



Working Paper: The Working Group on the Western Balkans

Although the EU and the US agree that the long-term goal for the Western Balkans is European integration, progress has stalled. This series of working group meetings aims at launching a discussion on the hurdles to enlargement in the Western Balkans, the tools available to various international actors in the region, and how these resources might best be applied to reach the goal of integration most efficiently. These meetings, therefore, address issues that are at the core of the making the Transatlantic relationship work.

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EU - US Agenda in 2012: Transatlantic Support for Enlargement and Stability amidst Financial Crises

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Over the course of 2011 a number of European analysts of US foreign relations predicted that in the future American foreign policy would have a new focus in Asia-Pacific. Stemming primarily from a political economy perspective that focuses on the impact of the market growth in leading emerging economies, this vision highlights the influence of Asia. This argument requires the thinking that geopolitical stability in Western Europe and the Mediterranean area, together with the politics of power and the politics of diplomacy matter less now than they did at any time since the Second World War.

American foreign policy interests entered the Mediterranean along with the Truman doctrine in 1947. American presence in the Middle East, North Africa and the Western Balkans has remained dominant since. American significance stayed in Europe after the Cold War firstly through the expansion of NATO in the 1990s, and US foreign policy had a key influence in the course of the Yugoslav Wars 1991-2000. Secondly, NATO was not the most significant vehicle for transatlantic relations in the 2000's. In the last decade American diplomacy has turned over to acting also in support of EU enlargement in the post-conflict Balkans.

No, it's not sexy; the process of EU accession is not guided by high velocity towards a dynasty. Negotiations over the *acqui communautaire* i.e., the harmonization of the applicant state's laws to fit the body of European Community legislation, objectives and rules in the most recent example of Croatia lasted six years 2005-2011. Accession is guided by the European Commission screening process with the Commission's annual reports on each country's progress towards membership. This practice can seem impenetrable as the reports function by indicating further areas for reform each year. Bygone seem the days when becoming an EU state took only a few years time in total. In the case of Finland, it applied for membership in March 1992 and became a member state in January 1995. In comparison Macedonia became a Candidate for EU membership in

2005. The Commission recommended it start membership negotiations in October 2009, but the Council of Ministers has not yet given the date for the start of the negotiation. The conflict with Greece over the name of the state amongst other problems inhibits proceeding to the negotiations themselves.

The European sovereign debt crises beginning in late 2009 have made the idea of a shared Europe less convincing as well. Rising government debt levels globally and in Europe in particular in Greece, Ireland and Portugal created difficulties in the re-financing of their debts. Being a part of the Euro means that each state should meet the terms on budget deficits, inflation, and interest rates that were required when joining and spelled out initially in the Maastricht Treaty of 1992. There were growing concerns in 2009 that these limits were not being met within the Eurozone and tests were performed to investigate. The initial lenient European Banking Authority stress test in June 2010 showed 3,6 billion Euro capital shortfall. The final EBA stress test in 2011 shows that capital shortfall has risen from 106.4 billion Euro to 114,7 billion Euro in 2011 alone. In September 2011 the seasonally adjusted unemployment in the 17 member Eurozone reported by Eurostat rose to 10.2 percent of the labor force. This figure while broadly comparable to the 9.1 percent in the US is above any since the launching of the Euro. Inflation at 3 percent is high and growing. Trust in continued political stability within the union has suffered as a consequence.

Despite significant challenges EU enlargement is not dead. It is the mechanism by which the EU redefines itself and may be more important now to meet the current problems than in the past. Enlargement entails the politics of power and the politics of diplomacy. The grande vision for a Europe where former conflict zones become part of a political and monetary union has been seen by Washington in the last decade to provide more geopolitical stability for South Eastern Europe. If a new vision of an Asia-Pacific dominated agenda driven by the politics of the economy in US foreign policy were to replace the Euro-Atlantic focus and belief in the importance of geopolitical presence in Europe that has been present since 1945, then that would truly be a transformative change. It seems uncertain that such a permanent shift in policy orientation has taken place yet. This paper discusses political aspects of the Eurozone crises and EU enlargement in 2012 which are relevant for the EU-US relations in 2012.

The Eurozone crises, the Spectrum of EU Party Politics and the US

There are three current major hurdles to EU enlargement in the Western Balkans. At present difficulties stem from the over-all environments within the EU more than from any one and particular issue of a Western Balkan state prohibiting advance towards membership. Firstly, it has been the trend among analysts to react to the Eurozone crisis in 2011 by questioning whether the EU would now in the future be divided into sets of states according to economic stability and political power. It has been speculated that the single EU system could be replaced in the future by groupings of states interacting more closely together dominated presumably by the most highly credit rated AAA states (Austria, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, United Kingdom and Sweden), or those with a structural deficit below 0,5 percent of the GDP. In

the Euro currently these latter include only Estonia, Finland and Luxembourg. Although the firms giving out credit ratings have also suffered from loss of credibility the economy is seen to be strongest still here. The heavily indebted states (Greece, Spain, Portugal and Ireland) having been ordered by the EU to reduce their budget deficits in 2009, or having received bailout packages from the EU, the Eurozone and/or the IMF in 2010 and 2011 would be expected to form a second group. The remaining other states would presumably be left in a third group in between. The Western Balkan EU Candidate states Macedonia and Montenegro have a BB credit rating each. Applicant states Albania and Serbia have the rating B+ and BB respectively. The key question would be whether all three: France, Germany and Britain would belong to a same group if these were to emerge. Such speculation itself can be an early and false prediction and is detrimental to the cohesion of the EU:

Secondly, amidst fears of economic meltdown stemming from the sovereign debt crises there have been calls by minorities for a return to nation-state sovereignty and economic protectionism in all EU states. The approval ratings of EU leaders amongst their voters have dropped as fears of the impact of the Eurozone crisis have grown. In November 2011 only 35 percent of French voters viewed the Sarkozy government favorably. 38 percent of German respondents believed that Germany would be worse off leaving the Eurozone, while 31 percent stated they would vote for the CDU party led by Chancellor Angela Merkel.¹

There are other challenges to the cohesion and unity of the EU as well. As the Greek Premier George Papandreou announced in November 2011 (in an attempt to unify his own party) that Greece would hold a referendum on the latest international bailout, the French Premier Sarkozy and the German Chancellor Merkel responded by announcing that in that case the referendum would have to be on the question whether to Greece should leave the Euro, or stay in the currency. This implicitly implied that a country could leave the Euro in the future. Under the current system money is the liability of the bank. If one or more countries were to leave the Euro would one Euro in their banks still be worth the one Euro equivalent? These speculations and can cause pressure on depositors to move their deposits to another country or currency deemed less likely to leave the Euro.

Confidence in the banking system, the Euro and the governments amidst speculation has become increasingly in question. Morgan Stanley Research has for example convincingly demonstrated in November 2011 that the Eurozone is already experiencing a self-fulfilling spiral of destruction of confidence in banks and governments i.e. a so-called run on the banks. Governments and interest groups in applicant states across the Western Balkans will have to make more convincing arguments for EU membership in the future. Constituencies in these states already two decades after communism ended no longer deem EU membership as the single pro-issue in elections. Whereas in 2008 for example the Democratic Party in Serbia was led to electoral victory under the slogan 'Boris Tadić for a European Serbia,' it is unlikely that voters in the majority will deem a possible

¹ Harris Poll conducted for the Financial Times (FT), FT, 3 November 2011, 3.

failure to gain the EU Candidacy status as fatal fault of the Tadić presidency, or of the government his DS party currently leads. Elections in Serbia will likely be held 6 May 2012. Serbian voters are more probable to question the side of the EU and not deem the lack of EU candidacy as a matter of political death. EU membership may still present the least bad option for the majority of the Serbian voters, but the election in 2012 will be decided on the issues of domestic construction, and the relative weakness of the opposition to the current DS-led government, and to President Tadić.

Thirdly, looking at the composition of the EU from the perspective of political parties, twenty-four of the twenty-seven EU member states are currently led by conservative or right-wing coalition governments. Only Denmark, Slovenia and Austria are governed by social democrats at present. Croatia which currently enjoys an observer status to the EU and is expected to become a full member in July 2013 will bring in a fourth Social Democrat-led government. Twenty-four out of a total of twenty-eight does not indicate an environment where a full political spectrum from the left to the right is represented convincingly. The European Parliament is the key example of the European institution which carries out much of the day-to-day politics in terms of groups of political parties having the similar political orientation. These groups pool together resources and influence. Lack of balance in the political spectrum is one of the political realities within the EU in 2012. Political parties in the Western Balkans have since 2000 engaged with their prospective political groups in the EP. Lack of variety in giving advice and preparing political parties to accessions will influence development of EU contacts across the Western Balkans as well. The Conservative group is likely to have overwhelming presence over other voices in this respect.

Opportunity for US Engagement

Despite raising challenges to EU enlargement the Eurozone crisis presents also an opportunity for increased US-EU engagement. The White House has restrained from commenting extensively on the Eurozone crisis. This is not indicative of a lack of interest. The White House is not in a position to request or gain additional funds from the Republican controlled Congress to increase the IMF European funding even if it desired to do this. President Obama has been in contact with European leaders. The financial markets partly dictate the course of the sovereign debt crisis and some of the financial firms most exposed are US based. Morgan Stanley is considered the most exposed with Citigroup affected as well. The shares of both have fallen in November 2011. The US can offer however perspectives and leadership in terms of handling the crisis globally and Treasury Secretary Timothy Geitner has in December encouraged the Eurozone to strengthen financial firewall mechanisms to help isolate the large deficits from spreading from one country to another. From a global perspective it is also important to remember that the Eurozone is in external balance.² The crisis is of internal deficits and surpluses and not one involving external financing for the Eurozone as a whole. Therefore it does not necessitate the entry of Chinese financing for example as a necessary solution. The US perspective has been that Europe can find the resources to fund itself. This gives

² FT, Pawning the euro: Europe's rescue fund has no need for Chinese money. 1.11.2011.

fundamental confidence and supports the idea of EU enlargement is still a viable and long-term future.

To manage the debt crisis one of the suggested options is to institute further controls and mechanisms to restrain national deficits spending for example, through strengthening the powers of the Commission to place automatic sanctions for exceeding lending limits. However, as Morgan Stanley Research amongst others has pointed out that confidence in the Eurozone governments and markets will not necessarily simply return even if fiscal discipline is achieved. US based experts have advocated for more bold approaches to the crisis in general. One fundamental solution that has many influential advocates amongst financial firms is fiscal federalism. One of the roads suggested to avoid social, economic and political consequences of a wide-scale default by banks or governments is the assumption of debt via mechanism of increased federal control of national budgets and centralized funding of governments across the Eurozone. This solution would not be a step back from the Maastricht treaty, but a step further in integration. The entire discussion over the sovereign debt crises has evolved around finding a guarantor who could ensure that potentially solvent government within the Eurozone would not become illiquid. Such a guarantee would secure political stability that a monetary union also needs. Yet, fiscal federalism would demand some level of control over national budgets through a federal mechanism. Giving up further sovereignty from the nation state to a supra-national body is not a popular theme among domestic constituencies. This solution has less been less discussed in major media. It will become a topic of debate in 2012.

Within the EU framework the European Central Bank has the potential of becoming a type of lender of last resort. One problem is that for a government its assets are decided by policy. Governments are voted in by the citizens in free elections. A government becomes solvent if its debt exceeds present value and expected future excess. Honest assessments of both are necessary but seem difficult to achieve. At the outset of the Eurozone crisis in 2009 it was found out that Greece held debt of over 113 percent of its GDP. The limit within the Eurozone is 60 percent. The ECB has no fiscal control over EU countries budgets. The limitations to the actions of the ECB are spelled out in the Maastricht Treaty and the Stability and Growth Pact. For the ECB to become credible provider of funding it would have to overcome the limitation in its political influence in the future. For this to take place there would have to be some form of federal management instituted over the fiscal stance of a Eurozone member state. The governments would have to submit to for example to a control of the size of their deficit. One of the suggestions has been that national budgets would be submitted to the European Court of Justice for approval for compliance with treaties and/or federal law. Another option is that a member state could only borrow money from the central source if the amounts would not go over federal law limits and would be president over government spending. This could be accomplished through issuing federal bonds, which are much discussed but do not actually yet exist yet.

Despite the justifications over the need for economic austerity, the constant overlap of political and financial concerns presented here show that the Eurozone debate is fundamentally about political power as well. The Eurozone crises itself does not alter the fact that the EU and the US agree that the long-term goal for the Western Balkans is

European integration. The specter of a Europe that is experiencing finance crises that could become destabilizing politically as well for a short period of time is a concern for US foreign policy. America has an interest in promoting liberal democratic values of equal rights and laissez-faire economic interests. Confidence in at least one of the two may have lost some ground in 2011. The dangers of the EU breaking into power groups, or some of the Eurozone governments becoming insolvent challenges these goals and priorities.

US Support for the Western Balkans

The policy elements which are integrated to the joint EU-US agenda for the Western Balkans in 2012 follow the argument that further integration does not test but strengthens the EU. The argument is not only economic but also political. Taking in new member states is one of the more convincing acts that show confidence that the EU can still act and achieve something concrete. Tools available for the US are advocacy and diplomacy together with support for bold actions to bring the Eurozone crises to an end such as fiscal federalism.

Diplomacy

In mid-December 2011 when Secretary of State Hillary Clinton met with the Danish Foreign Minister Villy Sovndal a few weeks before Denmark would assume EU Presidency she reiterated that US supported for EU integration in the Western Balkans. She also met with the U.K. Foreign Secretary William Hague on 12 December during which Hague stated that:

“We also agree the international community must show strategic patience in the Western Balkans, which Secretary Clinton has rightly described as unfinished business. We strongly support the region’s integration within Euro-Atlantic structures and the resolution of outstanding issues. We share a common commitment to the territorial integrity of Bosnia-Herzegovina as a single sovereign state. And we discussed ways in which we can intensify our efforts, working with the Office of the High Representative, the European Union, and other nations to help that country turn a new page in 2012.”³

In December in Brussels at a NATO meeting Clinton discussed also the situation in North Kosovo condemning the setting up of road blocs and barricades at the Kosovo-Serbian border and supporting the EU’s EULEX mission in Kosovo.⁴ She met several Kosovo’s President Atifere Jahjaga in December as well and the State Department reiterated its support for Kosovo’s continued integration into the EU relentlessly and clearly in 2011. The Acting Assistant Secretary of State David Robinson of the Bureau of Population, Refugees, and Migration took part in the Ministerial Review conference on resolving the

³ Secretary’s remarks with the U.K. Foreign Secretary William Hague After Their Meeting. PRN: 2011/2119.

⁴ Secretary’s remarks: Press Availability in Brussels, Belgium 8 December 2011. PRN 2011/T57-23.

Refugee situation in the Western Balkans and the U.S: - EU Strategic Dialogue on Humanitarian Assistance in November 2011. There a mechanism for the final placement of the 74 000 refugees and IDPs from Bosnia-Herzegovina, Serbia, Croatia and Montenegro with a plan to provide durable housing was finalized. This was the initiative of the EU, the US, The UNHCR and the OSCE.

Clarifying accession criteria

One of the most confusing and complex aspects of EU accession are the entry criteria. At present the Maastricht Treaty (1992), the Copenhagen (1993) and the Madrid criteria (1995) guide accession by setting the overall requirements for membership in principle. The CARDS program, the IPA program, TAIEX and SIGMA provide additional financial instruments. The Copenhagen criteria consists of a set of rules which a country must meet to join the EU. They underlined the need for the existence of convincing democratic governance, human rights, minority rights, rule of law and functioning market economy. These are all value based criteria. They were determined in the 1993 European Council. The Madrid criteria drawn together in the 1995 European Council underline administrative and legal capacities of applicant states. Counter to an idea that voters in Western Balkans states would feel dictated to by demanding the adherence to such principles if implemented authentically seem false in the 2010 decade. The majority of voters and especially younger voters are likely to see these liberal democratic values as benefits of EU membership and engagement. Majority of voters from states where corruption is common place and there has been to the functioning of state structures in the recent past are likely supporters of the Copenhagen and Madrid criteria if applied as a genuine requirement and communicated effectively. The overall benchmarks written for all Western Balkan states to become EU candidate states underline these values. The targets for the area demand above reforms in the judiciary, public administration, competitiveness policy and fight against corruption. The US and the EU can work together to better present their baseline argument and the EU membership's demands for achievements in these areas as they can constitute shared value structure and improve daily lives of individuals.

At present the EU accession requirements are not well understood amongst the general public in the Western Balkans. The process is identified to be mostly political, and not one based on achieving political reforms. Many had understood that the inexplicit requirement set for Serbia to gain EU candidacy was the arrest of Ratko Mladic. Simultaneously the several attacks on NATO-led Kosovo Force KFOR at the Kosovo Serbian border on over the summer 2011 culminated in an incident on 28 November where Austrian and German soldiers were attacked. This was interpreted by many Serbian citizens to mean that Serbia would not gain EU candidacy status at the 9 December European Council as a direct consequence. Chancellor Merkel's statement on 2 December 2011 to the German Bundestag seemed to support this thinking: "In the long term, we want not only Serbia but also Kosovo to join the EU and for the EU to continue functioning. And that is why the only way Serbia can join the EU is through a normalization in its relation to Kosovo," Merkel said.

The US can help to advocate for the clarification and better explanation of the EU entry criteria as they actually embrace the general set of human rights values and functioning principles of a democratic society and market economy as underlined by the Copenhagen and Lisbon criteria.

Croatian as an example

The US has publicly commended Croatia for having finished its EU membership negotiations in June 2011. The State department has underlined that:

“Croatia has shown by example that European and Euro-Atlantic integration is not only a worthy goal – but it is also attainable – for all Western Balkan countries. The United States and the European Union are united in our belief that Europe will not be complete until all of the countries of the Western Balkans are full EU members. We welcome Croatia’s offer of advice and support to neighboring countries in their continued efforts toward European integration.”⁵

Croatia is also a recent NATO member state. The US can therefore develop the transatlantic role and partner with Croatia which has the latest experience in becoming a NATO member in 2009, and future EU state in 2013. Croatia can become a natural point of contact for the US, and partner with the latest practical experience for the region.

From Operations to Advocacy

The United States has always been a bicoastal power; as in the song ‘from sea to the shining sea.’ This means that Asia-Pacific will always be an important region for US foreign policy. Yet, the world of international relations has remained dominated by a Euro-Atlantic perspective since the Second World War. This becomes clearer if we attach and understand the Mediterranean region as part of the European space. Some analysts have seen focus shifting away not only from mainland Europe, but also from the Mediterranean to the markets in Asia. Simultaneously the Eurozone sovereign debt crisis has underlined transatlantic interdependence in terms of political values. Instability in the interdependent financial system seems to unavoidably raise questions of state sovereignty and political principles. EU enlargement can help to re-establish and underline the setting of those values. Credit ratings themselves do not tell by themselves everything about the standards of living in a state for example and not everything about the transparency of the state’s political system. They do not by themselves even explain the competitiveness of industries in any state. A Europe divided is a challenge for US foreign policy in 2012, but European enlargement is a US political interest.

⁵ Press Releases: Croatia: Conclusion of EU Accession Talks. 30 June 2011. PRN: 2011/1090.