

Just another Crisis? South-East Europe and the European Union in a Changing World

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Abstract

The world is facing fundamental changes in the international system. The rise of China, India and other emerging economies are changing the world's power balance, while Western states, in particular European Union members and the United States, are facing great economic and political trials linked to high sovereign debt, rising inequalities, and job-less growth. Intra-state and transnational conflicts, often waged by non-state actors, including terrorist organizations such as al-Qaeda, pose difficult new challenges to the preservation of peace and security. In this global context, the EU is facing its greatest challenges since its inception. While dealing with the economic crisis, it must keep up with the need to complete its enlargement in South-East Europe. The EU must furthermore address the challenges of being perceived – not entirely wrongly – as too aloof, technocratic, undemocratic, and overly-meddlesome. These challenges also offer new opportunities, but failing to grasp them and implement needed reforms may yet bring the great European experiment to an end. This must not and need not be the case, and possible strategies for a renewed Europe are outlined.

Résumé

Le monde est confronté à des changements fondamentaux dans le système international. L'émergence de la Chine, de l'Inde et d'autres économies émergentes modifie l'équilibre du pouvoir dans le monde, tandis que les pays occidentaux, en particulier les membres de l'Union européenne et les États-Unis, font face à de grandes difficultés économiques et politiques liées au niveau de la dette souveraine, à la hausse des inégalités et à la « croissance sans emploi ». Des conflits intra-étatiques et transnationaux, souvent lancés par des acteurs non étatiques, y compris les organisations terroristes comme Al-Qaïda, posent de nouveaux enjeux difficiles pour la préservation de la paix et de la sécurité. Dans ce contexte global, l'UE est confrontée à ses plus grands défis depuis sa création. Alors qu'elle est confrontée à la crise économique, elle doit faire face en même temps à la nécessité d'achever l'élargissement vers l'Europe du Sud-Est. En outre, l'UE doit relever le défi d'être perçue – pas tout à fait à tort – comme trop distante, technocratique,

non démocratique, et excessivement tatillonne. Ce défi offre également de nouvelles possibilités, mais, à défaut de les saisir et de mettre en œuvre les réformes nécessaires, il peut également conduire la grande expérience européenne à sa fin. Cela ne doit et ne peut pas être le cas, et les stratégies possibles pour un renouvellement de l'Europe sont ici présentées.

Introduction

It is most certainly a truism to state that to talk about Europe is to talk about its position and significance in the world. Therefore, the current condition and future perspective of Europe—more precisely, of the European Union—cannot be properly assessed without addressing the overall global environment.

What I mean by this is the following. Take, as just one example among many, the global security environment, specifically the new—asymmetrical—conflicts in the post-national world with a growing number of non-state and transnational actors like the Al-Qaeda network. Standing armies, a nuclear arsenal, and sophisticated weaponry have lost much of their former significance in today's chaotic conflicts where IEDs and suicide bombings are the biggest threats. Drones and cyber warfare techniques are mere forerunners for things to come. Internal conflicts like the one in Syria, the Islamist insurgencies in Mali, and the civil war in the Central African Republic are becoming the rule rather than the exception. The much welcomed Arab Spring, which was less seasonal than a long overdue awakening, has taken many difficult turns. The question is how should we deal with the long term geopolitical consequences in the Arab world? The dilemma is huge. We welcomed the democratic changes in Tunisia and Egypt, yet remained aloof in the case of Bahrain and Jordan, which are traditional Western allies, backed by Saudi Arabia. This was not the case of Gaddafi's Libya, where the West supported—an enabled—regime change. Now Islamists, anti-western parties call the shots.

Generally speaking, we need many more, and more sophisticated, answers for tomorrow's challenges. For instance, how do we design an energy policy for the long term, when new and unexpected sources of carbon energy have changed the equation overnight? The geopolitical impact of hydraulic fracking of shale gas and oil in the US and Canada on the traditional oil and gas exporting countries in the Middle East and Russia on the one hand, and the global West on the other, has not yet been fully assessed. It will, however, further delay R&D (research and development) of alternative sources of energy. According to the International Energy Agency the US will soon become a net exporter of fossil fuels, rather than the importer that it has been for many years. What does this mean for Europe's current dependency on Russian oil and gas? The EU receives approximately 25% of its imported gas from the Russian Federation. Consider this: the price that Europe pays for its gas is about five times as high as in the US. It is easily under-

stood that the continent's industrial competitiveness is considerably affected by these developments.

These and many other issues ask for a global approach, for what could be called a New Global Governance system, ranging from climate change to energy supply.

A Rapidly Changing World

With the end of the Cold War and the rise of China and other emerging economies, the post-WW II multilateral system—set up under US leadership—is about to reach its outer limits. The UN system and the Bretton Woods institutions, the IMF and World Bank, are deeply affected too. China, in particular, now exerts much more leverage in these multilateral fora than only a few years ago, apart from its massive investments in the West and particularly in the emerging markets of Asia, Africa and the Pacific. Two recent examples—small but significant—are that China is now the number three in the IMF in terms of quota shares. Furthermore, its contribution to the UN 2012/13 budget has just been substantially increased from 3.2 to 5.1 per cent. Other organizations of global cooperation, such as the Geneva-based WTO, are similarly affected by these major power shifts. The same applies to ad hoc structures such as the Western-dominated G8, which was up until only recently the prime global governance forum. Immediately after the outbreak of the financial crisis in 2008, the G 20 came into being, which prominently includes the emerging economies from Asia, Africa and Latin America.

The world has become less Western, even much less European.

These rather sudden changes have not yet, however, reached the UN Security Council which today still reflects the post-1945 power structures. Any reform has been successfully stalled so far, not the least by the two European members France and the UK. All these issues, most of them with global implications, have a profound impact on the future of our continent. It is thus safe to say that the current crisis is not limited to the pressing challenges of Europe's public finances and the structural weaknesses of the European banking system.

What we are witnessing is a global game change.

Certainly these seismic shifts, accompanied by a crisis of epic proportions, will have lasting, and in many ways irreversible, consequences for the European Model. There will be deep political, economic, as well as social ramifications on our way of life, in particular for Europe's citizens, who until recently were accustomed to live to a historically unprecedented degree in relative political stability and peace, social equality, and economic prosperity.

In the age of global interconnectedness, these achievements have come under severe stress. It is thus prudent to first place the future of the European Union—

its challenges and possible solutions—into the fundamentally changed global context. In terms of size, the European Union, with more than 500 million citizens, is about a third of the size of China or almost half the size of India. These two countries are the two largest and most dynamic so-called emerging economies, which together with Brazil, Russia and South Africa are known under the acronym BRICS.

Still, Europe's accumulated socio-economic wealth is larger than that of China, Russia or even the United States, albeit by a rapidly dwindling margin. In geopolitical terms, however, Europe fares much worse. Its integration capacity cannot keep pace with the global changes which have been taking place since the demise of the bipolar world some twenty-five years ago. The current crisis has further accelerated the overall shift and has reinforced the pervasive image of Europe as a continent in decline.

A recent long term projection looking to 2060 by the OECD, the Paris-based Organization for Economic Co-operation and Development, points to the fact that the current challenges need policy action to restore confidence and to put the economic recovery onto a sustainable growth path. According to the OECD, many developed countries face a long period of adjustment to overcome the legacies of the crisis, particularly in terms of high unemployment, excess capacity and large fiscal imbalances. Assessing the more distant future, the OECD expects large shifts in the geographical composition of the global GDP: a redistribution of wealth from North to South, as well as from West to East.

These shifts are based on demographic changes, including an ageing population, and the acceleration of global economic convergence. While economic growth will generally decline in the US, Europe and Japan, the BRICS, new Asian tigers and even some economies in Sub-Saharan Africa will continue to grow. China will become the world's largest economy in just a few years' time. India, the other fast growing Asian economy, is about to surpass Japan and it will overtake the eurozone in about 20 years.

The point is that unless the Europeans get their act together, resolutely speeding up and vastly improving their integration performance, there will be no leading role for Europe to speak of in tomorrow's multipolar arena. Most of the challenges facing the 28 member states, or even more so the 17 eurozone members, demand common solutions which simply means faster and more unified European-wide rules and regulations and enforcement mechanisms.

In Search of a United States of Europe

In short, what we need is a Pan-European approach to confront the ever-growing unemployment rates, specifically the everincreasing lack of jobs for the young—in Spain and Greece youth unemployment is about 50%—the slow-

down in productivity, the traditional key driver of economic growth, and the rise in social inequality. These and other worrying trends need to be urgently reversed.

Worst of all, if this downward trend is not arrested soon, the European Welfare State model, on which acceptance of the European integration process hinges, could easily collapse.

These challenges go to the very core of Europe's future. They all require an efficient, functional, but also a much more democratic and grass roots Europe. A grand bargain is urgently needed. A vision of a very specific United States of Europe, I dare say.

However, for most Europeans, accustomed to thinking in nation-state categories of small is beautiful—which in many ways is true—a perceived *Big European State* is anathema.

There is a more recent development that also needs much more attention. There is a sort of populist politics of re-nationalization in some member states. The revival of secessionist sentiments from Catalonia to Scotland and from Northern Italy to Belgium is another worrisome phenomenon. London's *Brexit* is another troubling development. "It seems that the UK is sleepwalking towards a disastrous EU exit" to quote the *European Council of Foreign Relations*. Such centrifugal forces challenge the very fabric of the European Project. In times of crises people long for a sheltered place, "angst" makes them look inward. And here the EU does not seem to provide convincing answers. On the contrary, today's EU is perceived as being aloof and technocratic, seemingly far removed from the everyday problems of its citizens, and unwilling—or unable—to resolve the most pressing issues of our time.

While populists see the answer in a return to local problem solving, the way to go is to invest renewed energy into further integration. Not to be misunderstood: I do not argue for a *Brussels Super State*. On the contrary, I believe that a bold new European Compact ought to approach the issue in a sensitive and dialectical way. By this I mean a re-apportioning of local, regional and central tasks, of responsibilities and rights. We need a reinvigorated *Subsidiarity Principle*. Europe needs culturally rooted citizens who espouse a European *Demos* and who go for the Vision of a truly citizen-centered United States of Europe.

A New Paradigm

I would also add another dimension to my argument for a *United Europe*. Let me, for a moment, apply the *longue durée* approach because there are many more deep running challenges that confront Europe—and by extension the rest of the highly developed Global West, in particular the US and Japan. We may have to ask ourselves whether we are not faced with more fundamental changes, a global shift of paradigm so to speak. A shift that transcends all past challenges

the modern world has ever faced. By this I mean that the age of growth, which originated in the eighteenth century, might well be drawing to a close in the twenty-first century.

Consider this: Paul Krugman, the US economist and Nobel Laureate, in a newspaper column (IHT 29/30 Dec, 2012), referred to his colleague Robert Gordon of Northwestern University, who reminds us that long term economic growth has not been a steady process. It has been driven by several 'industrial revolutions', each based on a particular set of technologies. While the first of those revolutions was mainly based upon the steam engine in the late 18th and early nineteenth century, the second such revolution was triggered to a large degree by electrification, internal combustion and chemical engineering. This second revolution lasted well into the 1960s. The third revolution, which defines our current era, is centred on Information Technology (IT).

While previous technological innovations had an enormously positive impact on the labour market, IT does not seem to produce the desired number of new jobs. Is this the end of the industrial work place as we know it? Productivity goes up while the number of jobs goes down. We may call this jobless growth.

While Krugman is cautiously pessimistic when it comes to job creation in the age of IT, the basic question remains, I believe, whether economic growth through information technology and by its many spinoffs will indeed work as the necessary job generator in the most advanced societies like ours.

Obviously there are no definitive answers available so far. But what is needed is more out of the box thinking, in terms of innovation and new skills, in terms of flexibility and creativity in such areas as green jobs, alternative sources of energy and resource management. More efforts are also needed in the services sector, including the growing number of social services. Finally, we urgently need to reinforce sustainability and recycling as guiding principles for a lifestyle beyond the mere figures of GDP.

Eurozone Crisis

After these reflections, I will now turn to the more specific and immediate challenges for the European Union, posed by the crisis in the eurozone. While almost everybody agrees that the worst seems to be over for the time being, thanks to the commitments of the European Central Bank and Germany to the eurozone and the Euro as our common currency, and to EU Members' decision to create a Banking Union, much still remains to be done.

Europe has to decisively move from a reactive into a proactive policy mode. It has to overcome what Timothy Garton Ash dubbed *Europe's dysfunctional triangle*, namely to be caught between national politics, European policies, and global markets (*Foreign Affairs* Sept/Oct 2012).

It is a fact that the *Maastricht Treaty* of 1992 created a single currency without a single state. This helped the financial crisis of 2008, which emanated from the US, to throw Europe into a fully-fledged sovereign debt crisis, which in turn brought the whole integration project to the brink of collapse.

However, in the course of a turbulent year 2012 much has happened to avert outright disaster. The temporary rescue fund, which was used to help Greece, Portugal and Ireland, has become permanent as the *European Stability Mechanism* (ESM). Critically, the contours of European solidarity, albeit held back by local politics in creditor countries, have slowly taken shape in 2012. Greece's debt burden has been eased and could, after the German elections this fall, be subject to another round of write-offs. Bank-troubles in Italy and Spain have also prompted European risk sharing. Just six months after the eurozone committed itself to break the vicious circle between banks and sovereigns, finance ministers approved the legal framework for a single bank supervisor and reinforced the role of the ECB. There are even plans for a joint resolution mechanism to close or restructure banks, which will be financed from a common fund.

In times of anxiety this all appears to be agonisingly slow. Measured against past European standards, however, it is fast indeed and it proves the adage that in order to achieve progress in integrating Europe one needs a difficult—in fact a very difficult—situation.

But there is no place for complacency. Consequently, the European Commission has put forward a paper for a genuine economic and monetary union. The proposals in this *Blueprint*, resembling those of a report by a group led by European Council President Van Rompuy, include veto power in terms of member states' budgets and a common European budget, funded by own taxes, that would allow transfers to countries in need. Such a *Solidarity Union*, not unlike the US system, would entail a major Treaty reform and could therefore only be implemented over a longer period of time.

For such a political union with a central budget, an enhanced European Parliament with increased legislative powers would have to ensure democratic legitimacy and accountability. Arguably a step too far at present but the direction—"the vision thing," as an American President once called it—is definitely right.

South-East Europe

You might wonder why I have dealt so extensively with global shifts and the EU, when I am supposed to address South-East Europe. I would say that without considering the larger context, we cannot fully grasp the range of challenges that beset the countries of the former Yugoslavia and beyond.

Let me therefore now turn to the immediate neighbourhood of the Union, the *twilight zone* between the EU Members Slovenia—and as of mid-2013 Croa-

tia—and the southern rim members Greece, Bulgaria and Romania. It is worth mentioning in this context that more than three quarters of today's EU Members are former enlargement countries. They can therefore appreciate the efforts being made by those still outside of the Union.

The crisis of 2008 has hit the Non-EU countries of South-East Europe particularly hard. A recent report by the prestigious Vienna Institute for International Economic Studies stated that those economies suffer more than the countries of the eurozone, since most of their exports traditionally go to the hardest hit members Greece and Italy. The countries of former Yugoslavia are, to different degrees, doubly affected by events which they were not part of. First, from a political perspective, the ripple effects of the current developments have reached a region which have still not recovered from the conflicts of the 1990s. The weak state syndrome—characterised by corruption, organized crime and state capture—has been further accentuated. Second, the Thessaloniki promise of 2003, reiterated by the EU on many occasions since then, for a concrete integration perspective for the Balkan region has fallen off the priority agenda.

Today, even countries like Germany view enlargement more as a threat than an opportunity. Plagued by their national problems, European leaders do not want to accept that unless the EU closes its south-eastern gap there is no *finalité* for Europe's integration project to speak of. Croatia's accession is the only bright spot on the otherwise bleak enlargement agenda.

Let's face it. The Western Balkans, to use EU-parlance, is part and parcel of Europe and needs to be treated accordingly. The EU Member States and the countries of the Western Balkans—Albania, Bosnia and Herzegovina, FYROM-Macedonia, Montenegro, Serbia and the recent arrival Kosovo—are communicating vessels, for better or for worse. What must be avoided is a new partition within Eastern and South Eastern Europe, the creation of a *Balkans Banlieue*, which would only reinforce the already disparate political, economic and social developments, affecting all of Europe.

The Western Balkans has in many ways again become Europe's neglected hinterland. The overall picture, however, is mixed and not all negative. Yes, migration, corruption and organized crime are a constant source of concern for the rest of Europe. But there are opportunities to be realized too: potentially lucrative markets, a region of considerable capacities and know-how, as well as people of great creativity and culture. And the region stands a good chance to soon become a security provider, rather than remaining a recipient of security and assistance.

It is thus important for the EU, no matter its internal troubles and unfinished institutional set-up, to resolutely continue to assist and integrate the region. While I am convinced that in spite of the so-called enlargement fatigue EU

membership will eventually be granted to all countries of the region, each one will have to speed up its own reform agenda.

Bridging the time gap between candidacy status—Kosovo is the only country without one—and eventual membership will be thus a challenge for both the EU and the countries concerned. The Commission only recently introduced a long overdue shift in its enlargement policy. Recognizing the slow progress in the region, the Commission acknowledged the necessity to introduce innovative approaches to dealing with challenges arising in the enlargement countries and in the accession process.

The criteria and conditions for membership remain the same. However, in many areas country-specific, tailor-made approaches in dealing with difficult situations, including blockages in the accession process, are necessary, to paraphrase the Commission's own report.

Since the accession of Romania and Bulgaria, the EU is putting the rule of law at the centre of its adapted enlargement policy. Croatia and Serbia, which are under particular pressure from the EU, started to be more proactive in this field. In Croatia, for instance, former Prime Minister Ivo Sanader was sentenced to ten years in prison for corruption and war profiteering in November 2012.

The Serbian police, on the other hand, arrested a group of businessmen on 12 December 2012 on suspicion of abuses during privatization of road construction and maintenance companies. They are suspected of having illegally obtained more than 30 million euro, the Serbian public service broadcaster RTS reported according to the media-watchdog *Balkan insight*.

The EU-report titled *Enlargement Strategy and Main Challenges* from October 2012 provides a rather formalistic but comprehensive overview about the state of affairs in the Western Balkans:

- *Croatia* is due to become EU's 28th member on 1 July 2013. Meanwhile, the Commission continues to monitor the commitments made in the course of accession negotiations by Croatia until the date of accession.
- The European Council of March 2012 granted *Serbia* the status of candidate country. The country's new leadership is implementing smoothly its obligations under the Interim Agreement/Stabilisation and Association Agreement. It also carries on the dialogue with Pristina, but implementation of agreements reached was uneven. Their objective is to open accession negotiations soon.
- *Macedonia* was granted candidate status in 2005. In 2009, the Commission assessed that the country sufficiently met the political criteria and recommended the opening of negotiations. This recommendation was reiterated by the Commission in 2010, 2011 and now in 2012. But the

dispute over its name with Greece remains unresolved and is blocking the accession process.

- The political agreement of November 2011 in *Albania*, between the ruling majority and the opposition marked the end of a long period of political stalemate stemming from the 2009 parliamentary elections. Albania has made good progress towards fulfilling the political criteria for membership in the EU. But Albania needs to build on progress achieved and take concrete steps to accelerate the fight against corruption and the reform of the judiciary in order to ensure its independence, efficiency and accountability.
- On 29 June 2012, the European Council endorsed the decision of the Council, based on a Commission report, to open accession negotiations with *Montenegro*. The opening of accession negotiations reflected Montenegro's continued progress on key reforms. Montenegro sufficiently meets the political criteria, according to the Commission. The country needs to invest more effort to further develop a track record in the area of rule of law with the aim of irreversible reform implementation, in particular with respect to organised crime and corruption cases, including at a high level. Montenegro needs to complete the process of constitutional change in order to safeguard the independence of the judiciary. The Commission already initiated the screening of the chapters on judiciary and fundamental rights and on justice, freedom and security in spring 2012. Screening of the other chapters began in September 2012 and is expected to finish in summer 2013.
- In *Bosnia and Herzegovina* the establishment of the executive and legislative authorities was completed with the agreement on a State-level Government after sixteen months of political stalemate following the October 2010 general elections. The formation of the new Council of Ministers and the adoption of two key EU-related laws initially produced a shift of focus towards EU integration. This momentum was not maintained, however. The political consensus that had emerged was lost and progress on the EU agenda stalled. A shared vision among the political representatives on the overall direction and future of the country and its institutional set-up for a qualitative step forward on the country's EU path remains absent.

While the mere administrative side of the relations between the EU and the countries of the Western Balkans is arguably working, residual but persistent issues remain. Two *historical questions*—the *Serb* and the *Albanian*—continue to deeply affect the political process in the whole region.

Kosovo is still an unfinished state. International recognition is stuck and relations with Belgrade are only slowly getting under way. The northern part of its territory is not under Prishtina's control. However, as of lately the EU's persistent mediation efforts are making progress. Cautious realism seems to—at long last—prevail in Belgrade. In turn, Prishtina seems to be more ready now to seriously consider legitimate concerns of the Serb minority in Kosovo.

Bosnia and Herzegovina, the most dysfunctional of the weak Balkan states, remains internally divided almost two decades after the Dayton Peace Accord ended the bloody conflict. International supervision continues with no end in sight.

Macedonia – or *FYROM* as the official acronym reads—is another feeble state in the region, and is in a dubious search for its historic narrative, while relations between ethnic Slavs and Albanians deteriorate. It will be up to the EU and the US to convince Greece to settle the name dispute with its tiny northern neighbour.

It needs to be made clear beyond any doubt, that in the twenty-first century there is no longer any place for abusing history in the service of petty politics.

Conclusions

The following concluding remarks aim at addressing challenges, which afflict—to a different degree—the entire continent. By focusing on Europe as a socio-economic entity—if not yet a political one—I want to say that Europe will either succeed as a whole, or fail as a divided project.

Without a doubt, unemployment is the most pressing concern among Europeans according to the last *Eurobarometer* survey published in 2012. These findings, unsurprisingly, apply to the member countries of the Union and in particular—but not exclusively—to Spain and Greece, as well as to non-member European states such as Albania, Bosnia and Serbia alike.

Europe's fate hinges on whether and how it will tackle this social scourge...

I would thus like to propose a four point Program for the future of our Continent:

1. A Cooperative Economic Policy to tackle rising social inequality, which is one of the main drivers of the current crisis, and substantial innovation in education and development for all.
2. A fair tax policy, both for the EU and internationally. The recently agreed financial transaction tax among 11 EU Member States is an excellent starting point. The EU should also be the avant-garde in the fight against tax evasion and tax shelters worldwide.

3. Financial Regulation should consist of a comprehensive EU—or at least eurozone-wide regulatory regime for a widely non-transparent financial industry with its complex “innovative” products. In addition, a new and vastly improved macroeconomic system—reigning in the preponderance of the financial industry—is needed.
4. A European Compact for Democracy and Social Dialogue. This is Europe’s existential moment. Politics has to regain its proper place in the twenty-first century society. What the EU, and by extension Europe as a whole, needs is a new quality of democracy. Only a truly democratic and social Europe will be able to build up the necessary resilience to fight crises similar to the one we are in right now.

After some rather lengthy explorations into the current state of Europe, including the non-EU members to the South-East, I hope it became clear beyond any doubt that this is not just another crisis as indicated in the title of this talk. What we are witnessing here, are multiple seismic shifts in world politics: geopolitical, economic and security-wise. These shifts are being both reinforced and compounded by objective factors like the rapidly dwindling natural resources, including land and water, and the ever increasing challenge of climate change. Europe is well advised to plan its own future—moving resolutely towards ever closer integration—with eyes and minds wide open, so as to comprehend well the writing on the wall.