful states must accept the regimes laid down by the more powerful and adjust to them. A crucial political question is always what kinds of transnational linkages states should be opened up for. The dominant social groups in powerful states want all other states to be opened to the transnational linkages they can gain most from and insist on keeping their state boundary shut to types of transnational linkages they dislike. All this is highly politicised. But the locations of social power within the international system historically shift. New growth centres arise and tend to catch up with the dominant centres. Also, sometimes the international economic linkages breakdown, as in the 1930s.

Within this context, it is perfectly possible to envisage a situation akin to that posited by economic globalisation theory: a world where the horizontal axis had overwhelmed the vertical axis, producing overwhelming pressures towards the construction of new types of political authority and coercion replacing states (or producing

institutional disintegration and spiralling disorder). But we are far from either of those trends being realised in the main capitalist centres as yet. Institutional and social disintegration, squalor and conflict are indeed widespread outside the main centres, but these phenomena seem to be the other side of the coin of normal functioning of international capitalism and the inter-state system rather than a sign of its transcendence.

The imperialist problematic

The politics of the capitalist inter-state system is endemically marked by political coercion, power politics and conflict. One of the axes of this derives from each centre's efforts to shape the transnational linkages to ease domestic tensions and strengthen domestic wealth and state authority. For this the centre seeks to exert maximum pressure on the regimes within other states and may opt for a coercive strategy to achieve its ends.

But another of the axes is the vertical one in two forms: one is that domestic upheavals and revolutions produce regimes which the one or all of the main centres consider(s) undesirable and thus seeks to crush; but another of these comes from the rise to power of activist socially regressive socio-political movements with fundamentalist ideologies within one of the main capitalist centres. We would argue that this was the case both with Nazism and with Italian fascism and with the rise to power of the war party in Japan at the start of the 1930s. These aggressive fundamentalist movements arise in the context of domestic economic and socio-political crisis. But they are not the only means of responding to the crisis. They should be seen as requiring further explanation in the specific problems of and tendencies in capitalist class politics.

But coercive drives in the international system mainly predominate when policy-makers in powerful capitalist centres consider that military coercion and control is the most efficient way of reconfiguring, strengthening and broadening the horizontal transnational linkage patterns in order that their own centre can flourish. Achieving this entails regime change within other states to change their horizontal linkage patterns and the internal social relations associated with them. Coercive military drives for these purposes followed by the imposition

of international institutions and patterns of force deployments are the phenomena which we can call imperialism.

One of these imperialist phenomena – the most dramatic – has been war between the main centres, as in the First and Second World Wars. Such wars have involved attempts by some centres to use force to re-organise the whole linkage patterns and the internal regimes of the states in the regions around them. This, they hope, will make their capitalist class the one in whose interests entire regions will be reorganised. New economic division of labour patterns, new international political-economy institutions, new structures of internal regimes within states will be fashioned.

Another of these imperialist phenomena concerns transnational economic linkages which are considered by a powerful capitalist centre to be so important to it that military-coercive control must trump all other options. The struggle for oil resources in the 20th century is the classic example of this phenomenon, but other strategic raw materials have also been treated in this way. Another has been states acting collectively to crush the internal regime in one state that the dominant classes of the attacking states regard as a threat. Such an internal regime was the Soviet regime after 1917. The capitalist world was engaged in a great deal of collective imperialist activity to crush such regimes in the 20th century.

Another has been the readiness of capitalist centres to use force to sweep away pre-capitalist states and impose colonial political authorities there to ensure that capitalist business interests within the colonies were protected. The resulting European Empires eventually lost their capacity to maintain their colonies and retreated to more neo-colonial arrangements: establishing client regimes in states and garrisoning or sending military forces to protect these client regimes. The US has continued that approach in the Caribbean and Central America. The French have persisted with this approach in the Franc zone in Africa, though it has become less cost-effective in recent years. The British have tried to maintain some capacity for this type of imperialism in West Africa, but not much.

In the case of target states where direct military aggression has become too risky, another range of imperialist expertise is often deployed: the staging of internal coups or drives for internal

destabilisation (supported by external instruments as well), often using local proxy forces, exploiting internal political divisions such as ethnic or religious divisions. It is worth stressing that in all such cases of imperialism, the military-coercive power can always rely upon some local allies and the art of gaining such allies in traditional societies was one perfected by the British.

Part 2: Imperialism Post-1945

The whole configuration of the transnational linkage patterns and internal regimes of the capitalist states was transformed by the Soviet and American victories in the second world war. The combination of American victory and occupation of the main Eurasian centres of industrial capitalism (Germany and Japan) with the fact that the other main capitalisms were too enfeebled to maintain the autonomous empires gave the US mastery over the entire capitalist world. That mastery could be sustained because the US had a capitalist economy dynamic enough and a state resource base large enough to sustain the reorganisation and revival of the social relations of capitalism within each centre and the horizontal linkage patterns of the capitalist world.

The American war-time victories, followed by the spread of the new Fordist system with its use of working classes not only as producers but also as consumer-bases for the products of mass consumption capitalism, made the post-1945 transformations quite organic in the main centres. And the fact that the US had no interest in maintaining the exclusivist linkage patterns of the European colonial empires, meant that it could establish new arrangements with post-colonial regimes. The US then devised a whole range of international institutions such as the IMF/WB and many others for continuous reshaping of the internal social relations of capitalisms and of their transnational linkages.

Such were Washington's capacities that the US could transform the entire capitalist core into a single political 'community of capitalisms' led by the US. This community was sustained by the US organising it for military confrontation with the USSR and by simultaneously reorganising the domestic political systems of the core capitalisms to make the free-world-under-US-leadership versus

Communism the central domestic political cleavage structure in the internal politics of the subaltern allies.

But the priority of reviving the domestic capitalisms of the allies, and the distinctive features of the shift to fordism, produced a specific political-economy pattern in the capitalist world during the 30 years after the war. Minimal demands were placed on the allies to throw open their political economies to American penetration. The crucial exception was that West Germany was opened to US foreign direct investment under the 1955 US-German economic agreement ending the occupation, and within Germany US capitals gained national treatment. Then with the formation of the EEC US capitals in Germany had free access to the product markets of the rest of Western Europe. But Japan, for example, was allowed to keep its domestic assets and markets relatively closed to US penetration.

The emphasis was on deepening the domestic markets of the allies and encouraging the allies to generate export sectors in the industrial field. And rather than requiring the allied capitalisms to continue the kind of domestic civil wars with their own working classes which had been the pattern in most European capitalisms up to 1945, the US accepted efforts to incorporate the social democratic parts of the organised working class into the state and social institutions of allied states, along with the institutions and state ideologies of the welfare state. The result was that although the community of capitalisms was tightly unified politically in the post-war period, there was little homogenisation of the forms of internal social power relations of individual capitalisms.

With the international crisis of the core capitalisms in the 1970s, a crisis which was in many ways the consequence of the revival path which the US had allowed Germany and Japan to follow, a major effort for the re-organisation of both the internal social relations of core capitalisms and their transnational economic linkage patterns got underway, led by the Reagan-Thatcher team. Anglo-American capitalism was transformed into a new type of finance capitalism and a struggle ensued

The first form of the struggle of the US to revive its economic dominance took the form not of a positive power political confrontation with its subaltern allies. Instead it took the form of a vigorous US

economic unilateralism: scrapping the Bretton Woods monetary system, then simultaneously encouraging a big oil price shock by the Saudi-led OPEC while striking an deal with the Saudis to ensure that the international oil trade was denominated in dollars rather than Special Drawing Rights. The Saudis were allowed to buy US treasury bonds with their oil dollars as special non-market rates. Then the US sabotaged the recycling of the petro-dollars through the IMF, engineering their recycling through the Anglo-American banking system. These measures gave the US unconstrained mastery of the international monetary system and of international monetary management in the interests of US macro-economic management. It also firmly placed the US financial centre and its London satellite at the heart of global financial relations.

The second phase of the US campaign involved imposing the disciplines of the Second Cold War on the allies, especially Germany, breaking the rapidly growing economic and political linkage developing with the USSR and the Soviet Bloc in the 1970s (the so-called threat of 'Finlandisation'). The third phase involved the Reagan administration launching its new trade programme for a massive opening of other capitalist markets to new US products and it went head-to-head with Japan, scrapping any pretence of free trade principles, imposing managed trade limits of Japanese exports of cars and other items into the US (via 'voluntary export restraints'). This was followed by managed production limits on Japanese semi-conductors and once the Japanese had agreed at Plaza to bring down the dollar, they were informed the very next day that the Reagan administration would impose the so-called Super 301 programme for essentially arbitrary US trade war policies directed against Japan.

In the 1980s, the US discovered that as the dollar fell against the yen, bellicose US talk or actions against Japanese exports or import restrictions could drive the yen higher, putting ever greater pressure on the home base of Japanese industry. These aggressive economic tactics continued through most of the 1990s. Only with the current Bush administration did US policy towards Japan change sharply.

The West European states responded to the Carter-Reagan moves by organising a Deutsche Mark zone and responded to the Reaganite trade programme with the Single Market Programme and the Single European Act. Both these steps were defensive political economy

responses to the US unilateralist drive. But at the same time, they brought the states and capitalist leaders of Western together in a new political concert.⁹ Under the Delors leadership of the Commission, there was the rise for the first time of a Europeanist mass politics for closer integration which combined restructuring with a maintenance of an alliance between industrial capital and labour (expressed by Delors' concept of 'social cohesion').

And what the US never did was to threaten its allies with US military power. Instead it used its military capacity to shape the military security environment and mass politics of its allies in such a way as to make them tightly loyal to Washington. Bruce Russett has captured this type of US power by saying it was the US's 'ability to define the context within which others must make decisions'.¹⁰ By assuring itself of military superiority over the USSR, the US could achieve this. It could engage in militarised Cold War confrontation without fear of the Cold War turning hot. This put the allies in the firing line and thus brought them under control.

But the third phase of the drive to reshape transnational linkages and internal regimes following the crisis of the 1970s did have a classically imperialist character. This was a drive for sweeping regime change in the South. It was conducted both in the field of political economy and in the military-political field. The European states co-operated with the Americans within the IMF and World Bank responded to the debt crisis in the South with an aggressive drive to restructure the social relations of capitalisms in the South. There seems to have been a good deal of co-operation on this drive whose consequences

9. See Kees van der Pijl: 'America Over Europe. Atlantic Unity and Rivalry From Gorbachev to Kosovo', paper for the British International Studies Association, Manchester 20-22nd December, 1999; Henk Overbeek: 'Towards a Neo-Gramscian Theory of European Integration – The Example of the Tax Harmonisation Question' (Paper to the Marburg Centre for European Integration Studies, Mimeo 1999) Bastiaan van Apeldoorn: 'Transnational Class Agency and European Governance – the Case of the European Round Table of Industrialists' (Paper to the Marburg Centre for European Integration Studies, Mimeo 1999)

10. Russett called this ability 'structural power'. We will return to the concept of structural power below. See Russett, 'The Mysterious Case of Vanishing Hegemony: Or is Mark Twain Really Dead?' *International Organisation* 39, 2 (Spring 1985).

were generally malign for hundreds of millions of people in the South.

To these developments we should add the military-political efforts of the American state to demonstrate its revived capacity to act as an effective coercive force on behalf of all the capitalist centres against dissident regimes in the South. It thus engaged in a range of proxy wars from Afghanistan to Cambodia to Angola and Central America causing mayhem and chaos in the process.

These twin drives - to turn the political economies of the South inside out and to strike at dissident regimes in the South - have left large zones of chaotic disintegration in various parts of the world. A large constituency in the Atlantic world has emerged focused upon the need for vigorous Atlantic positive intervention to repair this damage. Charitable NGOs have grown, movements to collect funds for aid to Africa have arisen and so forth.

Yet in the post-Cold War period, these constituencies have been mobilised in quite different directions by the main Atlantic states: the latter have sought to direct them towards assisting in new geopolitical and military thrusts: into South East Europe, Eastern Europe, the Middle East and Central Asia, using the funding dependencies of NGOs as instruments for making these shifts. At the same time, figures like Blair have used a rhetoric about repairing the damage in Africa and other parts of the South to legitimate power projection in quite different directions.

Part 3: Post-Cold War Patterns and New Imperialism

The collapse of the Soviet Bloc produced a complicated and contradictory conjuncture for the main capitalist centres. Three political features stand out:

- (1) it offered the US and its core capitalist allies a great opportunity for political and economic expansion into the ex-Soviet Bloc region as well as into regions and states aligned with it.
- (2) It disorganised the power political basis of US control over the

West European allies and over Russia, which could now escape from its Cold War trap.

(3) It gave the US extraordinary general military superiority over the power politics of the world.

But it also had another important consequence: it destroyed the ideological basis for assuring domestic political support within the US for the entire global political and economic orientation of the American state and its capitalist class. And this destruction occurred in a rather strained socio-economic context within the US, one where American capitalism was transforming itself into a new kind of financial capitalism involving a sharp internal economic polarisation and the fall in real incomes for large parts of the population over two decades. And in the early 1990s the US economy seemed to be in a very poor condition.

In these conditions, there was a great fear in American political elites and amongst capitalist class leaders of a popular turn to what was called 'isolationism': a pull back and dismantling of the whole huge apparatus of the American state's global power projection. How to find a new political ideology for legitimating the US's global political reach behind which US capitalism itself had massively expanded into Europe and other parts of the world during the Cold War? Clinton found only a pacifistic and human rights language for justifying US globalism. And that just about worked only in the context of the great economic boom and bubble of the late 1990s. But that began to burst in 2000. And, there is a good deal of evidence that without very high rates of domestic economic growth as well as huge trade deficits, social and political tensions in American society tend to rise much more quickly than in either Western Europe or Japan. Huge budget deficits appear and administrations, of whatever colour, are unable either to meet their social funding obligations to the middle classes or to slash these obligations.

Only with 9/11 and the aggressive activist politics of the Bush administration have these domestic political problems deriving both from the dynamics of American finance capitalism and from the end of the Cold War seemed to have been overcome, at least for a while. And this aggressive politics of the Bush administration was certainly one contributing factor to the new American imperialism.

But it was not the only one or the deepest one. A source of the new imperialism was the drive to expand US power into the former Soviet Bloc and the ex-USSR itself. This was thematised as an expansion of capitalism and democracy. It was not: it was an expansionist drive for a particular kind of capitalism under the predominant influence of a particular capitalist state, the USA, establishing political and, in the Russian case, socio-economic linkages, with the USA.

The shock therapy programme was designed to ensure above everything else that the ex-Soviet Bloc states would immediately be forced into internal regimes of the sort that fitted Western advanced capitalist regimes. This involved devastating institutional destruction and social and economic collapse across large parts of the former Soviet Union and East and South East Europe. The main American target from 1990 was Russia itself. The operation was carried through by American co-option of a clique around the Yeltsin administration centred on the Chubais clan. A micro-economic regime was established allowing this clan to seize large swathes of assets of the Russian economy through a criminally corrupt privatisation programme and to channel large funds from such pillage into London and New York. At the same time a macro-economic programme was devised which would both crush Russia's industrial structure and lead to a collapse of the Russian state budget. This in turn was linked to a strategy of plunging the Russian state into huge debts to the West, thus tying it through debt into chronic dependence on Washington. The gamble, orchestrated by Larry Summers in the US Treasury and by his lieutenants in Moscow, ultimately failed. The collapse of the rouble in 1998, followed by the US-led attack on Yugoslavia in 1999, swung Russian politics in another direction and the Putin government has now struck at the heart of this American-Chubais clan network with its drive against Yukos (whose board includes many Americans, including former Clinton administration officials).

Despite the fact that some of the key Americans working on this operation have subsequently been indicted for corruption within the US, this operation should not be seen as a gangster operation for pecuniary gain by the Summer's gang. It was an American strategic operation for a great prize: the formation of an oligarchy controlling the Russian state, with a vital socio-economic linkage to American

finance capitalism, Americanising the Russian state - integrating its internal institutions and ideology into American global norms.

The American shock-therapy drive in East Central Europe followed the same pattern with the same aim. This also failed. The American state devoted most attention to Poland to build it as a model. But the model failed. Poland's industrial structure crumbled and attempts to revive it along American lines failed. Endemic poverty was combined with a chronic and deep trade deficit and a return of rising and heavy Polish foreign debt (despite US success in cancelling much of Polish debt at the start of the 1990s). The Polish economy is weakly inserted into the new European division of labour and is heavily dependent upon Germany. But the US was able to make up for this economic failure by offering a military-security relationship with the Polish and other East Central and South East European states. This gave some basis for drawing these states into an American sphere of influence in the geopolitically critical zone between Germany and Russia.

To grasp the source of this frenzied and enormously destructive US drive we must see it as driven by competitive political pressures. Direct economic issues played some role, no doubt, in relation to Russia's great mineral resources. But American economic interests in East Central Europe were not very great. What were decisive were geopolitics and what we can call US international regime goals. A central aspect of the whole US Cold War strategy was that of controlling the geopolitical orientations of the other main capitalist centres, preventing them from carving out their own geopolitical spheres of influence and political economy regime. When the Cold War disciplines of US allies collapsed in Europe there was the real danger that France, Germany and Russia or some combination of the three would carve out an autonomous geopolitical zone that could establish its own autonomous political economy regime. If this occurred the threat would not have been some sort of military challenge to American dominance. But what would have emerged would have been an international regime with international institutions to match breaking with the American regimes and international institutions for international capitalism. In place of the IMF/WB nexus and the US model of capitalism, a quite different set of capitalist regimes and institutions could have emerged across Europe. And if Russia had been drawn into this, the US could

have found itself confronted with a unifying regional political-economy space stretching from the Atlantic to Vladivostok.

Objectively, therefore, EU efforts to shape new regimes for East Central Europe and the possibility of a Europe structured by the EU in the West and a Russia in friendly relations with the EU in the East constituted a mortal threat to US to replace its Cold War ascendancy over the capitalist world with a global American ascendancy and global US-led international institutions and regimes. These threats then would produce a potentially very serious challenge to the US in the field of global capital accumulation. Thus the economics of international capital accumulation lay at the bottom of the US imperialism towards Russia and Eastern Europe. But the economics can only be discovered at the end of these other mediations.

The West Europeans were also involved in their own drive eastwards. And their drive had nothing much to do with global political economy regimes. Their concept was to turn the East Central European states into a material support base for the industrial capitalisms of Franco-German led West European capitalism. Using the EU as their chosen regime framework, they grabbed assets in East Central Europe more or less at will and reconfigured the economies there as passive markets and as sources of cheap labour for West European capital. At the same time they ensured that the region was inserted into the new European division of labour in ways that exclusively favoured the interests of West European capitalism: industrial, agricultural and banking capital. This was another heavily coercive drive with an imperialist intent to generate dependent internal regimes and transnational linkages between Western and East Central Europe. What made the fate of East Central European societies so desperate was the combination of the US drive with the EU drive. This combination left much of the region with international comparative advantage in such fields as prostitution and transnational smuggling networks.

Where the competition between EU efforts to expand its control and the US drive to rebuild its hegemony in Europe became most brutally destructive was the Western Balkans. The Yugoslav crisis became the cockpit where the US fought the battle to rebuild its political hegemony over Europe as a whole through making the West Europeans admit defeat in their efforts to end the wars through EU

and UN. The US ensured that these efforts failed and that only the US via NATO could take the lead on the military-political issues facing Europe. The people of Bosnia were sacrificed for that wider European struggle. The NATO attack was designed to be the moment of US triumph, ensuring that the whole of Western Europe was drawn into a NATO attack without any UN mandate. Victory would consolidate US ascendancy over Europe as a whole through an expanded NATO.

The 78-day NATO bombing campaign against Serbia was one of the great classics of imperialist war, on a par with the greatest of British 19th century exercises in murderous humanitarian warfare for imperial aggrandisement. Outrage over a genocide that Tony Blair insisted was about to happen justified bombing the schools and hospitals and TV stations and industrial infrastructures of Serbia, killing civilians while giving the Serbian authorities a free hand to conduct a genocide in Kosovo: an offer which the Serbian authorities refused since they had never intended it. The NATO attack very nearly failed. And it did not lead to a triumphant US victory. Instead the West Europeans sabotaged the celebrations by announcing, as the war ended, the construction of a European Security and Defence Policy under the auspices of the EU.

But the US drive for rebuilt hegemony in Europe did not end there. The Kosovo war destabilised East Central and South East Europe and led the West European states to decide that they had to rapidly expand the EU Eastwards even while they failed to agree amongst themselves on a streamlined EU decision-making system to ensure that the enlarged EU was a viable policy-making system. The Clinton and Bush administrations helped the bouncing of an unprepared EU into this shot-gun enlargement by expanding NATO to incorporate these states and by threatening to turn these states into a US-led bloc in opposition to the EU.

Thus we have a complex set of driving forces for the new US imperialism. Its rhythms and focuses were driven by competitive pressures within the core capitalist world. The competition was not that of inter-imperialist rivalries as before the First World War. It was a competition between the US drive to globalise the type of political ascendancy it had had over the capitalist world during the cold war and the West European drive to gain greater regional autonomy and to expand its collective control over its East Central European periphery.

But this does not exhaust the exploration of the sources of the new imperialism. We must also include the imperialist consequences of the Anglo-American turn towards the new finance capitalism.

The new finance capitalism

One perspective on the new finance capitalism focuses on the changing micro-economic relations between money-capital and industrial production. Within this perspective money-capital has acquired dominance over the dynamics of industrial capital. The result is the rise of Anglo-American shareholder capitalism, the governing priority of short-term financial extraction from industrial activity and the new ways in which financial power can be used for new movements to centralise capital through mergers and acquisitions activities, ‘leveraged buyouts’ including hostile take-overs etc. This emphasis on the new ‘corporate governance’ regime of finance capitalism is important.

But it is not the only aspect of this new finance capitalism. Another is the Anglo-American restructuring of international monetary and financial relations along with the restructuring of domestic political-economy regimes. These changes tend to disarticulate national financial systems in non-core economies and to make the domestic assets of national capitalisms available to take-over by financial groups in the main financial centres.

The key mechanisms in this aspect of finance capitalism are, first, the floating exchange rate regime between the main international currencies combined with the drive to open national financial systems to the movements of hot money (full capital account liberalisation). The two main effects of this combination are: first, strong incentives to capital flight from weaker national economies to the Anglo-American financial centres. And secondly, systemic tendencies towards currency crises and capital account crises in all but the strongest capitalist centres. These two tendencies are linked: the capital flight tendency derives from the fact that in weaker centres the investment risks are higher and capitalist property is vulnerable not least because of the possibilities of currency collapses, capital account blow-outs and collapsing banking systems. At the same time, the defensive response to such risks – capital flight – precisely precipitates the realisation of the risks.

The second feature of the international dimension of the

new finance capitalism is the drive to restructure domestic political economies to fit the requirements for the expansion of Anglo-American finance capitalism: restructuring corporate governance arrangements towards stock-market capitalism, reconfiguring accounting systems to generate the kinds of information about business needed by the international financial groups, and opening assets to the mergers and acquisitions drives of these financial groups. This then enables sweeping movements to centralise capital internationally, reconfiguring local patterns of accumulation to serve the accumulation strategies of the main capitalist centres. The result is the disarticulation of local capitalisms, the impossibility of generating integrated national economies and development strategies.

A third feature of the new finance capitalism is the linkage between the pattern of national economics in the Anglo-American centre and the international expansion of finance capitalism. The extension of the sway of finance capital across all sectors of social life in Britain and the US (not just the productive system but health, housing, pensions etc.) makes the welfare of the mass of the population critically dependent upon the rents of finance capital. A blow-out on the stock market can wipe out the wealth and welfare of huge segments of the population. A sharp rise in interest rates and bond yields can bankrupt millions of mortgage holders, unable to maintain their payments. Therefore, this new finance capitalism requires sustained high rates of macro-economic growth, with booming stock markets and low interest rates etc. But achieving this seems to involve high levels of mass consumption combined with constant downward pressure on wages. Achieving this contradictory combination of goals requires ever higher levels of consumer debt, yet such debt pyramids cannot rise for ever. A further contradiction appears in the dependence of the population on the royalties gained by finance capital – returns on securities. The larger the numbers of people depending for their welfare on a given stock of securities, the smaller the return on these securities available for each person. If a million people depend for their pensions on a given stock of royalties, they can have high private pensions. If one hundred million depend on the same stock of royalties, they will spend their old age in penury.

The solution to this set of problems would seem to lie in

what David Harvey has called the spatio-temporal fix. The stability of finance-capital dominated society in the United States could be assured if, say, in addition to the royalties from American securities, the American population could gain the royalties from the securities of China. By creaming off China's returns on its capital assets, domestic social strains in the United States could be eased very substantially.

This seems to be the transnational linkage logic of the new finance capitalism. It seems to drive the new so-called Free Trade Agreements of the Bush administration as well as the earlier operations of the Clinton Treasury in places like East and South East Asia. It also informs the drive by the Bush administration to transform the corporate governance regimes of Germany and Japan to open up their industrial assets to Anglo-American centred finance capital.

If this is indeed the transnational logic of the new finance capitalism, it would generate a new type of imperialist power politics. The transformation of the domestic political-economies of other capitalisms to make their assets available to the centres of finance capitalism would be absolutely critical. And the political protection of the reconfigured internal regimes would also be critical because maintaining these arrangements is largely about maintaining very specific and detailed legal-institutional arrangements. A government facing a crisis could, for example, suddenly impose capital controls or announce a default on debt-servicing which could throw the whole transnational finance capital system into a crisis of insecurity. The Russian default of 1998 was a striking example of this vulnerability. The Argentinian default was another striking example (although it led to less panic for the simple reason that the bond debt on which the Argentinian government has defaulted is overwhelmingly capital-flight bonds owned by Argentinians themselves and thus it is international only in form). Preventing this happening, or rather preventing people from even believing that this could happen, requires a strong international politics. The new Anglo-American imperialism seems to be about providing this strong politics. A striking example of the political impulses which the new finance capitalism generates was the reaction in Washington to the Malaysian government's re-imposition of exchange controls during the East Asian crisis. This prompted Vice-President Al Gore to call, in Kuala Lumpur, at a dinner attended by

the Malaysian Prime Minister, for the Prime Minister's overthrow, in the autumn of 1998. Washington evidently feared that the Malaysian turn could produce a domino effect, jeopardising the whole thrust of the new finance capitalism.

If this hypothesis about the economic background to the new imperialism is correct, we have a very different economic impulse from that of the earlier imperialism of the late 19th and early 20th century. The latter was still about finding new productive outlets for the capital of the core centres, as well as new product markets. The new imperialism is much more about a drive to centralise capital – change the ownership structures of capitalist assets, as well, of course, as a continuing effort to deploy productive capital in places like China and to seek new sources of cheap labour and new product markets. This new economic basis of imperialism thus corresponds to David Harvey's illuminating concept of 'accumulation by dispossession'. (See the Interview with David Harvey in the this issue.)

Europe and the new imperialism

At the start of the 1990s, the capitalisms of Western Europe were merging into a concert of capitalisms centred upon a Franco-German alliance of export and capital export industrial capitalisms. The American and British accumulation models appeared to be in crisis and there were very strong pressures within the British state to link up with the new Franco-German centred concert: Mrs. Thatcher's fall was directly connected to these pressures, expressed by figures like Howe. The imperial drive by this concert to use power politics (mainly market access threats) to reorganise East Central Europe was done in the interests of this type of West European industrial capitalism.

But during the 1990s, the Franco-German model has been thrown on the defensive by the surge of the new Anglo-American finance capitalism. Many believe that this Anglo-American surge has, in effect, triumphed in Europe. This seems premature. But what does seem to be the case is that there is a tension-ridden crunch between the two models and this, combined with the failure of the West Europeans to reorganise the decision-making system in the EU before the eastward enlargement pushes the EU towards gridlock and political disintegration.

Assuming that West European capitalism nevertheless revived

as an industrial capitalist model, it would expand abroad in rather traditional ways, by means of exports and the export of industrial capital, an expansion which would tend to focus on Russia and above all East Asia, with German capital supplying the fixed capital machinery for Chinese productive growth, rather in the same way that Japanese capital investments in South East Asia gave a strong impetus to the rise of industrial capitalism there in the late 1980s and 1990s. And the European banks would also engage in rather traditional forms of international bank lending to governments and businesses around the world.

This kind of expansion would benefit from stable international exchange rate regimes. It would require open product markets and economies open to FDI. But it would not require financial systems open to hot money flows and it would not require the corporate governance regimes needed by Anglo-American finance capitalism.

At the same time, there would not be an outright conflict between the expansion of West European capitalism in these forms and the Anglo-American finance capitalist expansion. The two could expand outwards together. The problem would be that the West European expansion would not have to support and legitimate the Anglo-American drive and this would make it a political-ideological threat to the Anglo-American efforts. The West European model would implicitly offer an alternative for the East and South East Asian capitalists as well as others. And there would tend to be a bifurcation of regimes of accumulation.

At the same time, the Franco-German model of expansionism does not require a big assertion of military power politics. The world as a whole is swinging over to capitalism, the threats from labour are currently small and the new growth centres are hungry for new sources of finance and for industrial goods. The American form of globalisation involving a constant net inflow of finance into the US does not apply to the West European industrial model.

This matters to the United States because of the fact that the American state and American capitalism is configured for globalism: for dominance over the entire global capitalist world. The frenetic drive of the Bush administration into central Eurasia and its frenetic drive to reorganise Eurasia's geopolitics using its military capacity to

make all the main centres dependent upon American power is about the thrust for global dominance in both the power-political and the political-economy field.

But at the same time, there are strong pressures towards the West European adaptation to the American model. These come in politics and economics. American political power is immense and the risks of getting on the wrong side of it are very great. At the same time, the rise of East Asia economically is also potentially a great historical challenge to the dominance of the Atlantic world. And on the economic side, the Anglo-American model of finance capitalism carries with it huge pecuniary rewards for individual capitals in Western Europe. By switching over to it, the French and German business classes could become, individually, far richer than they are today, polarising wealth in their societies along Anglo-American lines. It is also the case that the Anglo-American model does not require the political unification of Western Europe. It allows continuing fragmentation and a labyrinth of political economy regimes offering great scope for all kinds of arbitrage and races to the bottom. The Franco-German industrial model would require, ultimately, the positive integration of national capitalisms into an institutionalised European capitalism. This would be very difficult to achieve, given the legal-institutional regime of the EU.

If the Anglo-American model of financial capitalism does win the battle in Western Europe, we could expect a whole phase of its development and expansion both domestically and internationally. There is huge scope for more rapid macro-economic growth in France and Germany by means of developing consumer debt driven growth and generating bubble-based stock-market centred booms. And there could be a unified Atlantic drive for to scoop up assets all over the world, reconfiguring domestic economies for European and American rentier interests. And a new European militarism operating as a subaltern force under American leadership could be built to assist in these efforts. The result would be that twenty years down the road, or perhaps sooner or later, the transnational imperialism would confront its transnational social opponent in the context of what could be described as a global race to the bottom.

Winfried Wolf

Not a Citizens' Europe The EU on the Road to Military Power

Turnout in the European parliamentary elections of 13 June 2004 was 44.2 per cent. In Poland, the most important of the new EU members, the turnout was 20 per cent. The German daily, the *Süddeutsche Zeitung*, delivered its verdict on the people even before the election: "In this election, the Citizens' Europe is carrying itself to the grave" (12 June 2004). But one carries to the grave only what had once been alive, something that couldn't be said of Citizens' Europe either before or after the election. This was demonstrated a few days after the election in the battle over who was to succeed Romani Prodi. It didn't enter anyone's mind that the newly elected parliament should have anything to say about who should get the top EU job.

But the European Union is no small issue for the people of Europe. This is the single most important project since the creation of European nation states in the 19th century and, from a German point of view, the most important development since the foundation of the German Empire in 1871. For some decades now, the nation-state framework has been too restrictive for the owners and top managers of the leading European corporations and banks. These gentlemen are concerned about their main competitor, the United States. US corporations and banks have access to a much greater domestic market that they can

1. This NS document from 1943 is reproduced in Reinhard Opitz, *Europastrategien des deutschen Kapitals, 1900-1945* (1994), p. 965.

ringfence and protect, and they can look for support to a much more powerful government, one that has the military capacity to capture and secure world markets. The task for European corporations and banks is to create a counterweight to the USA. The goal of these bosses and bureaucrats is not a citizens' Europe but a Europe of corporations and banks. The European Parliament, EU elections and an EU constitution are just a way of giving this project a democratic gloss.

Old goals in new clothes

The most important material goals of the European Union, such as the customs union, the common economic policy, the European Central Bank and the common currency, all consolidated in the new EU constitution agreed in June 2004, had already been formulated in an earlier epoch:

The unification of Europe ... is an inevitable development. The incredible advances in technology, the shrinking of distances as a result of modern transport ... and the trend of our time ... make it essential for Europe to come closer together. Europe has become too small for feuding and restrictive sovereignties. The goal is a European customs union and a free European market, a strong regulation of currency exchanges and eventually a European currency union.

This was the draft of a memorandum, "Concerning the Creation of a European League of Nations", from the German Foreign Office, 9 September 1943.¹

The cleverest representatives of Nazi Germany and their allies among the bosses of the big German banks and corporations wanted, following a military victory in the second world war, to create a Europe, the economic foundations of which are similar to those that have been created today in the European Union. This doesn't put an equals sign between the politics of the Nazis and the politics of the EU or Berlin. It simply points to the fact that the material content, in particular the economic content, of both strategies is the same.

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Germany's leading economic circles and the military failed in both wars to establish the Europe they wanted by military means. Following the second world war, they pursued this goal by peaceful means. Stations along this road were the Coal and Steel Community in 1950, EURATOM in 1956, and the European Economic Community (EEC) in 1957. Right from the beginning, this European co-operation had a military dimension. Already in 1952, driven by Paris and Bonn, the European Defence Union was created, an essential part of which was German rearmament. This was already seen, at the time, as a counterweight to NATO and transatlantic military cooperation. The Defence Union was then blocked by the French parliament, still fearful of a militarised West Germany. The Defence Union was later replaced by the West European Union which had a shadow existence right into the 1990s, at which time it was absorbed into the EU's own ESDP (European Security and Defence Policy).

Franz Josef Strauss: "Why not us?"

Already at the time of the foundation of the EEC in 1957, political and economic cooperation between Paris and Bonn was decisive for the success of the European project. From a French point of view, cooperation with the enemy of 1870/71, 1914-1918 and 1939-1945 offered hope for German support in the restructuring of the French economy. Following the war and occupation, the French economy was burdened by the colonial war in Indochina (until 1954), the war in Algeria (until 1956) and the loss of a large part of its colonial possessions. For France, the EEC was a second line of defence. The EEC treaty explicitly regulated France's relations with its "overseas countries and territories". In the language of EEC bureaucrats, France's colonies became "overseas territories". These regulations are still in force today. When the euro was introduced it was expressly stated that, in the French colonies and territories, in the so-called franc-zone, the French government would be able to practise its own currency policy.

It is an interesting fact that for decades the European left did not recognise the significance of the "European project". There was only very occasional criticism. For instance, Franz Fanon, who supported the Algerian resistance, in his book *The Wretched of the Earth*, written in 1961, rejected the lies about a Europe of "democracy" and "human

rights”.

The French government, with the Paris-Bonn and later the Paris-Berlin axis, hoped to bind a reinvigorated West German economic power into the European Economic Community. The EEC would then, it was hoped, be dominated politically, militarily and culturally by France. From Bonn’s point of view, the alliance with Paris would enable Germany to escape the isolation brought on it by the Nazi period. At the same time, the Paris-Bonn axis offered the opportunity to create a European economic bloc which, in the longer term, would challenge US hegemony.

In 1967, one of France’s leading economic journalists, Jean-Jacques Servan-Schreiber, published a book titled *The American Challenge*. The EEC was seen by Servan-Schreiber as the European answer to the power of American corporations. In 1968, Franz Josef Strauss, at the time the leading German politician who defended an economically and militarily strengthened German imperialism, wrote the foreword to this book. According to Strauss, the EEC had already become “the frontline of American industry, the battlefield of its power”. Strauss asked the question: “Why the Americans? Why not us?”. Shortly afterwards, as finance minister in the Grand Coalition (1966-1969), he explained the basis of Franco-German cooperation:

The decision of Germany and France to reduce their dependence on the United States ... allows us to begin the process of European unification. Both our countries should combine their resources, in all areas of modern advanced technology, for economic and military purposes.

EEC as competitive battleground

But this didn’t happen. In spite of all the political gestures and efforts, what remained dominant at the economic level was the old competition between the banks and corporations. In addition, the gap between the big German and French businesses increased. I will return to this later. The European project was seen, from the respective national capitals, as a project to strengthen their own national economic power and to dominate “the rest of Europe”.

This was exactly how the leading organisation of German

industrialists, the BDI, saw the EEC in 1967: the EEC was to be “the sounding board for the pursuit of specifically West German interests”. The European customs and free trade union created an expanded space for competition between European corporations in the race to occupy leading positions in Europe and internationally.

As a rule, this aspect of competition and “national capitalist structures” is not adequately taken into account in the debate about globalisation. One begins from the abstract concept of “the power of the big corporations”. If the “national colour” of corporate power is addressed at all, it is usually the US corporations that one has in mind. In fact, the EEC/EC/EU was seen for a long time as more of a technical than a power-political issue. And there were good historical and economic reasons for this. After all, the EEC was promoted by the Americans. President John Kennedy declared in 1961:

The Common Market .. should become our biggest and most profitable customer. Its consumer demand is growing steadily, especially for the goods that we produce best... It is a historic combination of necessity and possibility: at the same moment in which we need desperately to increase our exports, in order to protect our balance of payments and to pay our troops stationed abroad, there is emerging on the other side of the Atlantic a massive new market.

There were three main reasons for this US position. Firstly, the USA was by far the world market leader; the US share of the world market was 16 percent, the West German share 7 percent and the French share 5 per cent. The British share of the export market at the time was around 10 per cent but Britain was not a member of the EEC. Secondly, US corporations at that time played a major role inside Europe, sometimes a dominant role. In 1960, 50 per cent of cars produced in the world came from US factories, where all car producers were “national” corporations: General Motors, Ford, Chrysler and American Motors. 25 per cent came from Europe but around one-third of European car production came from US corporations situated in Europe: GM Europe (producers of Opel and Vauxhall), Ford Europe and the Chrysler company Simca. In 1960 around 10 per cent of worldwide car production took place in Japan. Under these conditions,

US corporations profited significantly from the expanding European domestic market.

New bloc competition

Thirdly, at the time of the above quoted Kennedy speech, there was a common “higher” goal shared by all capitalist countries: the restoration of control over those territories which since 1917 (the Russian Revolution) and the end of the second world war (Central and Eastern Europe and China) had taken a non-capitalist route. As long as capitalism was united around this goal, then common institutions such as NATO or common policies such as transatlantic cooperation were central. Inter-imperialist competition in this period was to some extent contained. But, at the same time, in the context of this restrained competition, the relations of forces were changing significantly. West European and Japanese corporations were conquering more terrain year on year and offering increasingly stiff competition to US corporations.

The “transition” of 1989/90 was also a transition in the dynamic of capitalism. It wasn’t just that the one or the other social nicety came to an end. So also did the common interest of capital in a joint approach to the exploitation of the more than 1.5 billion labour market of the USSR, Central and Eastern Europe, China and Indochina. Inter-capitalist competition broke out into the open. In 1994 the USA and Canada joined in the North American Free Trade Agreement (NAFTA). Mexico was soon brought into this bloc. And now the USA is attempting to forge an even bigger bloc with Central and South America.

At around the same time the Europeans signed the Maastricht Treaty. The European project, having stagnated for some decades, now began to move forward at an ambitious pace: the creation of a European Central Bank, fortification of the EU’s external borders (the Schengen Agreement), the creation of an EU currency and expansion of the EU into Central and Eastern Europe. In 2004 all of these goals have been achieved.

The current inter-imperialist relation of forces is marked by a crass contradiction. On the one hand, the leading EU country, Germany, was the leading world exporter in 2003, far ahead of the USA. The EU as a whole is far ahead of NAFTA in the world market. There are now very few branches in which the USA has the lead, as it does, for

instance, in PC software with Microsoft. In 2004 (European) Airbus could move ahead of (American) Boeing in the important sector of civil aircraft production. On the other hand, the USA is by far the most powerful military force in the world. This was demonstrated in April 2004 with the “shock and awe” strategy directed not just at the Iraqi military. The military offensive in Iraq was also a demonstration to the Russian, Chinese and European military. US spending on armaments is 40 per cent of world spending and more than double what the EU countries as a whole spend.

Against this background, it is not accidental that at the core of the new EU constitution is the EU’s Common Security and Defence Policy.

Economic and military hegemony have always overlapped in the history of capitalism. Almost exactly a century ago there was a similar situation and a similar contradiction. At that time, at the beginning of the 20th century, the USA overtook Britain as the number one economic power. But Britain remained militarily the strongest. After the first world war this contradiction was resolved with the USA also moving into the top position. Now hegemony has again been divided between a militarily dominant USA and an economically dominant Europe under German leadership. This is an antagonistic contradiction that requires resolution.

European corporate power?

At the beginning of the 1990s, when the planned merger of KLM, SAS, Swissair and Austrian Airlines collapsed, the American business magazine, *Business Week*, pointed to an important weakness in the European economy:

A restructuring of European industry, carried out without regard for European nation-state borders, would be the final decisive step towards production units at a higher level. But this is a step that the Europeans obviously can’t take.

And in fact, 50 years after the formation of a European economic bloc, there are very few “European” corporations and, apart from the arms and airline industry, no significant German-French corporations. There were some attempts in this direction but they all failed. More precisely, what actually happens is a “fusion” in which the banner of

the new corporation remains, as a rule, national. NSU wanted to join up with Citroen; in reality, NSU was transformed into Audi and was owned by VW; Citroen was taken over by Peugeot. Hoesch (Germany) and Hogoovens (Netherlands) became “Estel” and failed. Today Hoesch is part of ThyssenKrupp; Hogoovens was taken over by British Steel. Osram was supposed to join up with the Dutch concern, Philipps; in reality, Osram was incorporated into Siemens and Philipps took over Grundig. Renault and Volvo were supposed to merge while retaining equality of both managements. In reality, Volvo was brought into the Ford empire and Renault took over Nissan. Beiersdorf was meant to join up with the French Oréal; however, the German side insisted that Nivea cream had to remain German.

In April this year (2004), when the German-French pharmaceutical concern, Aventis, was swallowed by the French Sanofi, the new boss, Jean-Francois Dehecq made the classical statement that one hears now in one form or another in all mergers – “There is equality in the new Board, but I’m the boss.”

In short: Among the 200 biggest corporations in the world, 76 are American, 40 are Japanese and 68 are situated in the European Union. If we count Switzerland, then the number is 74. But these are not “European” corporations. 22 of these are German, 17 are French, 10 are British, 6 are Dutch, 6 Italian, 3 Spanish, with one each from Sweden and Luxemburg. There are two British-Dutch firms, Unilever and Royal Dutch Shell, but their “bi-nationality” is not a product of the EU – they have grown together over almost 100 years.

Base and superstructure

This is a problem for EU-strategists. Without a base – no superstructure. Without an economic base, without a European capital, the whole superstructure (the Commission, the constitution, the ECB, etc) can have no stability. Without a European Union that has genuine European corporations or is dominated by corporations based in a leading nation state, the EU will always suffer from nation-state rivalries and, in times of crisis, could easily break up.

For almost half a century this was not a central problem, as long as competition in the world market didn’t intensify. Since the turn of 1989/90, however, we are again living in the new old world

of classical ordinary capitalism. Competition is intensifying and the symptoms of crisis are more profound; militarisation proceeds apace. For corporations and banks in Europe, their only chance of surviving this battle, of withstanding the competition from US corporations, is bloc-building.

In such a situation, there are theoretically three ways in which European capital could develop. Firstly, the dominance of German banks and corporations could be expanded. Secondly, the Paris-Berlin axis could provide a strategic way forward and German and French corporations could appropriate political and economic power in the EU for themselves. Thirdly, there is the path of militarisation and war: Europe is forged in the fire of wars.

The first path has been followed for many years. The weight of the German economy inside the EU has grown consistently in the last fifty years. EU-expansion eastwards has been a major step in that same direction. German corporations have been able to build positions of strength in Central and Eastern Europe to a much greater extent than any other national group. In this venture there has been a lot of cooperation between German and Austrian corporations and banks. The Austrians often act as a front for the Germans. The Germans assume that it will eventually come to a second and “peaceful” Anschluss: the Austrian economy has been controlled to a large extent by German capital for quite some time.

But this first path is a path along a tightrope. If German corporations and banks show their colours too aggressively, if they exercise their dominance in too brutal a manner, then they will provoke “the rest of Europe” into opposition. This was the background to the wrangle in 2000 about voting weight in EU institutions. Berlin was insisting that the Nice compromise should be revised so that a greater German voting weight would make it possible for Germany, with a few allies, to win majorities that would serve German interests.

Tensions

The second option, based on Franco-German cooperation, has also been part of the “European project” for five decades. This path has had its high and low points. At the present time, the Paris-Berlin axis is in difficulty. Anyone wishing to understand current tensions between

France and Germany should pay attention to the statement of French president George Pompidou in September 1971:

In the construction of Europe, Germany has a superior economic power, mainly because its industrial production is almost 50 per cent bigger than ours. Our primary goal, therefore, in the next ten years, has to be to double our own industrial capacity.

France not only failed to achieve this goal; in the past three decades the economic gap between Germany and France, especially between top German and French corporations, has widened significantly. In 1980, the combined Franco-German share of European GDP was 41.1 per cent and was at a similar level, 40.2 per cent, in 2000. In 1980, the European Community had 12 members; in 2000 it was 15, following the addition of Austria, Finland and Sweden. In the larger EC/EU, the Franco-German weight remained stable.

But the specific weight of both elements in the Paris-Bonn/Berlin axis has shifted. In 1980, the French and German share of the Community's GDP were roughly similar: Germany, 22.1 per cent; France, 19 per cent. In 2000, Germany's share was 24 per cent, while France's share had shrunk to 16.5 per cent. In other words, the continued dominance of the German-French axis within the European Community has all to do with the increased weight of the German economy. The unification of Germany in 1990 was also undoubtedly a factor. But a quick glance at world trade also shows a similar picture. In 1980, France's share of world exports was 6 per cent and it has declined since then reaching less than 5 per cent in 2003. German exports in 2003 reached a record level of 12 per cent. German was now the world's greatest exporter. If we compare industrial production in both countries, then we find that the situation described by Pompidou in 1971 has not changed: German industrial production remains 50 per cent above that of France.

The current Franco-German debate is about the creation of "European champions". But here the comparison of French and German global players is an even more bitter one for France; in 2003, among the top 20 European industrial corporations, six were German, only three were French. And it was the top German corporations that also has the lead position in their particular branch. In car manufacture, for

instance, DaimlerChrysler and VW were ahead of Peugeot and Renault. In the construction of power stations, Siemens had three times the turnover of Alstom. In the steel branch, ThyssenKrupp is stronger than Arcelor. The banking and insurance sector gives a similar picture: The Deutsche Bank is far ahead of France's number one, the BNP Paribas. Allianz is ahead of Axa.

If we exclude the arms industry, there are only three branches in which French industry has the lead position: in oil, where Total (previously TotalFinaElf) has no German equivalent; in rail technology, in which Alstom, especially with its TGV high speed trains and its tramcar "Citadis", is far ahead of Siemens; and in the pharmaceutical industry, where the new merged corporation, Sanofi-Aventis, has third place in world ranking, behind the US corporation, Pfizer, and the British GlaxoSmithKline and ahead of the German competition (Boehringer-Ingelheim, Bayer and Schering).

War as a "third way"

The only areas in which there is a functioning German-French cooperation are the airline industry, space and armaments. This is the third path towards making the EU into a closed bloc able to compete with the USA. It is also a way of demonstrating the "real sovereignty" of the European Union. It has always been a function of a "proper" state to have the ability to wage its "own" wars and then to wage them. The present emancipation of Europe is nothing more than the creation of an EU war capability.

In the airline and armaments industry we have sectors which, to a very great extent, are dependent on orders and subsidies from the state and are partly under direct state control. That's why Jacques Chirac and Gerhard Schröder were present, like two godparents, at the celebrations in the autumn of 1999 that launched the Franco-German-Spanish armaments venture, EADS.

The militarisation of the EU was given a new dynamism by the war against Yugoslavia. The EADS is the core of a major military-industrial complex. The fact that EADS also controls two-thirds of Airbus indicates a symbiosis of the military and civil aircraft industry, something also true of Boeing in the USA. The only major armaments corporation outside the fold is BAe (British Aerospace Systems). But

BAe gets more military orders from the Pentagon than it does from European governments. This is a boost to the kind of partnership that Tony Blair has entered into with George Bush in the Iraq war. The next EU-wide military mergers are already in the pipeline: In May 2004 there was an agreement to merge the three German firms involved in the manufacture of naval military craft (HDW in Kiel, Deutsche Nordseewerke in Emden and Blohm & Voss in Hamburg). This merger is part of a longer term plan to unite all German and French marine industrial capacity, a “marine EADS”. Other mergers are being debated, for instance, in tank and engine manufacture (German MTU, French Snecma and Italian Fiat Avio).

Against this background, it is clear why the new EU constitution states that:

Member States shall undertake progressively to improve their military capabilities. A European Armaments, Research and Military Capabilities Agency shall be established to identify operational requirements, to promote measures to satisfy those requirements, to contribute to identifying and, where appropriate, implementing any measure needed to strengthen the industrial and technological base of the defence sector, to participate in defining a European capabilities and armaments policy, and to assist the Council in evaluating the improvement of military capabilities. (Article 1.41.3)

It also helps to explain why the “Protocol on Permanent Structured Cooperation”, agreed at the same time as the constitution, lays down the procedure for the creation of a military core. According to the Protocol:

The permanent structured cooperation referred to in Article I-40(6) of the Constitution shall be open to any Member State which undertakes, from the date of entry into force of the Treaty establishing a Constitution for Europe, to:

(a) proceed more intensively to develop its defence capacities through the development of its national contributions and participation where appropriate, in multinational forces, in the main European equipment programmes, and in the activity

of the European agency in the field of defence capabilities development, research, acquisition and armaments (hereinafter referred to as the “Agency”), and

(b) have the capacity to supply by 2007 at the latest, either at national level or as a component of multinational force groups, targeted combat units for the missions planned, structured at a tactical level as combat formations, with support elements including transport and logistics, capable of carrying out the tasks referred in Article III-210, within a period of 5 to 30 days...

What is meant is clear – wage war.

The three options that I have described for achieving a new EU state are separate options only in a theoretical sense. In practice, all three paths will be taken simultaneously. What is frightening in this scenario is the fact that the path most likely to be successful is the third one, the armaments and war path. This was also the path that led to the creation of the German Empire in 1871. As in the case of the EEC/EC of 1957 to 1990, the pre-1871 Customs Union did not lead to the creation of a united German capital. It was Napoleon III’s attack on Germany in 1870 and the subsequent Franco-Prussian war that led to the creation of the German Empire, announced by a victorious Bismarck from the Palace of Versailles. This, in turn, was the first step that led to German armament, imperialism and the first world war.

Lenin revisited

In an earlier debate on the theme of globalisation one of the principal defenders of the globalisation thesis argued that an “ultraimperialism” had been created. “The struggle of national capitals against each other will be replaced by the common exploitation of the world by a united finance capital.” Against this, it was argued that national competition would continue, as would confrontation. Alliances between the imperialist powers, whether of one coalition against another or a

“general alliance embracing all the imperialist powers are inevitably nothing more than a ‘truce’ in periods between wars... Peaceful alliances prepare the ground for wars, and in their turn grow out of wars; the one conditions the other, producing alternating forms of peaceful and non-peaceful struggle on one and the same basis of imperialist connections and relations within world economic and world politics”

This debate took place 90 years ago. The first quote is from Karl Kautsky, the second from Vladimir Lenin. We know from history that Lenin was right. There was to be no “ultraimperialism” with its “united finance capital” that would organise a “common exploitation of the world”. What happened was increased competition and military buildup leading to war.

The “civil” tendencies attributed by some to the EU today, distinguishing it from the more “aggressive US imperialism”, simply don’t exist. For some time now, the EU has gone down the road of stronger competition, rearmament and a preparation for military conflict. The forces driving this militarisation of the EU often have a better historical awareness than many on the left.

The Volkswagen corporation had a full-page ad in the Czech newspapers on 15 March 1999 with the heading, “The Big Spring Offensive”. It was an ad for VW and also for the VW-owned Skoda. Many Czechs were reminded of the “big spring offensive” that had begun on exactly that day fifty years before when, on 15 March 1939, German troops established the so-called Protectorate of Bohemia and Moravia.

Urszula Ługowska

The Movement for Another World in Poland: Its Character and Perspectives

Translated by David Holland

The Movement for Another World in Poland is a factual reality. At the same time it continues to be very weak and divided, chiefly based in a dozen or so university centres and little able to relate to the concrete problems of Polish society. More fundamentally, the great majority of Polish society either regards it with suspicion, or has become aware of its existence in Poland very recently – at the time of the Economic Forum which took place in Warsaw at the end of April this year.

The presentation of the Movement in the media

The existence of a world wide anti-globalisation movement was acknowledged by the Polish media for the first time after the events in Genoa in 2001. In the history of the contemporary media, the radio and television coverage of the Genoa protests will stand out as an exceptional instance of ignorance and ill will. The anti-globalisation activists were presented as enemies of progress, as young people being manipulated by communists and left wingers, dangerous vandals intent on disrupting important political debates at any price, a coalition of organisations with completely contradictory aims, interested only in negation and unable to articulate a positive programme. A dozen or

so Polish activists took part in the Genoa protests. Although most of the organisations discussed below already existed, it was from around this period that they began to count themselves as part of the anti-globalisation movement. It began to be considered by the Polish media as the Polish component of a world-wide movement – but on the basis that it was an oddity, dinosaurs supposedly arising from the compromised experience of real socialism.

The Polish Movement for Another World really made its presence felt in the media only in the Spring of this year, when the press took part in a really hysterical campaign, terrorising the inhabitants of Warsaw with the threat of the limitless destruction which would be wreaked by anti-globalisation protestors against the 29 April Economic Forum in Warsaw. Fifteen thousand police from all over the country were mobilised to defend the summit, at huge expense for their transport, accommodation and maintenance. In the event, the demonstration of 4-5 thousand people passed off entirely peacefully without a single window being broken. This paradoxical situation improved the image of the Movement for Another World in the eyes of ordinary people, who understood what a campaign of lies had been waged hitherto.

The question of the size of the Movement

How numerous is the anti-globalisation movement in Poland? This is a difficult question. One way of judging it, albeit very far from perfect, is by the results of the presidential and parliamentary elections. In the 2000 elections, Piotr Ikonowicz (born in 1956), the candidate clearly representing an option to the left of the main social democracy (SLD), in terms of both values and of economic questions, attracted 38,000 votes (0.22%). In the Polish parliamentary elections of 2001, the Polish Socialist Party (PPS), with Ikonowicz at its head, attracted 13,000 votes, as the most left wing social democratic party in Poland. Certainly, not all these voters can be put in the anti-globalisation camp – only a minority can. However if the anti-globalisation forces voted for anyone in these elections, then they voted for Piotr Ikonowicz and the PPS. The PPS at the time had a vocal and radical youth wing, which succeeded in bringing a number of effective actions to media and public attention. Ikonowicz presented himself as a colourful and identifiable figure, strongly identified with the anti globalisation movement and

with left wingers in other parts of the world – although without having the slightest contact with the Polish working class.

Another way of working out the size and strength of the Polish movement is to analyse the numbers attending the most important anti-globalisation demonstrations. In the biggest anti-war demonstration in Warsaw, against the war in Iraq on 15 February 2003, about two to five thousand people took part (mainly youth and people drawn from Arab communities resident in Poland). This was the biggest demonstration in the history of the radical left in Poland since 1989 directed against the imperialist policies of the United States. In earlier demonstrations of this type, against Poland joining NATO in 1999, against the intervention of NATO in Yugoslavia in 1999, or against the US intervention in Afghanistan in 2001, significantly fewer people took part. For example, 300 people took part in the demonstration in November 2001 against the intervention in Afghanistan.

At the demonstration against the Economic Forum in Warsaw on 29 April this year, which was featured in all the media in advance, in the naïve expectation that thousands would riot against the police, 4-5 thousand people took part.

These experiences have shown repeatedly that even if the slogans around which anti-globalisation protests have been organised correspond to the views of a dozen or so per cent of the Polish population, this is not at all reflected in the numbers attending anti-globalisation demonstrations in Poland. In spite of the fact that Polish participation in the intervention in Iraq was opposed by a majority of the population from the outset, only 300-500 people took part in the national demonstration organised on 27 September 2003. In Polish political culture after 1989, demonstrations in the opinion of the majority of the public are not an effective and significant form of protest and the majority of people never demonstrate on the streets on any matter. However the Polish anti-globalisation movement has not yet found other ways of challenging the system and the establishment.

Generally the assertion can be hazarded that the numbers influenced by anti-globalisation organisations in Poland are not much in excess of 10-15,000. Far fewer people are members of anti-globalisation organisations. The most important anti-globalisation organisations are New Left, which defines itself as a part of the anti-capitalist left and

was created this year by Piotr Ikonowicz after his exit from the Polish Socialist Party and two Trotskyist organisations, which have existed for rather longer – from the beginning of the 90's. - Workers' Democracy (a section of the British SWP) and the Tendency of the Revolutionary Left (once associated with the Fourth International). Both have 40-50 members. To these the Anarchist Federation can be added, numbering 150 activists, but much more active locally than nationally.

A distinctive feature of the majority of Polish anarchists is their definite unwillingness to co-operate (especially directly) with milieux defining themselves as left wing and a strong aversion to any party type of movement. Most anarchists define themselves as connected with neither right nor left, but with the option of freedom (at times this even leads to a position of supporting a social model of a wholly free market without the state). In the period of the preparation of the 29 April protests the anti-capitalist left milieu and the anarchist one acted entirely separately from one another (meeting only on the mass demonstration) and they organised two independent 'alternative economic fora.'

Media on tendencies in the Movement

In the Polish mass media's broadcasts, there is an evident tendency to divide the anti-globalisation movement into two currents: ultra-left, irresponsible and destructive on the one hand and constructive, reformist and open to dialogue on its criticisms of the negative aspects of contemporary capitalism and the unequal distribution of goods on the other. Such a distinction is made for example in the book by a journalist from the leading Polish neo-liberal journal *Gazeta Wyborcza*, Artur Domosławski. *The World Not for Sale* (Warsaw 2002) is chiefly an account of his visit to the World Social Forum in Porto Alegre. Other Polish journalists numbering amongst the 'responsible' current include Jacek Kuron (1934-2004) and Ryszard Kapuściński (born in 1932). The first was a Marxist critic of the nomenklatura in his youth and then a leading activist of the left wing of Solidarity and later in the first Solidarity government after the collapse of the old regime in 1989 as Minister of Labour and Social Policy. The second is a writer, known chiefly from his reportage novels of the 60's and 70's in which he displayed sympathy with Third World national liberation movements. Certainly from the point of view of activists from the real Movement

for Another World in Poland, both gentlemen represent views which are more establishment than dissident.

Gazeta Wyborcza took a similar attitude as it had to the 'constructive current' in the anti-globalisation movement in the Autumn of 2003, when a party under the name of 'Greens 2004' was established in Poland. This Party was established on the initiative of a few feminist, gay and ecological activists, together with some left neo-liberal activists from the Freedom Union (UW). In its declarations are included defence of every aspect of freedom of the individual and criticisms of glaring examples of social injustice under capitalism. The links between this formation and the previously existing anti-globalisation movement are ambiguous. On the one hand, some activists are aiming to copy closely the German and French Green Parties, which take part in government in their respective countries, rather than opposing the system. On the other hand, 'Greens 2004' are certainly trying, especially amongst youth in the big cities, to adopt some of the specific exclusive glamour associated with the anti-globalisation phenomenon.

'Greens 2004' provide the opportunity for a digression on the relations between the feminist movement and the anti-globalisation movement in Poland. It is a problematic question how far the feminist movement can be treated in Poland as part of the anti-globalisation movement. Feminist organisations are numerous enough in the large urban centres, but scarcely exist outside of them. The majority of them are groups dedicated exclusively to the defence of particular aspects of women's rights, not concerning themselves with other aspects of social issues aside from the feminist one, utilising financial assistance from western foundations and politically connected either with the neo-liberal Freedom Union or in the best case with the SLD, which is officially social democratic but actually also pursues neo-liberal policies.

On the other hand, although the participation of women in the anti-globalisation movement is still not great, the number of women who are not only engaged in the feminist movement, but also in activity in the wider anti-globalisation movement is rising steadily. They are trying to deal with the problem of discrimination against women as an issue of interest to both sexes, a universal problem. This is certainly very difficult and with regret it must be acknowledged that there are often instances of lack of respect for women's rights in the ranks of this

movement itself. It does happen that activists who officially declare their abstract intention of supporting the struggle for women's rights discriminate against women in the anti-globalisation movement. What is worse this is treated as understandable owing, for example, to their working class origin. That is, as workers or union activists, they have 'real' problems (that is the struggle to improve the material situation at work), while the problems of women must be treated as of a second order. It should be noted that the party 'Greens 2004' created a two-person leadership, ensuring that both sexes were represented, as well as guaranteeing to women every other place on their electoral lists. This may be an important step on the road to a real and not merely declarative equality for women in the anti-globalisation movement.

Causes of weakness of the Movement

There are several reasons why the anti-globalisation movement in Poland remains on the margins of socio-political life. The first is its fragmentation and lack of any kind of integrative forum. For a brief period it appeared that the organisation which would provide the forum for meetings was the Polish section of the international movement ATTAC. In the autumn of 2001, when this movement was established, about 200 activists supported it, from various anti-globalisation backgrounds, chiefly left wing and ecological. Today however Polish ATTAC is on the brink of complete collapse. The fundamental cause of this was the anti-democratic methods applied by the central executive of this association, which were connected with the still obscure question of nationalist infiltration of the organisation.

Simultaneously, Workers' Democracy employed various methods to take the organisation over and when this was unsuccessful undertook a campaign of propaganda and wrecking against Polish ATTAC. The central executive, defending itself against the exposure of its connections with the radical right, instead of concerning itself with the development of the organisation, felt itself obliged to conduct an internal organisational crusade against the so-called totalitarian left (for which read Marxist left). In the context of this crusade, it dissolved the most dynamic branch, in Warsaw, which was led by the left. This reacted by demanding internal democracy of the organisation and clarification of the links between the executive and the extreme right. Today only

fragments remain of the national ATTAC organisation.

Just as there was a lack of an organisation which could provide a forum for the whole anti-globalisation movement in Poland, so there was also an absence of any political voice for the movement. For a time it seemed as if this role would be played by New Left, established by Piotr Ikonowicz and by left wing activists from the Polish Socialist Party. Polish Trotskyists, especially the Tendency of the Revolutionary Left, advanced the proposition that this party should build itself on the basis of the analogous programmatic conceptions of the Scottish Socialist Party, that is to say that it would be a pluralistic party, aiming to embrace all the left wing anti-capitalist currents. After a few months debate however, Piotr Ikonowicz decided on an extreme centralist, even commandist course, with an absence of any right for tendencies to organise within its ranks, placing the membership entirely at the disposition of the leadership. Together with other internal frictions, this led to a situation in which New Left declined from the two hundred or so members it had at the outset to its present strength of a little over a hundred.

As a result, the Polish movement for another world had no voice in the 2004 European elections. The votes of Polish supporters of the movement, if they voted (the turn out was only 20.8%) for the lack of any better alternative went either to 'Greens 2004,' or to a significant extent to the populist Self Defence (which scored 10.8%). Greens 2004, which registered itself in 3 of the 13 electoral districts, obtained only 16,000 votes (0.3%).

Some sort of integrative function for the Polish anti-globalisation movement has been played by the Polish Social Forum (PSF) and the European Social Forum (ESF), preparing the Polish delegation to St Denis. The first has a pluralistic character and the second is a front organisation for Workers' Democracy (the Polish section of the British SWP). The large scope of Workers' Democracy's activity is made possible by the significant financial support it receives (by Polish standards) from its headquarters in London, something entirely lacking to all other actors in the Polish anti-globalisation movement.

The Polish Social Forum has a significantly wider social base than the committee of the European Social Forum, being a coalition of a dozen or so social and political organisations (New Left, the Youth

Federation of the Union of Labour (UP), the Association of Polish Unions of the Unemployed, the Tendency of the Revolutionary Left, organisations from the milieu of the trade union the Confederation of Labour, the Centre of Women's Rights and the environmentalist publication *Zielony Brygady*). It should be noted that as far as the biggest of these organisations are concerned, such as the Confederation of Labour and the Association of Polish Unions of the Unemployed, it would not be appropriate to describe these organisations as a whole as part of the anti-globalisation movement – it is more the case that some of their leading activists feel a sense of solidarity with the international anti-globalisation movement.

After some months of competition (especially on the part of Workers' Democracy), the ESF and PSF made an agreement, under the rubric of the Social Coalition. This provided the framework for the election of spokesmen and representatives for the European Social Forum at St Denis. In both cases, it was a significant weakness that neither committee went beyond preparation for the trip, widely, and as a result there was a lack of real co-operation in current activity in the country.

The Agreement of the Anticapitalist Left is an interesting new integration initiative, involving, amongst others, New Left, the Polish Union of the Unemployed and the Tendency of the Revolutionary Left. The Agreement of the Anticapitalist Left is concerned with co-operation with the European Conference of the Anticapitalist Left. The organisations behind the Agreement were backers of the successful 'Social Europe Without Frontiers' Conference, which took place at the time of the anti-summit at the end of April, the goal of which was to create a positive programme for the movement for Another World in Polish circumstances. The Conference had to change its location several times, owing to the activities of the political police, but more than 250 people took part in it.

A further important weakness of the Polish anti-globalisation movement is the absence of an intellectual relationship to Polish socio-political problems. This is very evident when you pick up any of the periodicals that have been set up within the movement. Two of the most widely disseminated are the biannual magazines *Lewa Noga* and *Rewolucja*. In spite of their substantial size (each around

400 pages) there is an overwhelming preponderance of material on the history of the Western European left or on the problems of the Third World. Thus we have very extensive materials dealing with specific issues, such as the history of the Red Brigades, on Spanish anarchism during the Civil War, on the Situationist International, the Zapatista movement, or the Colombian partisans. In Polish circumstances (where the Holocaust took place and there are strong anti-semitic traditions) the extensive and very aggressive anti-Zionist and anti-Israeli materials in both publications is highly controversial. At the same time the material dealing with Polish issues is no more than 10% of the content of these magazines. It would be difficult to find a worse example of the intellectual dependence of the Polish anti-globalisation left on its western partners.

There is a better treatment of Polish issues in the columns of the monthlies *Robotnik Śląski* – and recently in *Nowy Robotnik* as well as *Obywatel*. None of these publications can however be regarded as a platform for the majority of the anti-globalisation movement. They arouse far-reaching criticism from the majority of anti-globalisation activists. *Nowy Robotnik* is charged with being financed by people from the Silesian SLD - that is to say the governing party, which is carrying out neo-liberal and pro-war policies. It is mired in the local conflicts in the SLD apparatus in Silesia.

Obywatel is an interesting, albeit controversial phenomenon – a paper and simultaneously a social movement established around it, which is a good example of a component of the movement which is definitely more anti-globalisation than standing for another world. *Obywatel*, edited by Remigusz Okraska, is accused of supporting a conception of ‘an alliance of extremes,’ right and left, against the establishment. The paper itself repudiates this conception and justifies the publication of extreme right wing writers in terms of its opposition to dogmatism and support for freedom of speech and critical thought.

A further very important weakness of the anti-globalisation movement in Poland is its lack of connections with the workers’ movement and with the social welfare problems of wage earning workers. From a sociological point of view, this movement is dominated by student youth. Even from the point of view of its social composition however, it does not put forward any demands relating

to the very difficult social welfare position of students in comparison with Western Europe (the level of fees for students and research, the ending of discounts for students on public transport, the unfavourable terms of credit for research etc).

In July 2002 the National Protest Committee (OKP) was established, grouping trade union activists from a dozen or so work places which found themselves in conflict with private or public employers. The OKP demanded that privatisation be halted; privatisation swindles investigated and existing legislation upheld. At the head of the OKP stood Slawomir Gzik from the cable factory in Ożarów near Warsaw.

The establishment of the OKP aroused a lot of interest, sympathy and hopes in the organisations making up the anti-globalisation movement, which aspired to co-operate with this committee. From the perspective of more than a year of its existence it can be said that these hopes have not been fulfilled. In practice individual OKP activists have shown interest only in the defence of their own workplaces and not in undertaking any basic workers' solidarity actions, even in the framework created by the committee itself. As far as the political face of the OKP is concerned, meetings of the committee became a forum in which radical nationalism flourished and even an animal anti-semitism. Even in the case of the cable factory in Ożarów near Warsaw, where young anti-globalisation activists from a number of Warsaw organisations (especially Warsaw ATTAC and the Tendency of the Revolutionary Left) took an active part in the workers' many months of protests against the closure of the factory, this did not lead to any influx from the real workers' milieu into the anti-globalisation movement.

Amongst the few positive examples of positive engagement by anti-globalisation activists in workers' struggles, the campaign by New Left and the Tendency of the Revolutionary Left in 2003 to assist the Warsaw car factory FSO can be mentioned. 1,500 of the factory's 4,000 workers are to be sacked in the near future. The activists mentioned organised a street demonstration in Warsaw and a number of poster protests in defence of the Polish motor industry. Trade union activists from the Tendency of the Revolutionary Left in the factory moreover took the initiative of publishing the paper *Kret Zwiaskowy*, which was

unique in Poland in addressing the issue of the complete corruption of the trade union apparatus and its officials. They earn many times (eg 5-7 times) as much as an ordinary worker and while they are union officers and for many months afterwards they have legal security of employment and have numerous privileges (eg cars put at their disposal by the employers). Indeed this universal phenomenon of corruption of the trade unions goes a long way towards explaining the passivity or lack of success in the struggles of the working class.

Conclusion

Although it is difficult to deny the existence of the anti-globalisation movement in Poland, it still remains on the margin of Polish social and political life. This situation will not be susceptible to change as long as this movement does not overcome the basic weaknesses referred to above. This means firstly the necessity of creating large and strong structures – or even its own political party. Secondly, and still more important, the marginalisation of the movement will not abate as long as it does not create an alternative programme of solutions to the social welfare problems of contemporary Poland, especially with regard to high unemployment (exceeding 20%), a tax system favouring the rich, homelessness, corruption of the trade unions, marketisation of the health and education systems. This would allow it to reach beyond the milieu of school and university students and win over people from a working class environment, other generational groups and people living in the provinces. In sum, a very long road lies before the Polish anti-globalisation movement to achieve success.

Colin Meade

Otto the virtual emperor

At the end of the First World War, the Austro-Hungarian Empire vanished from the map of Europe and its rulers, the Habsburg family, were banished from their former realms. They did not however disappear or abandon hope of regaining what had been lost. In 1922, ex-Emperor Charles died in Madeira, upon which “his eldest son, [the ten-year old] Otto, became Emperor and head of the House of Austria, under the guardianship of his mother, the Empress Zita”, according to his official biography. (See the biography on the website www.twschwarzer.de. The title of the page is “Otto von Habsburg, Christ, Kaiser, Europäer” (“Otto von Habsburg - Christian, Emperor, European”).

After spending the war in exile pleading the cause of Austria, Otto returned to Europe to pursue a career as a conservative politician and proponent of Pan-Europeanism. In 1979 he entered the European Parliament on the ticket of the Bavarian Christian Social Union and remained an MEP until retiring due to ill health in 1999. In the European Parliament, he played a leading role in that body’s foreign policy deliberations; one admirer described him as “most influential authority on all problems of foreign policy in that young institution”. (Johnstone 2002, p. 194) Among his special interests were Hungarian affairs, on which he became the EP’s Rapporteur. His website biography refers to a

Paneuropa-picnic near Sopron [in Hungary] on 19 August 1989 under the patronage of Otto and Hungarian Minister Imre Pozsgay: 661 Mitteldeutsche [Central Germans] were able to seize this opportunity to flee across the Iron Curtain; beginning of the end of the Stalinist dictatorship in Central and Eastern

Europe.

The reference to *Mitteldeutsche* introduces us to another of his enthusiasms: the cause of the German expellees who wish to return to the regions in Central and Eastern Europe from which they or their ancestors were expelled at the end of the Second World War. For the expellees, what the rest of the world regards as East Germany is merely Central Germany. The real East Germany lies in Western Poland. As leader of the Paneuropa-Union, which has claimed the support of some 80 MEPs, Habsburg played a crucial role in efforts to make the expellees cause a “European issue”, notably through attempts to hold up the Czech Republic’s EU membership bid until that country’s government legally recognised the validity of the expellees’ claims.

So has his political activity been part of a concerted effort to get back what his family lost in 1918? (Or even earlier, since, according to the Emperor’s coronation title, the Habsburgs to the end considered themselves, inter alia, Kings of Jerusalem, etc. [the etc. is part of the title] and Dukes of Tuscany.) Habsburg’s own answer is negative. In his view, “the restoration of external appearances has never been a success. That’s not what matters; what matters is values of permanent validity”. (Habsburg, 1987) Habsburg’s pan-Europeanism, therefore, is less about turning the clock back to 1918 than about embodying what he sees as key lessons of the Habsburg experience in a forward-looking programme for Europe.

Where this process leads him - and, he hopes, us - is set out in some detail in his 1999 book *Die Paneuropäische Idee* (‘The Paneuropean Idea’). (Habsburg, 1999) Essentially, the book reflects his triangular belief system according to which (1) the disruption of divinely ordained natural harmonies leads to totalitarianism, genocide and ecological catastrophe (2) the right to rule of the Habsburg family was a crucial element in the divinely ordained natural order and (3) the true destiny of the European Union is to restore those harmonies and undo the harm done by materialism and individualism (and therefore, in some undefined sense, restore the fortunes of the Habsburg family).

At the highest level of legal generality, his concern to restore lost harmonies is reflected in a determination to anchor the principle of “collective rights” in the European and international legal orders. These collective rights are to apply to

religious communities, ethnic groups and language communities” and would “correspond in the political structures to the subsidiarity principle, because they see people as part of a community (*Gemeinschaft*), which as such disposes of fundamental rights. (Habsburg 1999, p. 80)

Support for the principle of collective rights finds expression not only in his advocacy of the cause of the German Expellees, but also through the activities of his son Karl, who heads up an NGO called the “Unrepresented Peoples and Nations Organisation” (UNPO), which claims to represent the interests of stateless peoples, engaging in intensive lobbying activities at the United Nations to that end. (see www.unpo.org) When it comes to dealing with specific historical and political issues, Habsburg’s personal mixture of Communalist philosophy and ancestral gripes produces some extremely radical conclusions.

The Americas

At its height in the sixteenth century, the main power base of the Habsburgs lay not in Central Europe, but in Spain and its Empire. Otto considers the break-up of that empire in the nineteenth century to have been a disaster, leaving Latin American countries vulnerable to United States influence. As for the US, “the child should not be allowed to become a tyrant” (Habsburg 1999, p. 149). The US’ claims to be an anti-colonialist power are deemed spurious, because of the way it treated the Indians and slavery. In the Iberian sphere, under his ancestors’ rule, Otto asserts, “quite different relations existed between people and races than in the areas taken over by the British, Americans or Dutch”. (p. 182) Now, he recommends a vigorous EU policy towards Latin America. Moreover, Latino immigration into the US is, Habsburg believes, “causing a rethink in the general orientation”. While unsure where it will lead, he believes that this phenomenon must be taken into account. (p. 150)

In an interview in the Austrian weekly *Die Zeit*, Habsburg explained US policy towards Iraq as a result of Jewish influence.

If we consider American’s internal politics, then we find it is split in two halves. On the one hand, the Defence Department,

in which key positions are held by Jews; the Pentagon is today a Jewish institution. On the other hand, the blacks are in the State Department. (...) Currently, the Anglo-Saxons, that is to say the white Americans, are playing a relatively minor role. (Rosenthal 2003)

Africa

In Africa, more problems with the upstart Americans. Here, Otto explains, President Roosevelt had used the “pretext” of decolonisation to advance American interests, a policy resumed by Clinton. In reality, the problems of Africa stem from the borders drawn by colonialism. As a result of these borders “in the international instances, the fact that the tribes are the reality on the ground in Africa is denied”. (Rosenthal 2003, p. 190) So, presumably, a European-inspired order in Africa should rest not on the nation-states, but on the tribes.

Arab-Islamic world

With regard to the Arab-Islamic world, Habsburg’s desire to struggle for “values of permanent validity” against materialism clearly prevails over memories of his family’s historic defence of Europe against Islam and the Turks. Fortified by the view of mediaeval theologian Raimund Lull that Islam is in fact a Christian heresy, Habsburg recommends an understanding attitude to Islam since “even the Islamist organisations are generally speaking in no way aggressive”. (p. 178) He views the recent Algerian civil war between the State and Islamists as the result of the disappearance of traditional social structures - whose restoration therefore would be one way of ending the violence. The Caliphate of Cordoba and the Ottoman Empire are praised as examples of the tolerant coexistence of diverse groups, analogous in so many ways to the Habsburg realms.

China

Although bitterly hostile to Communism as an ideology, Habsburg sees its Chinese variant as essentially an expression of the desperation of the Chinese mandarin state, facing the collapse of the Middle Kingdom and its pretensions to universal rule.

It was (...) no surprise, that in particular people from the ruling stratum, the Mandarins should join up with the revolutionary movement which was then starting up, i.e. Communism” in an effort to restore national discipline and pride. (p. 186)

In this respect, he considers Chinese Communism different from its plebeian and destructive Russian counterpart.

Russia

For Habsburg, the Russian Federation is the last great Empire and an anachronism in an age of decolonisation. With casual hypocrisy, given his ardent support for the German expellees, he dismisses the difficulties faced by Russian minorities in the Baltic States - for him, they were merely agents of Russian rule in the former Soviet Union. The break-up of the Soviet Union is only the first stage in the impending historic undertaking of whittling Russia back to its historic Muscovite base. Habsburg is a keen advocate of the Chechen cause. But that's not the half of it: in an essay from April 2003 on diverse European security issues, he touches on the question of the future of Siberia, noting that its

original inhabitants are Asiatic and therefore either directly or unconsciously more connections with neighbouring countries, in the first place, China, than with the Russians. (Habsburg 2003)

Europe

Habsburg's Europe will embrace all of Eastern and Central Europe, but not Russia or Turkey. It has to become more effective, particularly in order to implement suppressed “collective rights” in the former Soviet bloc. Like many other commentators, Habsburg believes that Europe displayed shameful weakness in the Balkans at the start of the 1990s, through failing swiftly to recognise and effectively to defend the self-determination of Croatia and Slovenia. Only the Austrians and the Vatican, Habsburg asserts, “correctly assessed the situation from the outset”, with Germany leading the rest of the reluctant pack. (Habsburg 2003, p. 190) The EU needs streamlining to prevent this happening again. He proposes the establishment of a Senate for the EU. Had one existed “it would have succeeded in time in creating a European ethnic group right”. (p. 109)

It would be quite wrong to dismiss Habsburg as merely a fossil from the past. While his foreign policy programme is essentially a recital from the imperial German foreign policy hymn book of the last century, these themes are today winning a new audience. Anyone checking down this list of his priorities and proposals will find many points of contact with the thinking of the radical wing of contemporary pro-Europeanism, organised in the European Social Forum movement. Indeed, there are evident parallels at many levels between Habsburg's Catholic conservative communalism and the ESF's ecological prelapsarianism (the forthcoming London Forum pledges itself among other things to combat the "myth of development and growth").

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