Christian Schweiger
The EU’s multiple cores and the CEEs: A threat or an opportunity?

The sovereign debt crisis in the eurozone has caused a fundamental shift in the EU’s internal power balance with Germany, the strongest political and economic player, essentially determining the political response to the crisis. The establishment and implementation of more efficient mechanisms to ensure fiscal responsibility amongst the eurozone members and the aspiring ones led to the emergence of complex differentiated multiple cores of integration, i.e. the Euro-17, Euro Plus and a detached periphery. The CEE countries are represented in all three of the emerging cores. This puts them at the heart of the emerging political division of the EU, thus generating several challenges and opportunities to their broadly understood political and economic security.

Beáta Farkas
Weakening cohesion as a security challenge for the European Union: the CEEs in focus

One of the fundamental goals of European integration is to provide opportunities to less-developed Member States for both convergence and the strengthening of the economic and social cohesion. Prior to the 2008 global financial crisis, the convergence process across the EU had spectacular results. The aftermath of the crisis, however, threatens the prospects of convergence in the EU. In other words, the EU’s cohesion policy, which could mitigate the crisis’ impact, has not received a prominent status in the forthcoming programming period and in the 2014-2020 multiannual financial framework (MFF). As a result, in the medium term, economic and social cohesion in the EU’s periphery is threatened, thus generating a number of security challenges for the Southern as well as for the Central and Eastern European countries (CEEs) members of the EU.

Nora Vanaga
Is Russia still a threat to Latvia? An analysis of Latvia’s security strategy

This paper examines the security strategies of small states and against this backdrop investigates what kind of security strategy Latvia is implementing. In order to understand the threats and risks that are relevant to Latvia today, its security environment is briefly analysed. The security strategy of Latvia is discussed. It is argued that Russia is still perceived in Latvia as a real threat both at the political and the social levels. It is also emphasized that the prevalence of a cooperative security strategy, rather than a more defensive approach, in Latvia’s take on its security, is conditioned by Latvia’s limited resources.
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Security Dimensions of Central and Eastern Europe

Edited by
Anna Visvizi & Tomasz Stępniewski
The Yearbook of the Institute of East-Central Europe is a peer-reviewed journal.

Language editors and proofreading: The Authors and Dorota Gibka

Cover design and typesetting: Amadeusz Targoński
www.targonski.pl

Cover photo © raz studio | Fotolia.com

This publication appears thanks to the support of the Ministry of Foreign Affairs of Poland and the Konrad Adenauer Foundation

The opinions expressed in the book are the authors' own and do not necessarily represent the view of the Ministry of Foreign Affairs of Poland.

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ISSN 1732-1395

Published and edited by
Instytut Europy Środkowo-Wschodniej
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www.iesw.lublin.pl

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Printed by Perfekta info
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Questions of security remain as valid as ever in Central and Eastern Europe, whereby respective developments in countries of the region offer a multitude of case-studies to test hypotheses, build conceptual frameworks, deliver critical insights and produce reasonable political advice in the field of security governance. The objective of this volume is to map and examine the most important developments on the political and economic landscape of the CEEs so as to rethink the evolving conceptions of threat and security as well as the policy-alternatives that the CEEs have at their disposal when seeking to address the evolving security dimensions.

The volume consists of eight contributions; each of them upholds a very specific dimension of security. Anna Visvizi and Tomasz Stepniewski approach the question of the CEEs’ security dimensions from a security governance perspective and point to specific conceptual and empirical implications of this mode of grappling with variability inherent in security dimensions in the region. Christian Schweiger offers a thorough insight into the changing balance of power in the EU and the emerging multiple cores of integration, i.e. the Euro-17, Euro Plus and a detached periphery. Against this background, the geopolitical options and alternatives that the CEEs face are discussed. Joanna Stryjek delves into the question of economic security concerns that Poland needs to consider prior to taking the definite decision on when to join the eurozone. Beáta Farkas discusses the EU’s cohesion poli-
Introduction

and the contingencies that beset its implementation in post-crisis Europe. The sources of threats to security related to marginalization of convergence and cohesion policy in the multiannual financial framework (MFF) 2014-2020 are examined.

Sarolta Somosi deals with the question of energy security in Central and Eastern Europe and argues that this seemingly regional security issue bears very serious EU-level implications. By means of expanding the geographical scope of analysis, Michał Słowikowski explores the pathways to democracy in the post-Soviet space. The negative impact of Russia’s security strategy on former Soviet republics democratization drive is highlighted in that chapter. The role of Russia vis-à-vis countries of Central and Eastern Europe constitutes the thread of argument of Nora Vanaga. To this end, the case of Latvia is employed to depict the limited security strategy options that this small country can consider vis-à-vis its security concerns. The volume closes with a discussion by Luiza Wojnicz-Smal on the role of the EU’s Common Security and Defence Policy seen as stabilization mechanism in Central and Eastern Europe.

By presenting this volume to the readers the Editors hope that it will provide satisfactory answers to questions of evolving security dimensions of the CEEs. The Editors also hope that it will trigger new questions about the changing facets of security in the region. As ever, the Editors welcome ideas and initiatives that would contribute to extending the scope of the present exploration of security dimensions in the region of Central and Eastern Europe.

The Editors:
Anna Visvizi & Tomasz Stępniewski

Lublin, September 2013
Papers
Approaching CEEs’ security dimensions from a security governance perspective

Abstract: More than twenty years after the end of communism in the CEEs, questions of security remain as valid as ever in the region with variable dimensions of security comprising a complex mosaic of security threats. After 1989 the CEEs’ geostrategic orientation changed, the logic and mechanisms of addressing the evolving security dimensions underwent dramatic reformulation, while a great number of contingencies beset the ways of navigating the emerging challenges to security. Central in the discussion on security in the CEEs is therefore the question of effective governance of the multitude of qualitatively different security dimensions that unfold in an evolving regional and international context. The discussion in this chapter approaches this issue from a security governance perspective.

Keywords: security, governance, securitization, Central and Eastern Europe, EU

Introduction
Although “the reconfiguration of Europe’s strategic landscape in 1989 initiated a redefinition of security in Europe”¹, more than twenty years after the end of communism in countries of Central and Eastern Europe (CEEs), questions of security remain as valid as ever in this region, comprising a complex mosaic of threats and challenges to security. Several developments add to the variability of security concerns in the CEEs. The eurozone crisis highlights the centrality

of financial and economic dimensions of security, influencing in this way the decision of some of the new EU member-states to postpone the adoption of the euro. Enduring instability in the Southern Mediterranean translates into soft-security threats such as illegal migration, human trafficking, export of conflicts and other threats that the CEEs will have to consider more directly in the future. From a different angle, rising energy prices and energy wars point to the challenge of energy dependency, which is particularly acute in the CEEs. While demography and negative demographic tendencies put the prospects of growth across Europe in question, policies designed to foster cohesion across the EU fall prey to crisis-driven budgetary constraints. Simultaneously, in some parts of Europe traditional ‘hard’ security concerns have not disappeared.

The CEEs constitute a particular case in debates on security because following their joining of NATO and entry into the EU their geostrategic orientation changed; the logic and mechanisms of addressing the evolving security dimensions underwent dramatic reformulation, while a great number of contingencies beset the ways of navigating the emerging challenges to security. From this perspective, central in the discussion on security in the CEEs today is the question of effective governance of the multitude of qualitatively different security dimensions that unfold in an evolving regional and international context. The objective of this paper is to shed light on some of these challenges and to examine their implications for the CEEs from a security governance perspective. The major contribution of this chapter is reflected in its theoretical move consistent with establishing a nexus between the broadly understood concept of security and governance and applying it in the EU context. The empirical part of the discussion draws on findings of original research of Authors that contributed to this issue of the Yearbook.

The argument is structured as follows. The first section offers an insight in the scholarly debate on security and security concerns in the post-cold war environment and its implications. In the following move a nexus between the concepts of ‘security’ and ‘governance’ is established and the relevance of ‘security governance perspective’ for the study of the CEEs is discussed. The so-established conceptual scheme is then projected on the key security dimensions that shape contemporary political, economic, social and geopolitical landscape
of Central and Eastern Europe. Eventually, observations regarding security governance in the CEEs are made.

1. Security and security concerns in the post-cold war period

An impressive body of literature upholds the argument that the global security environment was subject to fundamental change following the end of the cold war. It is argued that contemporary threats to security have a completely different shape, direction and pace as compared to those of the cold war era. This shift is linked to forces of globalization or, more specifically, to processes of liberalization, the resulting redefinition of the role of the state, the emergence of new players on the international scene, and progressing interconnectedness across the world’s political and economic landscapes. The changed conception of threat and security associated with the end of the cold war constitutes an important element of the narrative about the EU’s external context. “Europe faces new threats which are more diverse, less visible and less predictable (...) The post-cold war environment is one of increasingly open borders in which the internal and external aspects of security are indissolubly linked”.

Although the concept of security – and its content, especially as regards new security threats such as terrorism, international peacekeeping, refugee resettlement and the promotion of civil society – continues to challenge scholars of international relations and politics, a consensus consolidates to treat security as a complex multifaceted phenomenon that requires interdisciplinary approaches and methodologies. Essentially, however, since late 90s, the academic de-
bate dealing with the changed conceptualization of security has revolved, on the hand, around the constructivism-informed discursive treatment of both threat and security\(^7\), and, on the other hand, around the ‘rediscovery’ of the Deutschian\(^8\) concept of ‘security community’.\(^9\)

The central feature of this strand of scholarship\(^10\) is that it rejects the (exclusively) military-based concept of security; that it questions the primacy of the state in the conceptualization of security; and, that it seeks to keep the security agenda open to many different types of threats, including both military and non-military threats to security.\(^11\) Consequently, five main sectors with which the threats to security might be associated have been identified: the military sector, the environmental sector, the economic sector, the societal sector and the political sector.\(^12\) This ‘multisectoral approach’ to security encouraged diversified research on the so-called soft security threats, i.e. social and economic instability, environmental risk, border conflicts, refugees, migration and the export of conflicts, spread of weapons of mass destruction, human trafficking, human rights, including ethnic conflict and minority problems, transnational organized crime, including terrorism and cyber-terrorism.
The central argument advanced by Buzan et al.\textsuperscript{13} is that security threats exist only to the extent that they are experienced subjectively. Therefore, so the argument goes, security should be studied as discourse in which certain issues are ‘securitized’ or ‘desecuritized’. Security in this context is defined as “(...) the move that takes politics beyond the established rules of the game and frames the issue either as a special kind of politics or above politics. Securitization can thus be seen as a more extreme version of politicization. In theory, any public issue can be located on the spectrum ranging from non-politicized (...) through politicized (...) to securitized (meaning the issue is presented as an existential threat requiring emergency measures and justifying actions outside the bounds of political procedure)”\textsuperscript{14}.

A great variety of factors conditions the process of politicization and securitization today. Undeniably, increasing institutionalization of international relations plays a key role in this context because the variety of less/more formal integration schemes in existence defines powerful institutional/ideational frames within which contemporary processes of politicization and securitization take place. Interestingly, as politicization and securitization unfold, new issues acquire the status of politicized and securitized, thus extending the conceptual load of ‘security’. For instance, the eurozone crisis and discourses framing it created a considerable pressure for economic and social security to be included in the conceptual spectrum of ‘security’. As multiple dimensions of security co-exist, politicization and securitization unfold in diverse fora and at multiple levels. In this way, the key actors involved in these processes are encouraged to goal-oriented cooperation of a limited geographical scope. At the same time, the emergence of multiple and frequently complementary modes and mechanisms of managing security concerns, i.e. security governance, is fostered across a given region, e.g. Central and Eastern Europe. In the following section the nexus between the concepts of security and governance is established and the relevance and usability of this conceptual framework is justified.

\textsuperscript{13} Ibidem.
\textsuperscript{14} Ibidem, pp. 23-24.
2. Delineating the security-governance nexus

The concept of ‘governance’ emerged in context of the globalization debate to account for the emergence of new (state and non-state) actors that challenged the established modus operandi of the international system. The resulting broad ‘governance debate’ that continues up until today is based on the assumption that state borders have become increasingly porous\textsuperscript{15}, spheres of authority are shifting, whereas the political landscape – although increasingly fragmented – is nevertheless supportive of attempts at integration. Referred to as ‘frAGMENTATION\textsuperscript{16}’ this phenomenon signals that globalizing and localizing dynamics coexist and shape contemporary international landscape. The concept of ‘governance’ signifies therefore a departure from a narrow focus on government toward broader and more inclusive forms and mechanisms of managing politics at a subnational, regional, and international level.

From a political science perspective, ‘governance’ “denotes the structures and processes which enable a set of public and private actors to coordinate their independent needs and interests through the making and implementation of binding policy decisions in the absence of a central political authority”\textsuperscript{17}. In this view, governance is bound to contain both horizontal and vertical dimensions. That is, “Horizontally, it refers to the multiplicity of non-state actors (...). Vertically, it signals the growing interaction of these actors at various territorial levels – national as well as subnational and international – which is encapsulated in the notion of ‘multi-level governance’ (MLG)”\textsuperscript{18}.

MLG, seen as an essential feature of EU governance\textsuperscript{19}, proved particularly useful in context of examining the EU policy-making process. Specifically, it offered a convincing conceptual frame for treating

the EU as an instance of a “regulatory state”\textsuperscript{20} or “at least as if it was on the pathway of becoming such an entity”\textsuperscript{21}. Simultaneously, the emphasis on diverse levels of policy-making that MLG introduced permitted directing the empirical search-light in EU studies toward diverse fields and levels of policy-process in the EU. Accordingly, the ‘governance turn’ allowed for treating the EU not as “a state, but [as] a unique system of non-hierarchical, regulatory and deliberative governance”\textsuperscript{22} and had thus justified claims that the EU could be studied by the application of comparative politics and international relations.

Given the relative conceptual inflation of the term ‘governance’, not only in the field of EU studies, Jachtenfuchs and Kohler-Koch\textsuperscript{23} stress that “governance involves setting goals and making decisions for an entire collectivity, including individuals or groups who have not explicitly agreed to them. It also involves a rather high level of intervention which may stabilize or alter a given status quo”. It is a concept endowed with vertical and horizontal dimensions, useful for grappling with phenomena and developments that involve a goal-centred interaction among multiplicity of actors in context of formal and informal institutions/structures\textsuperscript{24}. Its horizontal and vertical dimensions render it particularly apt for a merger with the concept of (multisectoral) security, and thus very useful in view of discussing the diversity of security dimensions specific to the CEEs. In this way, (security) governance allows accounting for the complex nature of the environment in which the CEEs operate, without reducing the influence of the EU, NATO, and other players, most notably Russia. Importantly, due to its applicability to the study of the EU, the concept of (security) governance lends itself to a discussion on mechanisms that underpin the dynamic web of interactions between formal and informal institutions/structures of which the CEEs are part.

\textsuperscript{21} B. Rosamond, \textit{Theories of European Integration, Basingstoke 2000, p. 108.}
\textsuperscript{24} Ibidem.
Overall, although the conceptual merger of security and governance is not new\textsuperscript{25}, ‘security governance’ remains a concept in its formative stage\textsuperscript{26}. Notably, a tendency persists to apply ‘security governance’ in context of a narrowly defined concept of security\textsuperscript{27}. This take on security governance limits of course its application as a great number of security concerns identified otherwise in the ‘multisectoral approach’ to security are excluded from the analysis. In this view the value added of the specific approach to security governance proposed here consists of its ability to grapple with multiple dimensions of security specific to the CEEs. Importantly, through its focus on MLG it also bears the promise of accounting for mechanisms and logic behind the emergence of these security dimensions.

Current developments in the EU, especially in the CEEs, provide rich empirical material to test the premises of the conceptual framework discussed above. The contributions included in this volume highlight the evolving security dimensions specific to the CEEs, provide details of each specific facet related to a given aspect of security in the region, and by explaining the variability inherent therein suggest how specific security concerns add to the challenge of security governance in the CEEs.

3. Dimensions of security in the CEEs: actors, levels, issues

The contributions included in this volume point to a diversity of security issues and offer a critical insight into the variability of security dimensions across the CEEs. While the economic component of security is emphasized, the Authors highlight also its political implications in view of the emerging (im)balance of power and contingencies besetting intergovernmental bargaining at the EU level today. The notion of economic security is associated not only with material factors

\textsuperscript{26} H. Hänggi, Approaching Peacebuilding....
\textsuperscript{27} E. Kirchner, R. Dominguez, Security Governance in a Comparative Regional Perspective, UNU-CRIS Working Papers, W-2013/8.
determining the escalation of the eurozone crisis but also with uncertainty as to the future shape of the eurozone. This in turn is directly linked to the question of the EU’s capacity to govern.

In this context, it is possible to argue that economic security of the CEEs, and in particular of these new EU members that are bound to adopt the euro in the future (the so-called pre-ins), is a function of their exclusion/inclusion in the agenda-setting process in the EU as well as of their efficient participation in the decision-making process concerning the development of the EU’s capacity to govern. Uncertainty related to the future dynamic and direction of change in the eurozone is seen in this context as a serious threat to economic security. Poland represents a good case in point here in that the decision of the Polish government to postpone the adoption of the euro was driven by very clear economic security considerations. Joanna Stryjek explains that the decision of Poland to put on hold its eurozone membership is a direct implication of the uncertain trajectory of developments in the eurozone itself. Stryjek argues that adopting the euro at this stage might generate more challenges and threats than opportunities and benefits to the Polish economy.

Christian Schweiger offers a broader conceptual frame to the question of the CEEs’ actual and potential membership in the eurozone and security threats attached to it. Schweiger argues that the eurozone crisis led to the emergence of differentiated multiple cores of integration in the EU, i.e. the Euro-17, Euro Plus and a detached periphery. The CEEs, both ‘ins’ and ‘pre-ins’, were then pushed at the heart of the emerging political division of the EU that the multiple cores of integration de facto embody. This poses a number of correlated economic and political challenges to security that the CEEs need to address. One way of mitigating these challenges, as Schweiger suggests, is through “deeper and sustained cooperation amongst the Visegrád 4 countries (Poland, the Czech Republic, Slovakia and Hungary)”. Such a sustained cooperation might prove crucial for raising the profile of the region in the current EU debate, Schweiger explains and, in turn, address the notion of uncertainty and its economic security implications.

The impact of the eurozone crisis on the evolution of security dimensions of the CEEs is equally visible in discourses framing the future of the EU’s cohesion policy. Beáta Farkas argues that the aftermath
of the global financial crisis and the eurozone crisis itself have threatened the prospects of convergence in the EU. Although the EU’s cohesion policy could mitigate the crisis’ impact on society it has not received a prominent status either in the forthcoming programming period or in the 2014-2020 multiannual financial framework (MFF). As a result, in the medium term, the prospect of increasing economic and social cohesion in the EU’s (eastern and southern) periphery is put in question. Convergence as well as economic and social cohesion is in this way portrayed as the key variables of economic and social security. In view of the security governance debate, the case of EU’s cohesion policy is particularly interesting in that it reveals the contingent nature of the interaction between the EU’s institutions, the EU member-states and informal structures of governance and their implications for security concerns in the EU’s periphery. The case of the CEEs acquires special status in this context as the CEEs are relatively new to the processes of bargaining at the EU level. Notably, it was the first time that the CEEs were given the opportunity of full participation in the entire lengthy process of negotiating the MFF.

From a slightly different perspective, although not entirely detached from the eurozone crisis, Solta Somosi dwells on the question of energy security in the CEEs. Somosi argues that whereby huge differences in the organization of demand and supply of energy exist between the old and the new EU member-states, the CEEs experience the highest dependency rate on energy imports. This constitutes a regional security problem. However, as the new member-states serve as primary intermediaries and/or transit markets between gas and oil supplies to Western Europe, this primarily regional security challenge acquires a very clear pan-European dimension. This in turn opens up some very interesting questions as to how the CEEs succeed in using it as leverage for political bargaining at the EU-level. The debate on shale gas reserves and their exploration could offer an additional very interesting empirical insight into this issue

Although traditional threats to security in the CEEs have been largely replaced by new security dimensions, the example of Latvia makes

it clear that traditional and new threats to security can coexist. Furthermore, the example of Latvia also showcases that even if EU/NATO membership may have stabilizing impact on security in the region of Central and Eastern Europe, country-specific perceptions of threat continue to be shaped by history and political geography of the place. Nora Vanaga explains that Russia is still perceived in Latvia as a real threat both at the political and the social levels. Being a small state, Latvia’s resources are limited, which in turn conditions the specific security strategy choices that Latvia implements. What is particularly interesting in the case of Latvia is how traditional military threats to security intertwine with novel risks, such as cyber-attacks. An equally interesting observation is that NATO and EU memberships do not offer ready-made solutions as to how to manage perceptions of threat and specific security issues. Therefore, the specific security strategy that Latvia implements remains a function of Latvia’s authorities’ ability to on the one hand to engage in dialogue with Russia, and on the other hand to get involved in the broader process of security governance at regional level. This, however, is contingent on a number of factors.

The question of Russia vis-à-vis perceptions of threat and security in the CEEs is a natural corollary of the Soviet-based rule across the region during the cold war. By extending the scope of discussion from the CEEs to the broader post-Soviet space, Michał Słowikowski explains that the security strategy that Russia implements has a fundamental twofold impact on the political developments in countries in the area. First, Russian aggressive politics in the region offers partial explanation of why some of the post-Soviet countries wish to join Western institutions and follow the democratization path that membership in these institutions would require. Second, as Russia undermines these countries’ pro-western and pro-democratic vector of development, respective national security concerns blend with questions of political transformation and prospect of democratization. This in turn creates a dangerous conundrum from the security governance perspective.

That is, although some former Soviet Republics succeed in employing the perceived threat to reinforce their state-building efforts and speed up the democratization process, overall the prospect of democratization in the post-Soviet space remains uncertain. In this way, the risk of political instability and the resulting eruption of armed con-
Conflicts across the post-Soviet space remain high. Luiza Wojnicz-Smal argues that irrespective of the demise of the Soviet Union and active involvement of many regional organizations with questions of security in the region, the CEEs are still challenged by a great number of traditional threats to security.

4. Security governance in the CEEs: the four ‘Ps’

The above certainly incomplete illustration of the evolving security dimensions in the CEEs suggests that traditional (mainly hard and military) threats to security remain valid in the region and a number of novel threats to security unfold. The processes of politicization and securitization of certain issues take place at the EU-level, as EU-level discourses provide more efficient venue for successful promotion of particular interests and – as in case of security – of security concerns. As the example of economic security suggests, however, due to the (im)balance of power related to the emergence of differentiated multiple cores of integration in the EU, the possibility of framing specific security concerns through EU-level discourses becomes increasingly contentious for the CEEs. Prospectively, this provides an interesting empirical angle to inquire from the security governance perspective. It offers an equally interesting view on the variable facets of Europeanization in post-crisis Europe.

Looking at the CEEs from the security governance perspective, it is possible to distinguish three broad levels/dimensions of security: country-specific, national, and European. A variety of actors is involved in the process of politicization and securitization of respective issues at each of the dimensions of security. As the discussion in this volume suggests, security dimensions in the CEEs are conditioned by predictability, participation, policies’ ownership and perceptions of threat. These four ‘Ps’ imply specifically that at the conceptual level, security governance requires increasing the degree of certainty as to the CEEs influence on the developments in the EU. It also makes it imperative that their degree of participation in the policy-making process rises, whereas their ownership of EU policies increases. Finally, security governance renders it necessary that appropriate strategies of communi-
cating the existence and the implications of perceptions of threat that shape domestic (security) policy concerns across the CEEs are communicated to the rest of the CEEs’ European partners.

At the level of policy-making the above implies that effective security governance in the CEEs requires further support to regional initiatives, such as cooperation within the Visegrád Group, sustained dialogue at the EU-level and improved cooperation in regional and European settings. The contributions entailed in this volume offer some empirical testing to the above normative statements. Further empirical and theoretical input is required though to develop a comprehensive policy advice for the CEEs from the security governance perspective.

**Bibliography**


Christian Schweiger

The EU’s multiple cores and the CEEs: A threat or an opportunity?

Abstract: The sovereign debt crisis in the eurozone has caused a fundamental shift in the EU’s internal power balance with Germany, the strongest political and economic player, essentially determining the political response to the crisis. The establishment and implementation of more efficient mechanisms to ensure fiscal responsibility amongst the eurozone members and the aspiring ones led to the emergence of complex differentiated multiple cores of integration, i.e. the Euro-17, Euro Plus and a detached periphery. The CEE countries are represented in all three of the emerging cores. This puts them at the heart of the emerging political division of the EU, thus generating several challenges and opportunities to their broadly understood political and economic security. The objective of this chapter is to explore these issues.

Keywords: European integration, eurozone, financial crisis, Central and Eastern Europe

1. The emerging EU of multiple cores

The 2007-2008 global financial crisis, which has its origins in the subprime mortgage turmoil in the United States, has severely affected economies across Europe and substantially altered the EU’s internal power balance. By 2009, all EU-27 countries, with the exception of Poland, were in deep recession. While some recovered relatively quickly, others – who already had existing problems with structural debt – were plunged into a severe sovereign debt crisis. For many countries in Europe the fragile foundations of the financial services industry, which over the years prior to the crisis had increasingly operated on
a cross-border basis, turned out to be the weak spot. The crisis revealed an essential weakness in the project of monetary integration. This was the failure of Euro member states to stick to the rules they had jointly determined for the project of monetary union. The Eurozone essentially was run by a governance “light” approach with no penalties for countries who had built up an excessive deficit. The result was a predictable high level of vulnerability towards external shocks such as the global financial crisis¹.

The political response to the crisis in the EU, predominantly determined by Germany, has created a new complex policy framework with multiple layers of responsibility. It essentially divides the EU membership-base into multiple cores with noticeable differences in terms of the level of integration and influence. This follows a long-standing discussion in the EU about the possibility of differentiated speeds of integration in the EU which became most prominent in the early 1990s. A paper published in 1994 by senior Christian Democrats Wolfgang Schäuble and Karl Lamers on the future of European politics advocated ‘flexibilisation’ of the integration process as a means of overcoming the political stalemate in enlarging the EU. The paper also proposed to allow the deepening of political integration amongst a core group of countries who would be willing towards a federal union to be spearheaded by France and Germany².

The successive rounds of enlargement, as a result of which the EU now consists of 27 member-states, gave rise to an understanding that groups of member-states may deepen their integration at different speed. The ‘flexibilisation’ of decision-making in the EU under the 1998 Amsterdam Treaty introduced the possibility for member-states to opt out of certain policy areas. Since then, the academic debate has increasingly concentrated on an ‘insider’ vs. ‘outsider’ categorisation, based on different levels of horizontal (deepening) and vertical (widening) integration in the EU³. When considering this

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Distinction it becomes obvious that, since its creation, the European project has never completely ground to a halt. Even during periods where the vertical axis of integration (deepening) slowed down or came to a halt, the membership-base still grew (widening). Since Maastricht, the EU has seen an increasing level of ‘internal differentiation’ between groups of members who participate in different forms of integration, with the division into the Eurozone group, the associated countries of the European Economic Area (EEA) and the temporary exclusion of the CEE countries from freedom of movement in the Single Market. With economic and monetary union as the core project of the EU, the highest level of horizontal internal integration has developed inside the Eurogroup. In response to the sovereign debt crisis the member-states have, however, initiated a much more pronounced internal differentiation of the Single Market, both in horizontal and vertical terms. The horizontal division, which used to concentrate on the eurozone core vs. periphery dichotomy, has now been enhanced by the emergence of the additional layer of the Euro Plus group and the intergovernmental Fiscal Compact. These three cores are also significantly distinguished by their level of vertical integration:

1. The eurozone core is in the process of gradually moving towards a political union. This process is led by an increasingly unbalanced Franco-German alliance. With France’s political influence waning as a result of its weakening economy, Germany has moved into the position of a ‘reluctant hegemon’. Consequently, it is substantially involved in shaping the future design of the Eurogroup. The eurozone has already moved beyond a loose coordinative approach to governance, as automatic penalties for countries who either fail to correct their excessive deficit or display profound macro-economic imbalances have been introduced. The intergovernmental Fiscal Compact,
which has 25 signatories (excluding the Czech Republic and the UK), foresees consequences for a breach of the ‘golden’ fiscal rule only for the Euro-17 countries. In this way, the Fiscal Compact reproduces the divide between the eurozone and non-eurozone member-states, and embraces the existence of the core. To support these new mechanisms the European Commission is in the process of receiving a mandate from member states to act as an executive regulatory body with binding direct supervisory powers over national fiscal and macroeconomic policies in the Eurogroup. Whatever concrete shape the plans for political union will eventually take in the eurozone, the Commission is likely to be equipped with substantially more supervisory powers over national policies than it is today. Under the latest German plans, the Commission could be transformed into a fully-fledged European executive.

The now German finance minister Schäuble called for the creation of a directly elected European president who would lead a Commission with stronger regulatory powers. The Barroso Commission itself envisages the ‘possibility to require a revision of national budgets in line with European commitments’. The practical implementation of these plans will have a profound impact on national fiscal and economic policy-making.

2. The Euro Plus Pact group of countries who voluntarily adhere to the Eurozone Stability and Growth Pact (SGP) criteria goes back to the 2011 initiative by Angela Merkel and the former French President Nicolas Sarkozy. The purpose of the Euro Plus Pact (EPP) is to ensure that the Eurozone countries and prospective members commit themselves to deeper policy coordination beyond the Europe 2020 targets. The aim of the EPP is to encourage the Eurozone-17 countries and the participating outsiders, such as Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania to pursue national reform targets, which will prepare their economies for a smooth entry into the euro-

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9 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Article 7, Brussels, 2 March 2012.
10 W. Schäuble, Speech at the award ceremony for the 2012 Charlemagne Prize, Aachen, Germany, 17 May 2013.
zone. Member-state governments initially set their own targets. These are subsequently monitored by all EPP-members on the basis of annual Commission progress reports. The countries in this group are all committed to engaging in the coordination of their policies with the eurozone. Poland is, however, the only country in the EPP which has clear political reasons for engaging in this process. The Polish government under Donald Tusk considers the adoption of the euro as a means to boost their country’s influence in the EU. In contrast, the remaining outsiders, with the exception of Lithuania, are predominantly interested in joining the eurozone for reasons of economic stability and are less positive than Poland about the potential political benefits of adopting the euro.

3. The third small periphery group of the two countries who prefer to limit themselves to the open method of coordination under the European Semester currently consists of the UK and the Czech Republic. These two countries were clearly alienated by the swift Franco-German drive towards the deepening of political integration in response to the sovereign debt crisis. A major factor in the decision of the British Prime minister David Cameron to promise a public referendum on EU membership in 2017 is the British scepticism towards the emerging plans for the deepening of political integration in the EU. There is a realistic and to date unprecedented prospect that the UK, one of the leading member-states, could leave the EU within the next five years. A similar sentiment can be traced across the political spectrum in the Czech Republic. Although Euroscepticism in the Czech Republic is far less deep-seated than in the United Kingdom, at least for now, the Czechs have joined the British in positioning themselves on the outer political fringes of the EU. Having opted out from the Fiscal Compact, the Czech Republic under its current leadership seems unconcerned about being on the margins of an EU of multiple cores.


13 According to the latest Eurobarometer results only 43 per cent of Czechs would consider leaving the EU as an option which offers a better future for their country, while 54 per cent of British citizens see leaving the EU as a positive vision for the future (European Commission, *Public Opinion in the European Union*, “Standard Eurobarometer”, 78, Autumn 2012, p. 50).
This periphery group is likely to be joined by other Eurozone outsiders who remain only half-heartedly committed to policy coordination with the Euro-17. Prime examples for this are Hungary and Sweden, who are both signatories of the Fiscal Compact but decided not to participate in the EPP. Even some of the Euro-17 countries could join the fringe group in the future if concerns about the impact of political union on national sovereignty increase. Eurosceptic sentiments and domestic opposition against the plans for political union in the Eurozone are already growing substantially. The latest Eurobarometer results show a sharp decline in public trust across the EU. 57 per cent of citizens in the EU-27 now say that they tend not to trust the EU, a sharp increase from 37 per cent in 2007.14

Figure 1. The EU’s post-crisis multiple cores

Figure 1 illustrates the discussed above differentiation of the EU membership into multiple groups. The vertical axis shows the gradual progression of the level of integration from the relatively loose Sin-

14 Ibidem, p. 75.
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The emerging division in the EU particularly affects the CEE region. The group of countries who were the most recent ones to join the EU in 2004 and 2007 have all been facing similar challenges in transforming their economies after the end of the Cold War. They are, however, far from being one uniform group and are characterised by distinct political, economic and social differences. Following their accession to the EU, all CEE members have made substantial efforts to meet the budgetary criteria of the EMU Stability and Growth Pact with a clear aspiration to be prepared for euro entry. The Eurogroup was, however, reluctant to approach the new applicants’ ability to fulfil the SGP criteria with the same flexibility as it was the case inside the club. Countries such as Poland, who had a clear aspiration to join the eurozone quickly, were told that they had to meet all the SGP criteria, including the conversion of long-term interest rates. At the same time, many amongst the then eurozone-14 members broke the SGP budgetary criteria. It took until 2007 for Slovenia to become first of the CEE-8 group to adopt the euro, Slovakia followed in 2009 and Estonia in 2011. The others were kept waiting in line. This
included Poland which before the crisis had set itself an ambition to join by 2012. As eurozone members, Estonia, Slovakia and Slovenia are already participating on all levels of EU decision-making, whilst Poland, Latvia, Lithuania, Romania and Bulgaria are in the Euro Plus Group of aspiring member-states with a rather limited influence over strategic decisions on the future of the eurozone. Hungary and the Czech Republic have chosen to remain semi-detached from the core decision-making in the EU and are positioned at the outer fringes of the Single Market.

2.1. The eurozone insiders

In spite of being in the Euro-17 group, as small countries, the ability of Estonia, Slovakia and Slovenia to influence the EU’s policy agenda remains limited. Moreover, the three countries have been predominantly focused on their domestic affairs and shown little interest in trying to make their mark on the wider EU’s internal institutional development. For these smaller countries membership in the EU is still predominantly an issue of political and economic security. From the perspective of these countries, being positioned inside the EU is considered to be a crucial safeguard of national independence and adverse external influences, predominantly from the former regional hegemon, Russia. The three CEE eurozone members have consequently been content with remaining mainly in the position of policy-takers and to present themselves as conformist member-states.

Slovenia is currently struggling to maintain the latter position as it faces a profound economic crisis and is likely to join the list of sovereign-debt crisis countries in due course. It faced a double-dip recession in 2012 and is predicted to stay in recession at least until 2014. Slovenia has been breaking the Maastricht criteria since the financial crisis, and its budgetary position remains difficult. The country is expected to have to borrow more than five per cent of its GDP in 2013 and only slightly less in 2014. At the same time, it is also on the brink of exceeding the 60 per cent limit of structural debt. Given the difficulty of its economic circumstances, it is widely expected that Slovenia will

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be the next eurozone country to ask for financial support under the European Stability Mechanism. Estonia’s relatively open and export-oriented economy was also hit hard by the crisis and the country plunged into deep recession in 2009. By 2010, Estonia was, however, already growing again by more than three per cent per year, followed by a substantial boost to growth in 2011 (8.3 per cent). Since 2012 growth has slowed down again but is expected to remain between three and four per cent in 2013 and 2014. The budgetary situation of Estonia remains exemplary with the level of annual borrowing below one per cent and a structural deficit of less than 11 per cent.\footnote{Ibidem, p. 45.}

Slovakia shows an equally good level of recovery from the crisis and since 2010 has returned to GDP growth between two and four per cent. This year, Slovakian growth is expected to slow down to just above one per cent, with a further upswing expected for 2014. The Slovakian budgetary situation is less fortunate. Having exceeded the three per cent borrowing limit, the Social Democratic government led by Robert Fico will have to make some efforts to meet the SGP annual borrowing target again in 2013 and 2014. Fico emphasised that his government will make substantial consolidation efforts to set Slovakia on a course of long-term budgetary solidity and to support the EU in its effort “to regain the trust of markets and the trust of citizens”.\footnote{R. Fico, \textit{Speech at the International Conference GLOBSEC 2013}, Bratislava, Slovakia.} This consolidation course will be essential to prevent Slovakia from breaking the second Maastricht criterion, as its level of structural debt has risen from 35 per cent in 2009 to 52.4 in 2012.\footnote{European Commission, \textit{European Economic Forecast...}, p. 81.} Another big challenge for the Slovakian government is the high level of unemployment, which currently stands at 14 per cent and a significant number of 15-24-year-old Slovakians are out of work (35 per cent).\footnote{European Commission, \textit{Unemployment rate 15-24 year}, available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, accessed: 11 May 2013.}

\section*{2.2. The Euro Plus Pact Group}

Poland’s chances to enter the eurozone were dampened by the decline in its budgetary position when the global financial crisis hit Europe.
Even outside the eurozone Poland is the leading country amongst the CEE member-states and has substantially enhanced its influence in the EU since accession in 2004 by playing a largely constructive role. The Tusk government worked closely with France and Germany in the Weimar Triangle and was instrumental in the development of key strategic policy areas, such as the Eastern Partnership under the EU Neighbourhood Policy. This follows an earlier tendency of Poland as an active player in the EU, as in 2002 it was involved in establishing the crucial Berlin Plus Agreement, which set the framework for the future transatlantic security cooperation between NATO and the EU. Poland also has a sound record of economic transformation.

Before the financial crisis hit, Poland was on course to meet the Maastricht criteria and had brought down its annual level of borrowing to 1.9 per cent in 2007. Eurozone entry in 2012 was therefore a realistic target but this ambition was shattered when the Polish annual deficit broke the three per cent limit again after 2008. The Commission forecasts that Poland could just meet the three per cent SGP annual borrowing limit in 2014 while its structural level of debt is likely to remain below the 60 per cent limit.\(^{20}\) The Polish government has clear leadership ambitions in the EU and is frank in expressing these. At the same time, there is a realisation that the entry into the eurozone will be a crucial factor in ensuring that Poland will eventually be able to match the political and economic weight of France and Germany. The Polish foreign minister Radosław Sikorski considers the current crisis as an opportunity for Poland to enhance its influence, particularly in the light of the increasing isolation of the UK under David Cameron:

“In light of the turmoil in the south and the insular British approach, we stand a chance of becoming part of the hard core of European decision-makers. Even though we are already a Member-State to be reckoned with, to further boost our significance we should be ready to adopt the euro.”\(^{21}\)

Under the conditions of the sovereign-debt crisis, adopting the euro has become a controversial domestic issue in Poland. The Polish prime

\(^{21}\) R. Sikorski, *Address by the Minister of Foreign Affairs on the Goals of Polish Foreign Policy in 2013*, 20 March 2013.
minister Tusk highlighted this in his recent public discussions with Merkel in Berlin when he spoke of the possibility of holding a public referendum before setting another date for eurozone entry. 

Poland is currently the only country amongst the CEE-10 which has started to move into the position of an active policy-maker. The other EPP signatories have so far remained in the position of passive policy-takers and also sent mixed signals regarding their interests in joining the eurozone. Latvia has set itself the date of January 2014 as the national target for adopting the euro, while Lithuania is still in the process of determining an official target date for accession. Although Lithuania officially remains committed towards the eurozone entry, due to the crisis the level of enthusiasm amongst Lithuanians for joining the eurozone remains low. The latest Eurobarometer on the issue conducted in April 2012 shows that 51 per cent of citizens in Lithuania are against joining the eurozone. The opposition is even starker in Latvia (53 per cent) and Poland (54 per cent). This reflects the overall growing public scepticism about the current state of the eurozone. Overall, however, the majority of citizens in all the CEE outsiders, apart from the Czech Republic, consider the euro as having had positive effects on those countries who introduced it, e.g. 47 per cent in Lithuania. As a relatively open economy with a sluggish domestic sector, Lithuania is more sceptical than its neighbours about being tied into a eurozone framework, which has now essentially become a transfer union. The political benefits of joining are less clear-cut for Lithuania than they are for Poland. It is therefore likely that Lithuania will remain lukewarm about joining the eurozone in the near future.

Bulgaria and Romania show the greatest level of passivity in the CEE group. The two newest members are currently content with remaining in a position of policy-takers in the EU. They seek to overcome any prejudices towards their ability to fully integrate into the EU’s acquis,

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22 Polish PM says wants to join euro but Poles worried, “Reuters”, 22 April 2013.
23 V. Dimitrov, The Central and East European Countries: From Weak Latecomers to Good Citizens of the Union, [in:] J. Hayward, R. Wurzel (eds), European Disunion: Between Sovereignty and Solidarity, Basingstoke 2012, p. 308.
including the Schengen area regulatory framework. This is the inevitable consequence of the fact that both countries remain substantially behind other CEE members as regards the efficiency of domestic governance and regulatory quality. There are therefore justified doubts about their ability to implement the rule of law and reduce the levels of corruption. The image of these countries is further affected by other concerns. For instance, in 2014 the transitional periods for the free movement of people will be waved for Bulgaria and Romania. Therefore, a debate emerges in the UK, Germany and other member-states on the expected negative effects of increased migration from Bulgaria and Romania.

The above illustrates that essentially both countries are still regarded as outsiders by their Western European counterparts. Romania has, nevertheless, submitted an official application to join the eurozone by 2015. This is based on Romania having met the budgetary criteria for entry in 2012 with especially low levels of public debt (38 per cent in relation to the GDP). Bulgaria has similar sound budgetary figures with extremely low structural debt of around 18 per cent. Nevertheless, both countries still face profound challenges when it comes to their social cohesion. They have the largest number of citizens in the EU-27 who are considered to be at risk of poverty. In Romania currently 40 per cent of all citizens are considered to be at risk of poverty or social exclusion. In Bulgaria, the figure stands at almost 50 per cent (against the EU-27 average of around 24 per cent). This is the background to the increasing concerns amongst some of the EU-15 countries that Romania and Bulgaria may be facing substantial levels of poverty migration when the transitional restrictions on the free movement are waved in 2014.


Ibidem.

Ibidem.


2.3. The periphery group

The Czech Republic and Hungary have clearly chosen to remain on the side-lines when it comes to strategic decision-making in the EU and, instead, concentrate on their domestic affairs. In the case of Hungary this is the result of persistent economic weakness with low levels of growth, high unemployment and consequently difficulties in consolidating the country’s budget. Hungary’s structural level of debt has slightly decreased from the peak of over 80 per cent in relation to its GDP in 2010 and 2011, but is forecast to remain substantially above 70 per cent until 2014. Hungary was in recession in 2012 and is likely to remain in it until 2014 when the Commission forecasts a slight growth of 1.3 per cent. Unemployment has risen to over 10 per cent in 2012 and is likely to grow beyond 11 per cent until 2014, which is higher than the EU-27 average. Hungary fares particularly badly when it comes to youth unemployment amongst 15 to 24 year olds, which currently stands at 29 per cent. The European Working Conditions Observatory estimates that between 2004 and 2010 approximately 27,000 Hungarians have left the country each year to work abroad. In 2011 alone, the number of Hungarians emigrating to work abroad rose to 85,000. The government of Victor Orban has made economic and budgetary consolidation a priority of its domestic agenda and imposed a strict austerity course. Orban has also implemented a controversial programme of domestic constitutional reforms which has been widely criticised by the EU and its member-states’ governments. The response from the Hungarian government has been one of playing towards Eurosceptic and even nationalist sentiments at home. Orban is not afraid to compare the EU with the Soviet Union under Stalin and to promote an isolationist stance in the domestic political debate:

“We are building a country in which people don’t work for the profit of foreigners. A country in which we will not be told how to live our lives, what can be in our Constitution and when we can increase...”

wages, by bankers and foreign bureaucrats. A country in which no-one can force the interests of others upon the Hungarian people.”

This inward-looking stance, which is accompanied by a tax levy on foreign companies, is likely to isolate Hungary politically in the long run. It also threatens to deter foreign companies from investing in the country and to undermine the country’s foundations for economic recovery. Given its current focus on domestic issues, the Hungarian government is unlikely to pursue eurozone entry in the foreseeable future. Even if Hungary should eventually meet the SGP criteria, the Orban government is likely to remain sceptical of the emerging political architecture in the eurozone. Hungarian concerns regarding euro-membership are likely to focus on the potential impact on the country’s budgetary sovereignty and general political autonomy.

The Czech Republic is in much better economic shape but has nevertheless chosen to opt out of the Euro Plus Pact and the Fiscal Compact. The Czechs have also become very sceptical about the benefits of joining the euro. This is the result of a domestic political debate which was strongly influenced by the former Czech president Václav Klaus, an ardent Eurosceptic. The Czech Republic was in recession in 2012 and is forecast to have zero growth this year. The country, nonetheless, has a relatively low level of unemployment (between 6.7 and 7 per cent in 2011-12) when compared with the EU-27 average of over 10 per cent. It is forecast to meet the SGP annual borrowing limit of three per cent again in 2014 and has structural debt below 50 per cent. The Czech government continues to adopt a cautious approach and avoids making an official commitment to eurozone entry. The prime minister Něčas’s decision to join the UK in opting out of the Fiscal Compact was derived from predominantly domestic reasons and could be lifted after the 2014 general election. Něčas justified the Czech position by pointing out that his government would not want to act as a hurdle towards deeper integration in the EU. At the same time, he emphasised that his government would resist

36 European Commission, European Economic Forecast..., p. 39.
pressures to sign up to greater harmonisation in policy areas other than the liberalisation of the Single Market. A crucial factor in determining the future Czech stance towards eurozone membership and political union will be the role of the new Czech president Miloš Zeman, who seems to have a far more constructive attitude towards the EU than his predecessor.

3. Risks and opportunities for the CEEs

The currently emerging division poses risks and opportunities for the CEEs. One major risk is that it may drive them further apart and undermine any efforts to make a concerted effort to influence the EU policy agenda. The profound effect the eurozone crisis had on the region shows how closely interlinked all CEE economies have become with the rest of the Single Market. Even those countries who currently are outside the eurozone continue to be profoundly affected by the crisis as a result of their dependence on exports to the Euro-17 countries. For reasons of their own economic security the CEE eurozone outsiders therefore have a substantial interest in ensuring that the eurozone recovers from its current economic woes. At the same time, under the EU’s emerging multi-tier system of members, the CEE outsiders (even those in the Euro Plus group) have very limited influence over the emerging architecture of the political union in the eurozone. Given the declining level of public support for the adoption of the euro in all CEE outsiders, with the exception of Bulgaria, Romania and Hungary, the emergence of multiple cores may establish an insider-outsider dichotomy in the CEE group. That is, those countries outside the Eurogroup may be increasingly losing their interest.

37 Lecture by the Czech Prime Minister Petr Nečas on the occasion of his joint appearance with Federal Chancellor Angela Merkel at the Law Faculty of Charles University, 3 April 2012.
39 European Commission, Introduction of the Euro in the more recently acceded Member States..., p. 72.
in joining and consequently will become more detached from the political process in the eurozone core.

There are, however, also reasons to be more optimistic about the future scenario. All CEE countries maintain high levels of public support for the deepening of political cooperation in response to the financial and economic crisis. Between 88 and 92 per cent of the population in all CEE-10 countries totally agree that EU member states should work together more to tackle the crisis. A majority of citizens in Poland (53 per cent), Slovakia (52 per cent), Latvia (46 per cent), and surprisingly even in the Czech Republic (55 per cent), even support moves towards developing the EU into a federation. None of the CEE countries show the levels of Euroscepticism which can be found in the UK, where a clear and growing majority of the population opposes a federal union for the EU (54 per cent).\footnote{European Commission, Public Opinion in the European Union...  , p. 33 and p. 93.}

The level of political influence on the EU decision-making process from Central and Eastern Europe will to a large extent depend on Poland’s willingness to continue working closely with other CEE countries in finding common positions on major EU policy issues. In this respect, a deeper and sustained cooperation amongst the Visegrád 4 countries (Poland, the Czech Republic, Slovakia and Hungary) will be crucial for raising the profile of the region in the current EU debate. The V4 countries are in the process of deepening their cooperation and have just announced their intention to create a joint battle group of 2,5000 soldiers in an effort to boost the EU’s military capabilities and to ‘instil a habit of permanent cooperation’\footnote{M. Suplanta, The Visegrád battlegroup: Building new capabilities for the region, Bratislava 2013.} in this area. It seems that the Tusk government in Warsaw is willing to achieve a leading role in the EU as part of the V4 cooperation rather than to go it alone. Poland is currently the only CEE country who has already to a certain extent contributed to shaping the EU policy process. It was visible when it held the presidency of the EU at the peak of the crisis in the second half of 2011. The Tusk government has made efforts to move the current narrow EU agenda beyond the management of the eurozone crisis and emphasised the need to refocus on neglected policy areas, such as defence and secu-
The Polish government also called on Germany to adopt a more active role in shaping the future of the EU, i.e. beyond the sovereign-debt crisis. In the context of commentaries criticising Germany’s leadership vis-à-vis the crisis, Polish foreign minister Sikorski emphasised that he would be more concerned with German inactivity than with Germany taking the lead in shaping the future of the EU. The presidency yet also showed that as an outsider the Polish government remains a marginal player when it comes to determining the new institutional architecture for the core Euro group.

As a unified group led by Poland, the V4 would potentially have huge potential to make their voices heard in Brussels. All four countries have close economic and political ties with Germany and are therefore more relaxed about Germany leading the EU than some of their EU-15 counterparts, e.g. France and the UK. However, the current split of the V4 group into one member in the core Euro-17 group (Slovakia), one aspiring member in the Euro Plus group (Poland) and two relative outsiders (Hungary and the Czech Republic) will make it harder for these countries to coordinate their strategic interests in the EU. Moreover, in the EU, the V4 cooperation has no formal status. As such it currently receives little attention from other EU members. It will therefore be crucial for the V4 countries to raise the profile of their cooperation by presenting common positions on major European strategic issues and to further institutionalise their cooperation.

In the absence of a visionary approach and a lack of engagement on the part of the ‘old’ EU-15 countries, the CEEs have a much needed contribution to make to ensure that the EU recovers not just economically but also politically from the crisis. They could help the EU to achieve a broad and lasting political consensus on the future design

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45 The Slovak foreign minister Miroslav Lajčak even went so far as to publicly state at the 2013 Bratislava Security Forum that his country would have no problem with becoming part of a ‘greater Germany’. K. Mikulova, *Central Europe’s Pivot to Germany: What does the U.S. stand to gain*, “Huffington Post”, 1 May 2013.
of the Single Market as well as on other strategic EU policy areas such as defence and external relations; to a certain extent even on the shape of the eurozone. In this context, the joint proposals the V4 prime ministers made in June 2012, which included demands to make EU cohesion funds available more flexibly in order to assist member-states with their domestic challenges and to develop new innovative instruments to stimulate growth⁴⁷, show that at least some of the CEE countries are strong advocates of maintaining cohesion and solidarity in the EU under crisis conditions.

While the risks of the present setup for the CEEs are obvious, the volatility of the situation could also be an opportunity for these countries to help the EU from drifting further apart. The varying levels of enthusiasm amongst the CEEs, and especially within the V4 group, for the German ambition to create deeper political union in the eurozone and ultimately for the whole of the EU are a micro reflection of the bigger EU-27 picture⁴⁸. The Polish and Slovak support for deeper political union is likely to be counterbalanced by other CEE countries, especially the Czech Republic and Hungary, who are adamant to safeguard their sovereignty after decades of external political domination by the Soviet Union. This could be the foundation for a new vision for the EU, which offers a healthy balance between deepening integration and maintaining national diversity in times of crisis. This would help to regain the purpose of the European project and to reconnect it with its citizens. In the long run, the countries who were once petitioners for accession into the EU club may turn out to be its saviours.

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Joanna Stryjek

Economic security aspects of the potential EMU membership of Poland

Abstract: Following the eurozone crisis, the adoption of the euro and membership in the eurozone seem to have lost their attractiveness. Therefore, Poland’s eurozone bid needs to be rethought. In particular, since current developments in the eurozone render its future uncertain, adopting the euro at this moment may generate more challenges and threats than opportunities and benefits to the Polish economy. In this sense, Polish membership in the eurozone becomes a question of economic security. Three research-questions are addressed in this paper, i.e. should Poland seek to meet the convergence criteria in a period when almost all the EMU member states fail to fulfil them; whether – from the economic security point of view – the low level of innovativeness of the Polish economy creates new risks to the country’s potential participation in the eurozone; and how to conceive of economic security through the lens of membership in an unstable eurozone which is undergoing a process of deep reforms.

Keywords: economic security, Economic and Monetary Union, Poland, eurozone crisis

Introduction

Economic security of a given country (or a group of countries) is defined as the ability of the country’s economic system to use the internal development factors as well as the international economic interrelations in a way that guarantees unthreatened development of the country concerned.¹ In this view, the issue of Poland’s eurozone

¹ E. Frejtag-Mika, Z. Kołodziejak, W. Putkiewicz, Bezpieczeństwo ekonomiczne we współczesnym świecie [Economic security in the contemporary world], Radom 1996, p. 10.
membership has always been mainly a matter of economic security. However, it should be stressed that since Poland signed the Accession Treaty in 2003\textsuperscript{2} the context against which economic security needs to be considered has dramatically changed. The global financial crisis and the eurozone crisis added to the diversity of factors that need to be taken into account when dwelling on this issue. The most important factors of change in this respect include:

On the one hand, the economic performance of the EU member-states weakened considerably due to the global economic crisis that reached Europe in the second half of 2008. In addition, the crisis revealed the so-called “weak points” of the European integration project, indicating – in particular – ineffectiveness of crisis management by the key EU-level actors. These factors contributed to the outbreak of a serious, multidimensional crisis in the eurozone, and thus influenced the economic security of the EMU member-states. The present and the possible future implications of the eurozone crisis have to be taken into consideration by any country planning to adopt the euro. On the other hand, the EMU member-states themselves (having spent considerable resources on struggling with the recession) neither fulfil the requirements of the Stability and Growth Pact (SGP) nor meet the convergence criteria, which constitute a prerequisite for eurozone membership.\textsuperscript{3}

From a different angle, despite the passage of nine years since the Polish accession to the EU, the expected elimination of the innovation gap existing between Poland and the eurozone did not take place. Poland, as a catching-up economy, keeps growing faster than the EU average. However, Poland’s competitiveness is still based mainly on low cost and low prices, whereas the level of innovativeness of the Polish economy remains much lower than the eurozone average. The problems mentioned above delimit the research area to which this paper aims to contribute. To this end, the following research questions are addressed in this paper:

\textsuperscript{2} Thereby taking on the commitment to join the eurozone in the future.
\textsuperscript{3} Both the SGP and the convergence criteria were introduced to play the role of ‘security tools’ for the eurozone sustainability.
Should Poland try to meet the convergence criteria in a period when almost all the EMU member-states are not able to fulfil them?

Does the low level of innovativeness of the Polish economy create new risks as far as the economic security of the potential membership of Poland in the eurozone is concerned?

Is it worth – from the economic security point of view – joining a monetary union which is not considered stable and is undergoing a process of deep reforms?

1. Should Poland try to meet the convergence criteria in a period when almost all the EMU member states fail to fulfil them?

The economic security of EMU membership was supposed to be guaranteed by the requirement to fulfil the convergence criteria prior to the introduction of the euro as well as by the obligation to abide by the rules of the SGP afterwards. Huge budget deficits in the eurozone member states and public debt beyond the previously agreed benchmarks prove that the convergence criteria and the SGP were inefficient tools. The reasons for such a state of affairs are complex. However, they can be divided into two main groups. The first group includes problems related to the creation of imperfect mechanisms for monitoring and enforcement of the existing rules, and the second one covers issues associated with lacking (political) resolve on the part of the eurozone members to abide by the rules and provisions defining the functioning of EMU. As the literature abounds with contributions on the above broad topics, I would like to focus on selected issues that – in my view – are fundamental as regards the notion of economic security and eurozone membership.

First, it is worth pointing out that eurozone member states differ a lot as far as the styles of economic governance are concerned. Similarly, they have different preferences when it comes to public spending. This is reflected, for example, in the level and quality of investment, savings level, consumption, etc. Not all eurozone members raise public debt only with such investments that in the future (that is, in the long-term) will allow them to cover the cost of the debt owed. In the past,
some of these countries used to do just the opposite, i.e. to increase the level of public debt and spend the money obtained in this way mainly on consumption. The differences concerning the economic governance models in the eurozone member-states not only help to explain why the ‘security tools’ introduced in the European monetary union proved to be inefficient, but also indicate problems (as well as risks and costs associated with them) in the functioning of the euro-area that Poland (and other potential future eurozone members) must take into account when deciding whether or not to adopt the euro.

Apart from that, looking through the lens of the history of monetary integration in Europe, it seems almost clear that the EU member-states (while working on the monetary integration project) did not pay enough attention to the possible bankruptcy of a member-state (which lies at the heart of the eurozone crisis today). This approach has been reflected both in the security measures incorporated in the project and in the actions undertaken by the actors involved in its implementation. For example, (1) countries having public debt-to-GDP ratios of more than 60% were allowed to join the eurozone (i.e. especially Belgium, Italy and Greece); (2) a high level of public debt (that is, exceeding 60% of GDP) was not incorporated in the set of criteria required to launch the excessive deficit procedure⁴; (3) recommendations drawing attention to the fact that a high level of public debt poses de facto a much greater threat than a temporary increase in budget deficit were ignored by the EU’s heads of state or government when deciding on the rules under which the monetary integration in Europe was developed.

The eurozone crisis proved that threats related to a possible bankruptcy of a member-state should have been given more attention. Thus, today, regulations designed to ensure the economic security of the euro area must be rethought. The EU has already taken first steps in order to do so by implementing changes in the SGP. As far as the convergence criteria are concerned though, the regulations have not been modified. However, the macroeconomic environment in the eurozone has changed a lot and most of the present EMU members have great

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⁴ The possibility to launch the excessive deficit procedure because of the high level of public debt was introduced to the SGP during the Eurozone crisis (that is, far too late).
difficulties in complying with the convergence criteria (see: Annex). Hence, those criteria (together with the SGP) not only proved to be unable to guarantee macroeconomic stability in the eurozone but also do not reflect the current macroeconomic performance of the EMU member-states. This situation raises a question of whether it would be secure for Poland to try to meet the convergence criteria in a period when almost all eurozone members are not able to do so. The answer to this question depends on the specific convergence criterion considered.

At present, Poland meets only one of the convergence criteria, i.e. the interest rate criterion. According to the Polish Ministry of Finance, the long-term interest rates in Poland were 4.7% on average over the period from March 2012 to February 2013. They were thus 0.2 percentage point lower than the reference value calculated for the same period.\(^5\) During the financial crisis in Europe, long-term interest rates in Poland were, overall, relatively volatile.\(^6\) However, at the moment they are at their historic low. According to the “Convergence Report” of the European Central Bank (ECB)\(^7\), the 12-month average rate of HICP inflation in Poland was 4.0%, i.e. well above the reference value of 3.1% for the criterion on price stability.\(^8\) According to the recent data of the Polish Ministry of Finance (published in April 2013), the criterion on price stability remains unfulfilled.\(^9\) The latest available forecasts of the European Commission predict inflation to decline below the reference value in the third quarter of 2013, and afterwards increase again above the reference value in the second quarter of 2014.\(^10\) Looking further ahead, the catching-up process is likely to exert an upward pressure on inflation and/or on the nominal exchange rate over the coming years, given that GDP per capita and price levels are still


\(^7\) Ibidem.

\(^8\) Ibidem, p. 59.


\(^10\) Ibidem.
lower in Poland than in the eurozone. However, it is difficult to assess the exact size of the effect resulting from the catching-up process.\[\text{11}\]

High levels and, in particular, unpredictable and volatile changes of inflation disrupt economic development. At present, the inflation levels in the EU member-states vary considerably and there is a relatively high degree of uncertainty as far as the future inflation rates are concerned. Therefore, Poland (and other EU members) should do their best to keep prices at a stable and low level, regardless of whether they are members of the eurozone. However, in the case of Poland (and other catching-up EU member-states facing the problem of a relatively high inflation), restrictive monetary policy designed to meet the criterion on price stability may have a negative impact on the real economy. In other words, although a lower inflation level in Poland would be desirable, the measures enabling the attainment of this objective have to be used very carefully.

As far as the fiscal convergence criterion is concerned, Poland is subject to an EU Council decision on the existence of an excessive deficit, which means that the criterion is not met. In 2011, the general government budget deficit (further referred to as the budget deficit) in Poland reached the level of 5.0% of GDP, i.e. well above the reference value. The general government gross debt-to-GDP ratio was 56.4% (that is, below the reference value of 60%).\[\text{12}\] In 2012, the budget deficit decreased to 3.5% of GDP; in 2013 the deficit ratio is forecast by the European Commission to decline to 3.4% (see: Annex).

Poland managed to meet the fiscal convergence criterion in 2007. At that time, the general government budget balance showed a deficit of 1.9% of GDP and the public debt-to-GDP ratio decreased reaching 45%.\[\text{13}\] At the same time, the Polish economy was developing dynamically and the GDP growth rate reached the level of 6.8%. In 2008, the budget deficit increased to 3.7% of GDP but the GDP growth rate was still relatively high (5.1%).\[\text{14}\] It was already obvious that the deficit

\[\text{14}\] Ibidem, pp. 49, 180.
was too large and that the upward trend was likely to continue because of the global economic crisis. However, the government did not take any steps to reform the sector of public finance. In other words, Poland, like many other EU members, did not reform its public finance at the time of prosperity. As a consequence, the emergence of the global economic crisis in Europe in 2008 led to a significant increase in the level of budget deficit in Poland and in 2009 the budget deficit doubled that of the previous year, reaching the level of 7.4% of GDP.\footnote{Ibidem, p. 180.}

In 2012/13, when the GDP growth rate in Poland is much lower (comparing to the period prior to the global economic crisis, especially the years: 2004-2007) and the country is trying to overcome the economic recession, it is very difficult for Poland to reduce the budget deficit. Such a reduction would require an increase in budget revenues and/or a decrease in budget expenditure, whereby the recession creates needs for extra expenses. Furthermore, the fiscal policy pursued by the Polish government seems to create additional risks to the country’s economy.

The EU’s first answer to the global economic crisis was fiscal expansion (fiscal incentives aiming at stimulating economic growth\footnote{In 2008, the Commission adopted the European Economic Recovery Plan that called for coordinated national action, complemented by direct EU action, aimed at injecting purchasing power and boosting demand in the economy through an immediate budgetary impulse amounting to €200 billion. In this context, the Commission pointed out that: ‘Public expenditure has an impact on demand in the short-term. Measures that can be introduced quickly and targeted at households which are especially hard hit by the slowdown are likely to feed through almost directly to consumption, e.g. temporarily increased transfers to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit. This can also be done through frontloading public investment in projects which could benefit SMEs and could support long-term public policy goals’. (European Commission, \textit{Communication from the Commission to the European Council “A European Economic Recovery Plan”, Brussels, 26.11.2008, COM (2008) 800 final).}}) which added to (on average) the huge budget deficit growth (initially caused by a decrease in consumer demand). Afterwards, the general attitude to fiscal policy in the EU changed and most of its member-states turned to a restrictive fiscal policy, i.e. they tried to cut government spending and raise taxes simultaneously. This approach did not prove very efficient in view of improving economic performance of these countries. It is due to: avoiding crucial (but, for instance, so-
cially unpopular or limiting the privileges of the ruling class) reforms; weakening the competitiveness of enterprises by increasing taxes that add to the cost of business activities; making savings on the wrong actions, i.e. for example, trying to save money by avoiding crucial (for the functioning of a given country’s economic system) state investments. These problems apply to the Polish economy as well.\textsuperscript{17} Therefore, taking into consideration the way in which the restrictive fiscal policy is currently implemented across Europe, there is a risk that the attempt to decrease the budget deficit in Poland in order to meet the fiscal convergence criterion will weaken the competitiveness of Polish enterprises and deepen the economic recession.

In addition, the unstable macroeconomic environment would make it very difficult to set an appropriate zloty-euro parity rate in ERM II. The determination of the parity would require taking into account the values of numerous economic indicators as well as the market value of the Polish currency. These values are volatile when the macroeconomic environment is not stable. Moreover, the successful participation of the zloty in ERM II will depend on the assessment (made by the market participants) whether Poland is able to fulfil (in a given time limit) all the remaining convergence criteria. The participation of the zloty in ERM II can contribute to the stability of the exchange rate around the central parity provided that market participants are confident about the country’s ability to fulfil all convergence criteria.\textsuperscript{18} In this respect, the exchange rate stability criterion is strongly linked to the other convergence criteria.\textsuperscript{19}

Overall, the turbulence on the world financial markets and the relatively lower (because of the economic recession) ability of Poland to fulfil the (fiscal and monetary) convergence criteria make it much more difficult to determine the right moment to join ERM II. Moreover, the potential participation of the Polish zloty in the exchange rate stabilization mechanism at a time when its exchange rate is not sta-

\textsuperscript{17} However, it has to be pointed out that the economic growth of the Polish economy (although much lower than before 2008) is still relatively high, comparing to the EU average.


\textsuperscript{19} Ibidem.
ble is undesirable. As it could lead to foreign exchange interventions, it entails the risk of losing part of foreign-reserve assets.

2. **Does the low level of innovativeness of the Polish economy create new risks as regards the economic security of the potential membership of Poland in the eurozone?**

The current level of innovativeness of the Polish economy, which is relatively low in comparison to most of the eurozone’s member-states, has an adverse influence on:

- the ability of Poland to fulfil the convergence criteria, i.e. prerequisites for the eurozone membership,
- the maximization of the potential benefits arising from the EMU membership,
- the minimization of the potential threats related to the adoption of the euro.

In other words, the lack of convergence in terms of economic innovativeness between Poland and the eurozone\(^{20}\) is not conducive to monetary integration. As such, it would be a source of threat to the economic security of Poland if it decided to adopt the euro.

Poland’s membership in the EU and the process of converging Polish economy with the economies of other EU member-states have contributed to a gradual loss of Poland’s price- and cost-competitiveness. Since joining the EU, the average price level of goods and services in Poland has increased substantially. However, the price level is still relatively low in comparison to the eurozone. This explains why numerous Polish products and services manage to win the competition not only on the EMU market but also on many other foreign markets. However, further convergence of price levels, which accompanies the (expected) process of real convergence of the Polish economy with the economy of the eurozone, is likely to weaken the competitiveness of Polish enterprises.

\(^{20}\) That is, most of the eurozone’s member-states.
Moreover, there has been a substantial increase in unit labour cost in Poland since the entry to the EU in 2004. This trend is likely to continue and thus affect the cost- and price-competitiveness of the Polish economy. Therefore, before the introduction of the euro, Poland should look for other sources of competitive advantages so as to diversify the sources from which the competitiveness of the country’s economy is derived.

The low level of innovativeness of the Polish economy would also make it impossible for Poland to take full advantage of the potential benefits stemming from the membership in the monetary union, including, in particular, the benefits of the expected increase in trade and FDI flows. Due to a high level of exchange rate volatility, Poland has an opportunity to substantially increase trade after the introduction of the euro. However, the potential benefits related to Poland’s greater involvement in international trade depend on the competitiveness of Polish enterprises and their ability to expand to foreign markets.

Moreover, according to the theory of monetary integration, the economic security of Poland’s potential membership in the eurozone requires an intra-industry trade specialization. Although membership in a monetary union fosters intra-industry trade, Poland will have to take very specific steps in order to increase its share of intra-industry trade in the total trade with the eurozone. Only in this way will it be possible for Poland to reduce the risk of asymmetric shocks. The level of intra-industry trade is likely to increase if (a) Poland manages to eliminate (or at least diminish) the technological gap between the country’s economy and the economies of the most developed EMU members; and (b) Polish authorities are able to reduce the disparities in the level of GDP per capita that exist between Poland and most of the eurozone members.

In view of the above, the potential growth of innovativeness of the Polish economy could have a positive impact both on the pro-

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21 A high share of intra-industry trade, i.e. parallel export and import of goods with similar characteristics (within one industry), in foreign trade is considered to be a factor decreasing the risk of asymmetric shocks (National Bank of Poland, Raport na temat pełnego..., p. 59).

22 See e.g. National Bank of Poland, Raport na temat korzyści i kosztów przystąpienia Polski do strefy euro [A Report on the Costs and Benefits of Poland’s Adoption of the Euro], Warszawa 2004, pp. 36-37; National Bank of Poland, Raport na temat pełnego..., p. 37.
cess of diminishing the technological gap and on the existing disparities in the level of GDP per capita.

As far as the FDI flows are concerned, Poland’s membership in the eurozone is likely to generate incentives for transnational corporations to make investments in the Polish market. The inflow of FDI should be regarded as a factor stimulating the transfer of knowledge, technology, and other (mainly intangible) resources as well as a factor stimulating the development of trade. The scale of benefits arising from FDI inflow will largely depend on the absorption capacity of the Polish economy and the level of innovativeness of national enterprises. In other words, the existence of a considerable technological gap would not allow Poland to take a full advantage of the potential new resources mentioned above. In addition, it is worth noting that the inflow of FDI would also increase competition in the domestic market. Hence, an increase in the level of innovativeness of Polish enterprises is also likely to have a positive impact on their ability to win the competitive battle in new market conditions following the adoption of the euro.

Apart from that, a high level of innovativeness of the Polish economy is also desired owing to the requirement of meeting the convergence criteria. At the moment, Poland – as a country whose competitive advantage is based mainly on low costs and prices – is more sensitive to the loss of the exchange rate tool than a country whose competitive advantage is based on knowledge and innovation. Both the loss of the exchange rate tool and the fixing of the exchange rate at the moment of accession to the EMU, lead to a situation when each potential appreciation of the real effective exchange rate is revealed entirely in the form of growth of prices and wages (and – related to this growth – reduction in price competitiveness). The scale of the adverse consequences of this phenomenon depends on the extent to which the competitiveness of a given economy is based on low costs and prices, and to which on innovation and other non-price factors. The more a given economy is based on unique resources (especially on knowledge, new technologies and other types of innovation), the more resistant it is to the appreciation of the real effective exchange rate.

23 Primarily due to the effects of learning and imitation.
exchange rate (and the changes in the level of prices, which are related to this appreciation).

To sum up, the current level of the innovativeness of the Polish economy both makes it difficult for Poland to fulfil the conditions for the adoption of the euro (i.e., the nominal convergence criteria) and has an adverse effect on the maximization of the potential benefits and minimization of the risks associated with the monetary union membership. Therefore, before the accession to the eurozone, Poland should improve the innovativeness of its enterprises. The efficiency of the entire national innovation system should be improved too, so that the competitiveness of the Polish economy could rely to a lesser extent on cost and price factors, and be based on innovation instead.

3. **Is it worth, from the economic security point of view, joining a monetary union that is not stable and undergoes a process of deep reforms?**

Prior to the eurozone crisis, the EU was considered an almost model example of profitable regional integration, and the EMU, the EU’s most innovatory project, a success. At that time, membership in the EMU was associated with economic stabilization as well as with benefits stemming from reduced transaction costs and the elimination of exchange rate risk in the eurozone. In addition, the economy of the euro area was highly valued by (widely respected) rating agencies, and thus by investors. This perception helped the eurozone member-states to enjoy a stable macroeconomic environment, including, in particular, low inflation and interest rates. Taking the above into account, Poland, when considering the adoption of the euro, seemed to face only one problem, i.e. the problem of proper preparation for the eurozone membership.

As the situation in the eurozone has changed dramatically, at present, Poland has to take into consideration additional factors, such

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Economic security aspects of the potential EMU membership of Poland

as the instability of the eurozone, an increased risk of the emergence of asymmetric shocks, and the uncertainty concerning the future composition and the level of integration of the Monetary Union in Europe. In other words, considering the economic security of adopting the euro by Poland, the new circumstances require addressing the question of whether it is possible to strengthen the economic security of a country by joining the EMU which is unstable and faces the problem of insolvency of its member-states.

Joining the EMU while it is not stable will affect the economic security of Poland, as a volatile (and varied) macroeconomic environment limits the benefits related to monetary integration. For instance, following the crisis, the cost of capital in the individual member-states varies so much that the eurozone cannot be regarded as a single financial market any more. Furthermore, such environment increases the risk that the one-size-fits-all policy of the European Central Bank would not fit Poland and thus would inhibit the development of the Polish economy.

Moreover, the instability of the euro area, being the primary consequence of the insolvency problems that emerged in some of the EMU member-states, generates costs related directly to the financial aid that is transferred to the insolvent countries. Despite the fact that the eurozone members managed to achieve a consensus on the launch of stabilization mechanisms through which the financial support for the countries facing insolvency is provided, one cannot forget that the implementation of such mechanisms (as well as many other actions undertaken in order to help the insolvent countries) creates additional costs for the eurozone members. As the solution to the insolvency problem of the eurozone member-states has not been found so far, uncertainty related to this state of affairs adds to the economic security challenge.

Another question that needs to be addressed is whether it can be beneficial for a country to join the EMU when it is undergoing a process of deep reforms. In general, joining the EMU as soon as possible and disregarding the reform process it is undergoing at the moment might be beneficial for a country. However, as the final outcome of the reform process remains unknown, the risk associated with joining the EMU right now is very high. The plans as to the scope of the reforms of the EMU are very ambitious and include the crea-
tion of a banking union, followed by a full fiscal and economic union.\textsuperscript{25} Moreover, the possibility of establishing a political union has not been excluded.

Nobody knows how far it would be possible to integrate and what rules would apply in the reformed EMU. However, the important thing is that the eurozone member-states are in a way forced to integrate deeper, since the EMU project in its current shape is unstable and some of the member-states still require financial support. It means that the eurozone member-states might be more willing, as compared to the non-euro area countries, to cover part of the cost of deeper integration in order to avoid the so-called “domino effect”, resulting from a potential dissolution of the monetary union. Hence, the calculation of the benefits and losses of deeper integration may produce a different result in the case of Poland than in the case of countries that are already members of the eurozone. Taking the above into consideration, it is recommended for Poland to adopt the so-called “wait and see” strategy even if it represents an unwelcome approach in the European Union.

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The potential adoption of the euro by Poland tends to be discussed from the economic security point of view. Accordingly, the literature suggests that – by means of avoiding potential asymmetric shocks and fulfilling the convergence criteria on a lasting basis – real convergence between the Polish economy and the eurozone should be established prior to Poland adopting the euro. Thus, the opinion prevails that the economic security of EMU membership is highly dependent on the preparation process. This implies that the national authorities exert control upon that. Today, however, the global economic crisis and, in particular, the eurozone crisis, have significantly changed the background against which the question of the economic securi-

Economic security aspects of the potential EMU membership of Poland

The security of EMU membership needs to be discussed. At present, the security of EMU membership cannot be examined solely from the point of view of the preparation process, since it is also highly dependent on changes taking place inside the eurozone. This means that the Polish authorities have much more limited control over factors influencing the economic security of potential EMU membership.

Apart from that, prior to the global economic crisis, the prospect of adopting the euro was associated with the possibility to improve the economic security of Poland. It was expected that the country would enjoy a considerable number of advantages while potential risks related to the membership would be very limited, i.e. consisting solely of the absence of the exchange rate tool in case of possible asymmetric shocks. However, the global economic crisis, and then the eurozone crisis, proved that the policies and institutions of the monetary integration project were inefficient. Thus, the eurozone was forced to look for new regulatory and institutional arrangements. As the outcome of the EMU reform process remains uncertain, it is as a source of new potential risks linked to the possible adoption of the euro by Poland. Moreover, the unstable macroeconomic environment in Europe is not conducive to the fulfilment of the convergence criteria by all new potential eurozone member-states. In addition, the level of the innovativeness of the Polish economy is still too low for a “secure EMU membership”. The competitiveness of the Polish economy is based mainly on low costs and prices, yet these sources of competitive advantage are likely to run out. Therefore, Poland should improve the innovativeness of its enterprises as well as the efficiency of its entire national innovation system, so that the competitiveness of the Polish economy, rather than be based on cost and price factors, stems from innovation.
Table 1. General government budget balance and public debt

<table>
<thead>
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<th>Country</th>
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<th>Deadline for correction**</th>
<th>General government budget balance (% of GDP)</th>
<th>Public debt (% of GDP)</th>
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### Table 2. HICP inflation and long-term interest rate

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<th>HICP inflation</th>
<th>Long-term interest rate</th>
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<td>12-month average</td>
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<td>2.9</td>
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<tr>
<td>Ireland</td>
<td>1.2</td>
<td>1.9</td>
</tr>
<tr>
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<td>3.0</td>
</tr>
<tr>
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<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
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<td>1.8</td>
</tr>
<tr>
<td>Malta</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Germany</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Poland</td>
<td>1.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Romania</td>
<td>4.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>2.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Great Britain</td>
<td>2.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Italy</td>
<td>2.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>EU-27</td>
<td>2.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Bibliography


Stryjek J., *Innowacyjność gospodarki a pogłębianie integracji Polski z Unią Europejską* [Innovativeness of the economy versus the process of deepening Poland’s integration with the European Union], Ph.D. thesis (unpublished, available at the library of Warsaw School of Economics, Warsaw, Poland).


Weakening cohesion as a security challenge for the European Union: the CEEs in focus

Abstract: One of the fundamental goals of European integration is to provide opportunities to less-developed Member States for both convergence and the strengthening of the economic and social cohesion. Prior to the 2008 global financial crisis, the convergence process across the EU had spectacular results. The aftermath of the crisis, however, threatens the prospects of convergence in the EU. In other words, the EU’s cohesion policy, which could mitigate the crisis’ impact, has not received a prominent status in the forthcoming programming period and in the 2014-2020 multiannual financial framework (MFF). As a result, in the medium term, economic and social cohesion in the EU’s periphery is threatened, thus generating a number of security challenges for the Southern as well as for the Central and Eastern European countries (CEEs) members of the EU. This chapter dwells on the issue.

Keywords: convergence, crisis, Central and Eastern European countries, economic and social cohesion, cohesion policy

Introduction
The strengthening of the economic and social cohesion is a fundamental goal of the European Union (EU). At the same time, the economic and social cohesion renders European integration relevant to Europeans and serves as an attractive element of EU membership, particularly for the populations of the Southern, Central and Eastern peripheral countries. As cohesion policy has not received a prominent status in the new programming period 2014-2020, it is plausible that cohesion across Europe will be undermined, thus causing a num-
ber of security challenges not only for Europe’s southern fringes but also at its eastern flank, i.e. the CEEs. The objective of this chapter is to explore this issue. To this end, in the first section of this paper, we discuss critically the achievements of and projections for convergence highlighting in this way the sources of potential vulnerabilities of the cohesion process. In the second section, we examine in which way the shift in the paradigm underlying the EU’s cohesion policy as well as crisis-driven austerity policies across the EU have affected the support for the cohesion policy in the EU. In conclusion, we identify and compare the threats to cohesion specific to the CEEs and the countries of the EU’s South and outline the security challenges that these threats generate.

1. Convergence: before and after the crisis

1.1. Convergence and its slowdown during the crisis

The capitalist transformation of the post-socialist EU Member States is regarded as a success story by both the experts of the European Commission and of the World Bank,¹ not only if measured by growth rates but also by catching-up with old Member States. The results of convergence are usually measured in GDP per capita. However, GDP per capita does not express the growth in a population’s welfare, which is a key goal of convergence. Therefore, it seems appropriate to measure convergence by reference to another indicator, i.e. the actual individual final consumption². Therefore, it is worth comparing the convergence of the CEEs to the EU averages of both GDP and final consumption. In 1995, the contraction resulting from the economic transition came to an end in the post-socialist countries. Choosing


² Actual individual final consumption includes: expenditures on the consumption of goods and services by both households and non-profit institutions serving households and in-kind social transfers.
Weakening cohesion as a security challenge for the European Union: the CEEs in focus

This year as a basis for comparison, all of the CEEs were catching up with the EU-27 averages, although each of them differently. Comparing each country’s economic performance to its own initial position, each of the CEEs made substantial progress. The quality of statistical data was limited in the former socialist countries. Thus, the last comparison in Table 1, i.e. GDP per capita with year 1989 serving as the basis for comparison, should be considered cautiously. The Baltic states and Slovakia were the most successful in catching up with the EU-27 with regard to both GDP and final consumption between 1990 and 2007. However, only three so-called Visegrád countries (Poland, the Czech Republic and Slovakia) had not built up serious macroeconomic imbalances prior to the crisis.

Table 1. The catching-up of the CEEC in per capita GDP (at PPS) and in per capita actual individual final consumption with the EU-27 average and their economic performance in GDP per capita (at PPS) compared to 1989

<table>
<thead>
<tr>
<th></th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Czech Rep.</th>
<th>Slovakia</th>
<th>Hungary</th>
<th>Slovenia</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita, EU-27=100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>36</td>
<td>31</td>
<td>35</td>
<td>43</td>
<td>77</td>
<td>47</td>
<td>51</td>
<td>74</td>
<td>33</td>
<td>32</td>
</tr>
<tr>
<td>2007</td>
<td>70</td>
<td>56</td>
<td>59</td>
<td>54</td>
<td>83</td>
<td>68</td>
<td>62</td>
<td>88</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>Final consumption per capita, EU-27=100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>36</td>
<td>34</td>
<td>38</td>
<td>44</td>
<td>68</td>
<td>38</td>
<td>49</td>
<td>75</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>2007</td>
<td>64</td>
<td>56</td>
<td>63</td>
<td>55</td>
<td>69</td>
<td>63</td>
<td>59</td>
<td>80</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>GDP per capita, 1989=100</td>
<td>150</td>
<td>124</td>
<td>116</td>
<td>169</td>
<td>139</td>
<td>154</td>
<td>135</td>
<td>151</td>
<td>120</td>
<td>107</td>
</tr>
</tbody>
</table>

Note: Actual individual final consumption, including expenditures on the consumption of goods and services by households and non-profit institutions serving households and in-kind social transfers.

Before 2008, the view prevailed that the ‘old cohesion countries’ had reached (or at least closely approached) the EU-27 averages

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3 The ‘old cohesion countries’ include Ireland, Greece, Portugal and Spain. The ‘new cohesion countries’ include Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. Cohesion countries are supported by the Cohesion Fund of the European Union.
in both GDP and living standards. Therefore, the EU-15 were regarded as a well-integrated area and core countries of the world economy. Ireland, initially seriously affected by the global financial crisis, having launched the fiscal adjustment and a reform programme in 2010, has a relatively good chance to restore its economic position due to its geographic location, small size and well-embedded market institutions. At the same time, the countries of the European South (or the Mediterranean countries), including Greece, Portugal and Spain have diverged negatively from the EU-27 average GDP over the years. Therefore, if we try to map the prospects for cohesion and the security challenges that may be involved in it, we must extend our investigation to the Mediterranean countries as well. Compared with the EU-27 average, the old cohesion countries, as well as Italy, have suffered a severe deterioration in their position (Figure 1).

Figure 1. The development of per capita GDP at purchasing power parity in the CEEC and the Mediterranean countries compared to the EU-27 average between 2008-2014 (EU-27=100)

Note: 2013, 2014: forecast.
Source: AMECO database.

At its outset, the global financial crisis affected the CEEs and the countries of the Mediterranean countries differently. In 2009, the rate of decline exceeded the EU average in every new member state, except for Poland. The Baltic economies contracted to the largest extent, i.e. by 14-17 per cent in 2009. By 2011, though, with the exceptions of Hungary and Slovenia, the rate of growth in the CEEs once again climbed above the EU average. This trend seems to be continuing into the current year. Additionally, since 2012, also the Czech economy has showed weak recovery. As regards the Mediterranean countries, in 2009 they did not experience an immediate, strong recession of the same kind as observed in the Baltic countries (ca. -15% GDP) or in Hungary (-6.8% GDP). Although at the beginning the countries of the European South faced what looked like smaller scale recessions, they entered prolonged and deepening downturns afterwards. Currently, it seems as though the majority of the CEEs will continue their convergence, but at a lower speed. The progress of Hungary and the Czech Republic has come to a halt with their current and projected growth rates remaining basically constant (see Figure 1). At the same time, Slovenia and the Mediterranean countries are diverging from the EU-27 average as the same figure shows.

The trend described above, whereby the Mediterranean countries are diverging from the EU-27 average and the CEEs demonstrate an uneven yet overall positive pace of convergence is not reassuring from the viewpoint of stability. That is, growing inequalities across the EU Member States induce emigration which reduces the economic growth potential of the emigrant countries and accelerates the ageing of their societies. Clearly, as a consequence of the economic decline in the Mediterranean countries, poverty will increase. This may undermine social stability, strengthen political extremism and euro-scepticism. These threats may affect not only these countries but also weaken the power of European integration. In addition, the long-term projections indicate even more problems.

5 For an extensive overview, see: B. Farkas (ed.), The Aftermath of the Global Crisis in the European Union, Newcastle upon Tyne 2013.
1.2. Long-term projections on convergence

To evaluate the gravity of the stability challenges mentioned in the previous section, we need long-term projections concerning the prospects of convergence. Beyond cyclical changes, the potential growth rate indicates whether convergence is sustainable. The Commission of the EU prepares long-term projections to monitor the anticipated economic effects of ageing. Intermediate results from these investigations are instructive for our purpose, i.e. to evaluate the gravity of the stability challenges, as well. The Commission’s investigations employ a production function relying on the neoclassical growth model. In this model, potential GDP can be expressed formally as total output, represented by a combination of factor inputs (labour and capital) multiplied by total factor productivity, which embeds technological capacity. It should be stressed that the uncertainty involved in these long-term projections is extremely high. As a result, the Commission’s projections cannot account for future institutional and policy changes; they can only transpose current conditions into the future and in this way assess the probability of certain future developments. However, they offer very meaningful information on probable trends if the basic conditions are not modified.

The Commission’s Ageing Report 2009 reveals that as a result of the decline in population, even without incorporating the potentially negative impact of the current economic crisis, the annual average potential GDP growth rate in the EU is likely to fall from 2.4%, in the period from 2007-2020, to 1.7%, in the period from 2021-2040, and then to 1.3%, in the period 2041-2060. This is the reason why labour productivity remains paramount; in time, it is the only driver of growth. The deterioration of the growth rates in the post-socialist EU Member States will be higher because of the higher, than in the EU-15, rate of population decline. From 2000 to 2011, approximately half

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7 Ibidem.
of the population decline in the post-socialist Member States is due to net migration and the other half to natural decrease.⁸

The most striking pattern in the population decline across the EU is that the decrease in the 0-14 age group is the most prominent in the CEEs. Figure 2 shows the EU Member States where the number of young people (aged 0-14) has diminished since 2000. Accordingly, Slovenia and the Czech Republic are the only post-socialist countries where the decrease is less than 10 per cent in this specific age group.

The Ageing Report 2012 was published at the end of 2011 and re-evaluated the potential growth rates of the EU and the Member

States using a production function based methodology, as the previous reports did. In Table 2, the projections of the Ageing Reports from 2012 and 2009 are compared. As expected, the data concerning countries affected most severely by the global financial crisis needed the greatest adjustments. The adjustment is the largest in the cases of Cyprus, Romania, Greece, Portugal and Hungary. However, for Greece and Portugal, the potential GDP projections did not incorporate the impact of the measures required in the economic programmes agreed with the EU, IMF, ECB. Demographic factors also played a role in longer-term negative adjustments. However, the primary reason for the adjustments was the expected decline in the productivity growth rate. The lower growth rate substantially deteriorated the long-run development prospects of per capita GDP as well (Table 2). It is remarkable that the Ageing Report 2012 abandons the assumption of absolute convergence in productivity and GDP levels between countries. This is because the growth rate needed to allow for this convergence in its projections would not be plausible in the short and medium term.

### Table 2. Potential growth rate and development level of the per capita GDP in the cohesion countries in the long run

<table>
<thead>
<tr>
<th></th>
<th>2010-2060 potential growth rate 2012 projection</th>
<th>Adjustment of 2012 projection compared to 2009 projection</th>
<th>GDP per capita in PPS in 2060 based on 2009 projection</th>
<th>GDP per capita in PPS in 2060 based on 2012 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-27</td>
<td>1.4</td>
<td>-0.2</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.3</td>
<td>-0.3</td>
<td>58.5</td>
<td>55.4</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>1.5</td>
<td>0.0</td>
<td>102.8</td>
<td>88.0</td>
</tr>
<tr>
<td>Estonia</td>
<td>1.5</td>
<td>-0.3</td>
<td>102.4</td>
<td>78.4</td>
</tr>
<tr>
<td>Greece</td>
<td>1.0</td>
<td>-0.6</td>
<td>104.2</td>
<td>78.8</td>
</tr>
<tr>
<td>Spain</td>
<td>1.6</td>
<td>-0.3</td>
<td>104.7</td>
<td>93.8</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1.8</td>
<td>-0.9</td>
<td>101.5</td>
<td>78.9</td>
</tr>
</tbody>
</table>

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9 In the 2012 Ageing Report, a key assumption for the long-term projection is that on the productivity growth rate, all countries should converge to the same total factor productivity growth rate (1%) at the end of the projection period (in 2060). European Commission, *The 2012 Ageing Report: Underlying Assumptions and Projection Methodologies*, “European Economy”, 2011, No. 4, p. 122.

To sum up, in the Ageing Reports a production function framework is used in the long-term projection exercise to project long term GDP growth. In this framework, the drivers of growth include capital deepening, total factor productivity and total hours worked. Therefore demographic projections are crucial for the projection of economic development in the long-term. The crisis reduced capital formation and total factor productivity growth, whose impacts are amplified by the population decline. The lower potential growth rates limit the foreseeable convergence of the cohesion countries to the EU-27 average of GDP, even when projecting several decades ahead. Even if we consider the uncertainty of these projections, it is undisputable that to maintain cohesion, huge efforts at both the European and national levels will be required in the long run.

### 2. The changing role of the cohesion policy

#### 2.1. New concept of the European cohesion policy

The treaties establishing the European Coal and Steel Community (ECSC) in 1951 and the European Economic Community (EEC) in 1957 recognized the existence of regional disparities. The preamble of the EEC Treaty included a provision that the Member States were determined to ensure harmonious development “by reducing the differences..."
ferences existing between the various regions and the backwardness of the less favoured regions”. This notion was strengthened in Article 2, where it was framed by the principle that the Community should promote harmonious development of economic activities throughout its territory. Despite this, the founding members did not consider it necessary to create a specific European regional development policy. The level of economic disparity among the founding members was not excessive. Therefore, it seemed appropriate to keep regional policy in the hands of the Member States and to address regional imbalances by national means and measures. This situation changed after the first enlargement of the Communities in 1973.

Following the entry into the EEC of the United Kingdom and Ireland, regional differences increased significantly. At that time, the Thomson Report of 1973 stated that regional problems across the Community should be handled at the Community level:

“No Community could maintain itself nor have a meaning for the people which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each Member State to better the condition of its people.”

Accordingly, since the mid-1970s, regional cohesion has always been regarded as the most important means to promote cohesion and convergence at the Community level, whereby the success of the cohesion policy was measured by changes in per capita GDP and in employment rate across the Community. A significant change in the understanding of the role and significance of the cohesion policy took place in 2009. An independent report entitled “An Agenda for a Reformed Cohesion Policy”, prepared by Fabrizio Barca on the request of the Commissioner for Regional Policy, radically reinterpreted the meaning of the cohesion policy. Analysing the goals and achievements of the cohesion policy, the Barca Report states that a stronger conceptual foundation is necessary. At the centre of the approach to the cohesion policy suggested in the Report lays the so-called place-based paradigm. This

12 Cohesion Reports published every three years.
paradigm can be best explained by reference to the following excerpt of the Report:

“Convergence in per capita income (or GDP) of either countries or regions – however the latter are defined – is not the purpose of the policy paradigm, nor is it a good proxy of its objectives, nor is it an appropriate interpretation of what the EU Treaty calls for. Both the increase in capacity utilisation of places and the increase in social inclusion of people living in those places can take place independently of convergence, while convergence does not necessarily ensure either of the two.”\(^\text{13}\)

In other words, a reduction in capacity underutilization can take place even while agglomerations grow faster and disparities between the centre and the periphery widen. Poorer regions may be a priority, but the cohesion policy should apply to all regions because inefficiency and social exclusion traps can arise in all places. For the Barca Report, the place-based paradigm means that all regions must be given the opportunity to achieve their full potential and all citizens must be given the opportunity to live a life worth living. Only in this way, both dimensions of cohesion, i.e. efficiency and equity, can materialize.\(^\text{14}\)

The view on the cohesion policy laid down in the Barca Report constitutes a dramatic paradigmatic shift of the approach to the cohesion policy at the EU level. The views presented in the Barca Report stirred a lively debate at the EU level.

Eventually, Paweł Samecki, the European Commissioner in charge of Regional Policy, refined the statements included in the Barca Report. In his ‘Orientation paper on future cohesion policy’, Samecki emphasized that cohesion policy is the primary EU instrument for mobilizing territorial assets and potential as well as for addressing the territorial impacts of European integration. In view of the impact of the global financial crisis, Samecki stresses that the processes of convergence between Member States and regions could be impeded over the coming years by lower growth rates, weaker public investment and fiscal retrenchment. In these circumstances, Samecki underlines, the cohe-


\(^\text{14}\) Ibidem, p. 3.
sion policy must remain a pillar of European integration by facilitating adjustment to new situations. Finally, he stresses that the cohesion policy, the clearest expression of Europe’s commitment to solidarity, must ensure faster convergence through economic and social integration and greater connectivity in the Single Market.  

2.2. Cohesion Policy in the Multiannual Financial Framework 2014-2020

Although the Barca Report is the most extensive and thorough document on the reform of the cohesion policy, the political discussion of the policy and its expenditures in the Multiannual Financial Framework (MFF) 2014-2020 was influenced by the economic crisis rather than the new paradigm outlined in the Report. The rather fierce debate on the MFF was driven not only by the fact that austerity programmes were on the agenda in the net-payer countries, but also by the fact that these countries bear the major costs of the European Stability Mechanism. In the debate on the MFF, the Member States were divided mainly on three key elements of the European Commission’s proposal, i.e. the overall size of the MFF in 2014-2020, the reform of the common agricultural policy and the future of the cohesion policy. Eventually, two groups of countries identifiable by their attitudes toward the cohesion policy were formed during the negotiations on the MFF, i.e.: the “Friends of Better Spending” and the “Friends of Cohesion Policy.” The first group did not object to the necessity of EU Cohesion Policy, but desired to limit public spending. The ‘Friends of Cohesion Policy’ focused on the fact that the EC’s budgetary proposal constituted an absolute minimum for cohesion policy. As a re-

result of the heated debate and prolonged negotiations, the European Council of 7/8 February 2013 agreed to an MFF smaller than the previous MFF (2007-2013) (Table 3).

Table 3. Comparison of the new and the last MFF in 2011 prices (according to the European Council Agreement)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment appropriations</td>
<td>€mn</td>
<td>€mn</td>
<td>€                        %</td>
</tr>
<tr>
<td>1. Smart and Inclusive Growth</td>
<td>450.763</td>
<td>446.310</td>
<td>+4.5bn +1.0%</td>
</tr>
<tr>
<td>1a. Competitiveness for Growth and Jobs</td>
<td>125.614</td>
<td>91.495</td>
<td>+34.1bn +37.3%</td>
</tr>
<tr>
<td>1b. Economic, Social and Territorial Cohesion</td>
<td>325.149</td>
<td>354.815</td>
<td>-29.7bn -8.4%</td>
</tr>
<tr>
<td>2. Sustainable growth: Natural Resources</td>
<td>373.179</td>
<td>420.682</td>
<td>-47.5bn -11.3%</td>
</tr>
<tr>
<td>3. Security and Citizenship</td>
<td>15.686</td>
<td>12.366</td>
<td>+3.3bn +26.8%</td>
</tr>
<tr>
<td>4. Global Europe</td>
<td>58.704</td>
<td>56.815</td>
<td>+1.9bn +3.3%</td>
</tr>
<tr>
<td>5. Administration</td>
<td>61.629</td>
<td>57.082</td>
<td>+4.5bn +8%</td>
</tr>
<tr>
<td>6. Compensations</td>
<td>27</td>
<td>n/a</td>
<td>+0.027bn n/a</td>
</tr>
<tr>
<td>Total commitment appropriations</td>
<td>959.988</td>
<td>994.176</td>
<td>-35.2bn -3.5%</td>
</tr>
<tr>
<td>as a percentage of GNI</td>
<td>1.00%</td>
<td>1.12%</td>
<td></td>
</tr>
<tr>
<td>Total payment appropriations</td>
<td>908.400</td>
<td>942.778</td>
<td>-34.4bn -3.7%</td>
</tr>
<tr>
<td>as a percentage of GNI</td>
<td>0.95%</td>
<td>1.06%</td>
<td></td>
</tr>
</tbody>
</table>


The European Council asserted:

“One important objective of the European Union is to promote economic, social and territorial cohesion and solidarity among Member States. Cohesion policy is in this respect the main tool to reduce disparities between Europe’s regions and must therefore concentrate on the less developed regions and Member States”.

Although this statement implies the acceptance of both the redistribution- and convergence-supporting functions of the cohesion policy, “Economic, social and territorial cohesion” (subheading 1b) lost 8.4 per cent of its previous financial commitment appropriation. Furthermore, a new category has been introduced into the cohesion pol-

19 European Council, Conclusions, EUCO 37/13, Brussels, 8 February 2013, p. 10.
icy, i.e. transition regions with GDP per capita between 75 and 90 per cent of the EU-27 average. An overwhelming majority of these regions belong to the old Member States; therefore, support will be decreased in the new Member States to an even larger extent. This agreement cannot be regarded as the final solution because the European Parliament did not accept it and reopened the debate on the MFF.

During the negotiations, the Member States’ representatives followed neither the traditional concept of cohesion nor the new paradigm of the Barca Report. The Sapir Report from 2003 has not lost its relevance: “(...) the current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible (...) than a coherent set of measures aimed at pursuing EU objectives”.20

The fiscal crisis in the EU has weakened solidarity and the willingness of net contributor countries to finance the cohesion policy. However, the economic problems, first of all high (especially youth) unemployment rate in the Mediterranean countries, require well-targeted, efficient actions to avoid social and political instability. The European Council Agreement tried to solve this task at the expense of the post-socialist countries by decreasing the financial support they receive. This, irrespective of the fact that their long-term growth potential is also endangered and weakening the peripheral countries may weaken and destabilize the entire European Union.

3. Conclusions: is the cohesion policy a tool for convergence or security?

The Barca Report strives to find a method for a much more heterogeneous integration than was contemplated by the Thomson Report of 1973. It reveals both the limits and failures of the cohesion policy as implemented in the EU since the mid-1970s. Faced with these limits and failures, the Barca Report relinquishes convergence as the goal of the cohesion policy. As we have already pointed out, the Ageing Report 2012 also abandons the assumption of absolute convergence.

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in productivity and GDP levels between countries. The reason is that the growth rate needed to allow for this convergence in its projections would not be plausible in the short and medium term.

Despite serious theoretical problems, the European Council formally maintained the traditional concept of convergence in its February Conclusions on the MFF 2014-2020. However, the debates and the agreement show that solidarity has weakened in the aftermath of the economic and financial crisis.

Neither the theoretical concept nor the political discussion addresses the aspects of security. However, the Mediterranean countries have been diverging from the EU averages (GDP and final consumption) and the threat of a recession spiral is more relevant than ever. The extremely high unemployment rate, especially among youth, endangers social stability. In contrast, due to smaller economic imbalances in the Visegrád countries prior to the crisis, and to the quick adjustment in the Baltic states, in the medium term social and political security is a less challenging issue in the CEEs than in the Mediterranean countries. Nevertheless, emigration seems to be accelerating during the crisis and, due to a natural decrease and a net emigration population decline, is diminishing their growth potential.

In spite of the severe limits of convergence, Cohesion Policy, paradoxically, must remain an essential part of the EU policy. Even if the efficiency of cohesion expenditures is not satisfactory and needs to be improved, the EU Member States should not abandon their support for cohesion. The raison d’être of the cohesion policy is not the absolute convergence that was hoped for in the 1970s or at the beginning of the post-socialist system change. Instead, it is the avoidance of both divergence and destabilization of peripheral EU countries that should drive the implementation of the cohesion policy in the EU today. Without the cohesion policy, both security and sustainability of the four freedoms, the achievements of the European integration, may be endangered.
Bibliography


Sarolta Somosi

Energy security in Central and Eastern European countries: challenges and possible answers

Abstract: Huge differences in the organization of demand and supply of energy exist between the old and the new European Union (EU) member-states, whereby the new EU members are characterised by the highest dependency rate on energy imports. This constitutes a regional security problem. However, as the new member-states serve as primary intermediaries and/or transit markets between gas and oil supplies to Western Europe, this primarily regional security challenge acquires a very important pan-European dimension. In this sense, energy security in the Central and Eastern European countries (CEEs) can be best characterised as a three-level challenge, i.e. concerning, first, the national level, then the CEEs as a region, and finally the entire EU. The objective of this paper is to dwell on this issue. It is argued that as a means of bypassing this challenge further integration of relevant national energy sectors in the CEE region is needed. This should be accompanied by a thorough reform of the European Energy Policy (EEP).

Keywords: energy security, CEE region, European Energy Policy, liberalization

Introduction to the topic
Due to increasing needs, the depletion of fossil fuels is expected to set in the middle of this century, thus affecting access to energy and its final price. In this way, energy becomes an essential factor that conditions growth prospects of contemporary economies. It has a considerable impact on the balance of trade, on competitiveness and – through its security dimension – on the quality of living in a country. Reinforced
with its economic aspects, *energy security* remains a major theme in the general international security debate. The objective of this paper is to consider the energy security issue as it applies to the CEE region, i.e. to countries such as Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria and Slovenia (and in some aspects the countries of the Western Balkans). It is argued that these countries have many common characteristics as far as the energy issue is concerned. The question of energy security in the CEEs is examined against the broader framework of current developments in the European Energy Policy (EEP). It is argued that the objectives behind the EEP are not consistent with the overall tendency worldwide to liberalize energy markets. This contradiction in turn has serious implications for the way the energy security issue is handled by the EU at the community-level and at regional-levels. The argument is structured as follows. In the first section, different aspects of energy security are explained. Then, the most important factors that challenge national energy markets or hold risks for their successful organization are discussed. Finally, the ways of addressing challenges to energy security in the CEEs are examined.

1. **Energy security and its challenges and/or threats**

Energy security refers to the uninterrupted availability of energy sources at an affordable price. According to the International Energy Agency (IEA), in the short term it focuses on the ability of the energy system to react to changes in the supply-demand balance. Possible steps to handle short-term imbalances in supply and demand can be the switch between sources and the use of strategic reserves as a buffer. In the long term, energy security is linked mainly to investments in energy supply in line with economic developments and environmental needs. Increasing the number of suppliers, exploiting possible inland sources or renewable energy resources, and reducing the overall demand through the improvement of energy efficiency or by decoupling, are all among the answers given to long-term energy needs.
From a different angle, energy security is defined by reference to four interconnected criteria: availability, affordability, efficiency and environmental stewardship. *Availability* refers to diversifying the fuels used to provide energy services as well as the location of facilities using those fuels, promoting energy systems that can recover quickly from any disruption, and minimizing dependence on foreign suppliers. *Affordability* refers to providing affordable energy services for consumers and minimizing their price volatility. *Efficiency* involves improving the performance of energy equipment and altering consumer attitudes and, finally, in line with *stewardship*, the protection of the natural environment, communities and future generations would be solved.

### 1.1. Energy demand and dependency as security concerns

When discussing energy security in the CEE region, it is necessary that the heritage of the communist past is taken into account. Some experts suggested that the transition to a free market economy in the 1990s would lead to the emergence of more ecologically sustainable systems across the region. Unfortunately, the improved energy-efficiency was counterbalanced by increased energy consumption related to a shift to consumerist and lavish lifestyle. Accordingly, gross inland energy consumption in the CEEs grew by 5% over the period 1995 to 2010. As inland energy production shrank, energy import dependency increased over the same period of time (Table 1). Particularly striking in this context is the rise in natural gas import dependency (143%), which was accompanied by an even more dramatic rise in import (in Mtoe) of natural gas, i.e. 199% over the period 1995 to 2010.

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3 All data mentioned in the study are from Energy pocket book of Eurostat, published by European Commission in 2012.
Table 1. Figures of energy import dependency in 2010 in the EU-27 and MSs from the CEE region

<table>
<thead>
<tr>
<th></th>
<th>Energy import dependency – all fuels (%)</th>
<th>Import dependency by selected fuels in 2010 (%)</th>
<th>Change of gas import in 2010 compared to 1995 volume (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>Hard coal Petroleuem fuels Crude and NGL Natural Gas</td>
<td></td>
</tr>
<tr>
<td>EU-27</td>
<td>53</td>
<td>58  84  85  62</td>
<td>199</td>
</tr>
<tr>
<td>Index 1995</td>
<td>122</td>
<td>195  113  116  143</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>40</td>
<td>88  101  100  95</td>
<td>47</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>26</td>
<td>58  96  98  85</td>
<td>109</td>
</tr>
<tr>
<td>Estonia</td>
<td>13</td>
<td>118  56  100</td>
<td>97</td>
</tr>
<tr>
<td>Latvia</td>
<td>42</td>
<td>107  94  62</td>
<td>90</td>
</tr>
<tr>
<td>Lithuania</td>
<td>82</td>
<td>93  99  99  100</td>
<td>122</td>
</tr>
<tr>
<td>Hungary</td>
<td>58</td>
<td>100  84  85  79</td>
<td>143</td>
</tr>
<tr>
<td>Poland</td>
<td>32</td>
<td>4  97  98  69</td>
<td>153</td>
</tr>
<tr>
<td>Romania</td>
<td>22</td>
<td>101  51  56  17</td>
<td>38</td>
</tr>
<tr>
<td>Slovakia</td>
<td>49</td>
<td>100  101  99</td>
<td>115</td>
</tr>
<tr>
<td>Slovakia</td>
<td>63</td>
<td>92  89  100  100</td>
<td>110</td>
</tr>
<tr>
<td>EU-10</td>
<td>43</td>
<td>74  87  91  81</td>
<td>104</td>
</tr>
</tbody>
</table>


To get a full picture of the meaning of the natural gas dependency rates, it is necessary to highlight that the natural gas market is a relatively rigid one, i.e. as compared to the more liberalized oil and coal markets. Consequently, oil and liquid fuel supply in the CEEs, especially in the Visegrad Four (V4) countries, is far more and better organized than the market of natural gas. Even if the importance of natural gas in power generation seems to be decreasing because of the upswing of renewable energy sources (RES), following the 2011 nuclear disaster in Fukushima a renewed interest in natural gas is observed across the CEE region. In this view it needs to be stressed that gas infrastructure provides the highest capacity and the most cost-effective solutions for energy transport and storage. Natural gas can reduce card-

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4 Visegrad Four (V4) platform of cooperation includes: Poland, Slovakia, the Czech Republic, Hungary.
bon emissions immediately and – according to estimations – it will retain its important role in the energy-mix until and even after 2050⁶.

The European Commission stresses that “there is sufficient infrastructure capacity in the [CEE] region to support the continued transit of gas to downstream markets”⁷, if the supply is constant and not interrupted by a conflict between the supplier and the transit countries. Even if the total energy import dependency (considering all fuels of CEEs) is smaller than that of the EU-27 (and so EU-15), the dependency rates of energy sources (hard coal, petroleum fuels, crude and NGL and natural gas) are higher than that of the EU-27 (Table 1). The other consequence of increasing energy demand is that the structure and level of energy interdependency is changing.

1.2. Natural gas supply: changing supply patterns as a security concern

In 1995 the major traditional producers of natural gas included Russia, Norway, Algeria, Libya, “Other” and “Not specified”. Although, the producers remain the same today, Norway has tripled its natural gas deliveries to the EU and Algeria has a delivery one and a half time as big as it used to have in 1995⁸. The really interesting observation is that producers ‘hidden’ in the category “Other” increased their deliveries by five times as compared to 1995. Deliveries from countries “Not specified” accounted for an increase of 1752% (!) over the period 1995-2010⁹. We think that this shift represents an important energy security dimension. It is because of the new trading routes and negotiations with new partners that this dramatic increase has occurred.

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⁶ GIE, Key Messages on Energy Roadmap 2050, Gas Infrastructure Europe, 2011.
⁸ Qatar and Trinidad and Tobago appeared only in the 2005 statistics, but both of them could increase deliveries into the EU by 6-7 times. Libya could gain the same increase but in 15 years.
⁹ European Commission, EU energy in figures – Statistical pocketbook, Eurostat 2012 (EC, 2012b). In connection with the topic the Eurostat’s pocketbook can supply reliable and all-inclusive figures relating to the relevant countries only from 2010. The Data explorer contains data from 2011 in certain cases.
Although the CEEs are less dependent on energy import in general, they are much more dependent on natural gas imports, while their supply-base is not differentiated. The Czech Republic and Slovenia constitute an exception in this case as they seem to be able to meet their energy demand from sources other than Russia. Overall, however, 60% of the CEEs’ gross inland energy consumption derives from Russia being the only supplier. By contrast, countries of the EU-15 tend to cover their energy needs from four different energy providers, including Russia of course. Table 2 provides evidence to the above observations.

### Table 2. Figures of reliance on natural gas imports by countries of origin in 2011

<table>
<thead>
<tr>
<th>Natural gas imports by country of origin (in % of GIC) (Top 7 by 2011 volume)</th>
<th>Total natural gas import (in TJ)</th>
<th>Total natural gas import in % of GIC</th>
<th>Gross inland consumption (GIC) (natural gas, in TJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>24.64</td>
<td>11,892,429</td>
<td>71.4</td>
</tr>
<tr>
<td>Norway</td>
<td>22.3</td>
<td>12,364,938</td>
<td>73.9</td>
</tr>
<tr>
<td>Algeria</td>
<td>10.6</td>
<td>9,601,585</td>
<td>62.8</td>
</tr>
<tr>
<td>Qatar</td>
<td>8.9</td>
<td>8,507,938</td>
<td>59.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.5</td>
<td>3,406,938</td>
<td>20.0</td>
</tr>
<tr>
<td>Libya</td>
<td>0.6</td>
<td>608,938</td>
<td>3.5</td>
</tr>
<tr>
<td>Trinidad and T.</td>
<td>0.8</td>
<td>806,938</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Note: EU-10 refers to the new MSs from the CEE region, without Cyprus and Malta.

The difference between the conditions of supply weakens the will to forge European-level negotiations or a common energy policy. Furthermore, even if a common stance was beneficial for the EU as a whole, it might not necessarily be the same for individual EU members. As it is today, wholesalers on international levels take advantage...
of the incomplete and malfunctioning European energy cooperation owing to which the EU member-states can be played off against each other. This holds risks for the countries which are highly dependent on energy supply from one origin, i.e. mostly in the CEE region.\footnote{12}

The lack of sufficient interconnectivity and the lock-in situation through import, dominated by monopolistic long-term contracts with Russia, has long-lasting effect on prices, supply security and even political risk.\footnote{13} Still, the lack of different delivery sources and alternative infrastructure networks limits the opportunities in negotiations with different level players from Western Europe.

### 1.3. Challenges of liberalization and regulation

When discussing the challenges to energy security in the CEEs, it is necessary to account for the impact of their accession to the EU on their energy policies. Following the accession of 2004 and 2007 some aspects of foreign economic policy are regulated at the EU level. On the one hand, it limits the room of manoeuvre as regards energy negotiations. On the other hand, however, provided that support of specific old EU-member states is ensured, it increases the CEEs bargaining power in energy supply negotiations.

Energy market liberalization process started in 1996 and has not yet been accomplished with the last package of energy liberalization accepted by the Commission in 2009. The EEP and the efforts of energy market liberalization may be considered as answers to the challenge it bypasses, such as Poland and the Baltic states. The project was initiated exclusively by Russia and Germany (Sevce, 2007). A similar divisive policy result is the agreement on the South-Stream pipeline as a competitor of Nabucco Project still backed by the European Commission.

Many think that the interruption of gas deliveries during the winter of 2009 was only an attempt on the part of Russia and Ukraine to see how far they can go until the EU reacts as one unity.\footnote{13}

‘Lock-in situation’ as a consequence of long-term contracts and the inflexibility of trading routes.\footnote{14}

A longer analysis of the problems is available at P. Kaderják, Security of energy supply in Central and South-East Europe, Corvinus University of Budapest, Regional Centre for Energy Policy Research, Budapest 2011. On the contrary, long-term contracts also have strengths, which lie in their computability and constant supply (Komlev 2013). As Talus (2011, p. 4-5) summarized it: “Accepted as the modus operandi among both producers and the EU purchasers, the traditional view is that long-term take-or-pay contracts provide for a security of demand for the producer and security of steady supply for the purchaser. The producer has the certainty of demand and can plan for the necessary investments with a long-term rationale. The purchaser has the certainty of supplies and can therefore adopt a long-term strategy in downstream markets.”
lenges and threats to energy sustainability and thus to energy security as well. Although it was never required by the EU, the CEEs’ governments pursued the processes of liberalization and denationalisation of their energy supply networks as a way of dealing with the difficult but necessary market reform.\footnote{IEA, Development of Competitive Gas Trading in Continental Europe. How to achieve workable competition in European gas markets?, IEA Information Paper 2008.}

The essence of the energy market liberalization and reform would be to introduce competition in those sub-segments of energy markets where it is possible. Still, we believe that the creation of affordable and competitive energy markets is impossible until more input options develop for all, namely for the countries of the CEE region. We believe that national commitments in following EU’s energy policy objectives determine the success of the liberalization processes, but this commitment is strong only if competition is introduced in input markets as well. True input diversification would increase confidence, help the enforcement of the security dimension of energy markets and finally result in more competitive energy sectors in the CEE region.

What the EU requires from the CEE member-states is to meet the implementation requirements of energy market liberalization packages.\footnote{It contains the Directives 2009/72/EC and 2009/73/EC, Regulations (EC) No 713/2009, 714/2009 and 715/2009.} Delays in implementation – compared to the deadline of March 2011, and in the case of Energy Infrastructure Package December 2012\footnote{European Commission, Making the internal energy market work, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, final, COM (2012) 663, Brussels (EC, 2012d).} – have a negative impact on all players concerned and therefore are not acceptable.

The idea of directly implementing and applying EU-level regulations suits the early thinking of Europeanisation, which focused on the impact of the EU on national policies and on legal backgrounds, and did not take into consideration the possibility of shaping the common policy in line with the interests of (especially new) EU member-states.\footnote{T. Maltby, Europeanisation and Poland as an Energy Actor: The Country’s Role in Developing a Fully Integrated Regional (and EU) Energy Market, CRCEES WP2012/02.} One instance of the impact exerted on the EEP by a new member-state, namely Poland, was the extension of the “solidarity clause” in the spir-
it of shared interests and shared competences in the Lisbon Treaty in 2007 to energy questions\textsuperscript{19}. Another example includes the 2006 proposal of establishing the European Energy Security Strategy (EEST). Although it failed, EEST served as a basis for future proposals referring to gas reserves regulation as well as for the Commission’s proposal on \textit{EU Energy Security and Solidarity Action Plan}\textsuperscript{20}.

Thus, the contradiction is real, i.e. there is a claim for shared competence and actions, but these are not supported enough by the member states. Even if the common energy policy objectives are accepted by the majority of the EU member-states and even if Commissioner Oettinger regularly criticizes the bilateral actions of EU member-states and the suppliers, problems arise when the EU is expected to act upon or demonstrate its common energy policy objectives\textsuperscript{21}.

1.4. The link between the global financial crisis and energy security

The 2008 financial crisis has also had an impact on the energy sector traditionally considered to be crisis-proof. As a result of the crisis, energy demand decreased and the energy sector seemed to lose its importance and financial background. Reports show that for the first quarter of 2009 in most of the energy sectors investments worldwide decreased by almost 53\% compared to the same period of the previous year. Energy market players reduced their investments by about one fifth (around by 100 billion US dollars)\textsuperscript{22}. The efforts of re-structuring

\textsuperscript{19} According to the Article 122 of the TFEU the Council should act in a ‘spirit of solidarity’ to assist a member state suffering a severe shortage in the supply of essential products or services, namely energy. Energetic questions appear in a separate location in the treaties. Article 194 about the EU’s energy policy states that member states should act ‘in a spirit of solidarity (…) to ensure the security of energy supply in the Union’ (S. Myrdal, M. Rhinard, The European Union’s Solidarity Clause: Empty Letter or Effective Tool?, “UI Occasional Paper 2”, July 2010).


\textsuperscript{21} The Commission also admits „The problem is that the European Union has always found it difficult to speak with a single voice when it should be presenting a united front and bringing all its weight to bear on the leading energy producing and consuming countries“ (EC, 2012a, p. 7).

the EU’s energy markets halted as a result of the crisis; a tendency observed in all OECD countries. The development of new technologies set back because none of the states were forced to pay attention to the improvement of energy efficiency. On a positive count, investment in clean energy exceeded investment in other areas both in 2008 and in 2009. Since then clean energy investments have run up, even if spring 2013 has been the weakest period for such investments at a global level since the beginning of the crisis.

The other outcome of the crisis affecting energy policy is the visible unwillingness of the member states to contribute excessively to the common budget. This influences the provisions and delays the approval of the Multiannual Financial Framework 2014-2020. Debates in 2012 over EU budget framework for the next period are about money, as ever. But money planned to be spent on energy security, increasing investments in energy-efficiency (EE) and low-carbon economy is far less than necessary. Reduced or even cancelled investments in EE and RES – which should have provided a replacement of running out resources – may have long-term negative implications and cause serious energy security problems later, when energy demand rises again.


24 E. Zindler, Weakest quarter for clean energy investment since 2009, “Bloomberg New Energy Finance”, 15 April 2013. Germany is bearing a big percentage of this loss, and it is also supposed to be linked to the trade dispute over solar panels between the USA, Germany and China as a counterpart.

2. Ways of addressing the challenges of energy security in the CEE region

Risks and uncertainties of energy security in the CEE region are handled at different levels. Various solutions were proposed in connection with the liberalization process or following the energy supply crisis of winter 2009. To attain energy security and availability, and get closer to affordability, the possible steps vary from market measures to market integrating actions. We think that the creation of workable and competitive national energy markets and the diversification of transmission routes through the cooperation of different level actors are all essential and must run in parallel.

2.1. Energy security through competitive national markets

Compliance with the European acquis can imply a national trade-off between price liberalization, cost reflective tariffs and socially acceptable level of energy prices. It would be essential for the regional national markets to transpose and implement the common rules for the internal market in natural gas in order to be able to count on stronger competences for the regulators. Conformity with the EU’s energy market regulation and investment in gas transmission and interconnection systems contribute to the establishment of gas trading hubs. The establishment of transparent and interconnected region-

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26 In winter 2009, Russia and Ukraine had a gas delivery debate which forced Europe and the EU to re-think its gas supplies. The debate was about prices. Instead of forwarding gas – sent by a Russian state-run company via pipelines in the Ukrainian territory – to European consumers, Ukraine consumed it. The Russian company decided to cut deliveries to Ukraine, and consequently – due to the single pipeline – also to Europe by 20 per cent.

27 There are also constraints arising from outside the EU, like for those CEE MSs that are also members of International Energy Agency. First, for the Czech Republic and Hungary, then for Poland and the Slovak Republic, the participation in the organisation meant the necessity of managing extraordinary situations in energy supplies by the obligation of having reserves. Each member of the IEA is committed to maintaining a reserve that is equivalent to 90 days of net oil imports. Originally, the intent of establishing this agency was energy security. Later this became also an EU-level objective.


29 An effectively operating gas trading hub requires liquidity, gas-gas competition deriving from different origins of supply, access to supportive infrastructure that allows managing volume risk by utilizing storage or accessing a large consumer base, and a transparent and supporting legal
natural gas market(s) would be the best reaction to the unilateral dependencies of countries in the CEE region, and would strengthen their collective negotiating power at the EU-level.

The creation of a gas hub in the CEE region should follow the traditional steps such as creating a properly functioning spot market, then interconnecting the markets with each other and with more than one supplier, and creating a field where market participants are able to have contracts in an organized framework. The interconnection of spot markets and the introduction of entry-exit zones are core elements of the MECO-S Model presented by Glachant. Within the CEE region, integration of liberalized national markets would follow the concept of a “trading region”, since it “has specific merits for smaller member states that need to cooperate cross-border in order to gain sufficient market size and connectivity”. This could be a key possibility to gain advantages of gas market opening for those countries and market participants that until now did not experience any advantages of liberalization. By connecting their present markets, introduced also in the 1st Pillar of the MECO-S Model, they would gain access to an extended source portfolio and customer base. This in turn would league countries with similar interests. Overall, gas hubs would help the creation of a gas supply portfolio where the rate of importing hub-indexed gas (competitive spot prices) would increase instead and financial framework. Market participants involved in bilateral trading schemes are facing barriers, which they may overcome by transferring their trades onto organized gas exchange (M. Laczkó, R. Lajtai, Gas hub as a source of regional market development in the Central and Eastern European Region, 24th World Gas Conference, Buenos Aires, Argentina 2009, p. 10; I. Cronshaw, J. Marstran, M. Pirovska, D. Simmons, J. Wempe, Development of Gas trading in Continental Europe, “IEA Information Paper”, OECD, May 2008, p. 41).

Hubs already exist, like the National Balancing Point (in the UK), TTF (in the Netherlands), Zeebrugge (in Belgium), PSV (in Italy), NetConnect (in Germany) and PEG (in France).

The system, also known as Gas Target Model (GTM), was introduced by European Gas Regulatory Forum in 2012. MECO-S refers to ‘Market Enabling, Connecting and Securing’. According to the model a market is functioning if its HHI is below 2000, the combined portfolios of wholesalers comprise (directly or indirectly) gas from at least 3 different sources and the market caters for final customers with a combined annual consumption normally not below 20 billion cubic meters.

J.-M. Glachant, A vision for the EU Gas Target Model: the MECO-S Model, “EUI Working Papers”, RSCAS 38, Florence School of Regulation, 2011, p. 10. For a detailed analysis of The Gas Target Model for the Visegrad 4 Region we recommend the study of May 2013 made in collaboration with the Centre for Eastern Studies, REKK, RC SFPA and the Florence School of Regulation.
of buying only on oil-indexed prices. Although hub prices have a correlation with oil-indexed prices, wholesale gas prices in the Western hubs still appear to be lower than the prices Eastern national markets can obtain with long-term contracts.

2.2. Infrastructure developments in cooperation

Investment in infrastructure and the resulting energy infrastructure development are fundamental as regards improving the prospects of local energy markets in the CEEs as well as addressing the energy security challenges in the region. The prospect of attracting investment in the field of energy depends on the implementation of relevant legal actions that provide a stable regulatory framework for the functioning of the energy market. Through its impact on the level of revenues and the profitability of projects, such a regulatory framework influences the ability of the EU member-states to attract private investment. As a matter of fact, the EU recommends the following measures as a means of attracting extra investment: unbundling of the supply chain, guaranteeing the possibility to access the energy transmission system, and for example the phasing out of national retail price regulation. These measures are of the utmost importance in order to improve the prospects for local energy market and energy security.

Energy infrastructure developments in the EU would need approximately EUR 200 billion in the period 2014-2020 to meet the obligations.
jectives of Europe 2020. In view of that, the Commission initiated the adoption of a list of Projects of Common Interest (PCI) in 2012 and proposed a financial mechanism designed to address the challenge of declining public and private investment. The Connecting Europe Facility offers “help” in the form of interest rate subsidies, loan guarantees and even targeted facilities for project bonds. The EU Energy Security and Solidarity Action Plan mentioned six priority infrastructure actions.

In line with the 2011 Action Plan\(^37\), forty-three projects are implemented only in relation to the North-South Interconnections in Central and South Eastern Europe (so called “North-South East”) with the participation of countries ranging from Poland to Bulgaria (so without BEMIP – Baltic Energy Market Interconnection Plan). According to the Gas Market and Infrastructure Study (GMIS), many of the projects are competing with or may substitute each other. Therefore, the EU-level support depends on different general criteria such as priority corridors/areas, benefits to at least two member-states, having cross-border impact and potential economic viability. Other specific criteria are also mentioned. These include: market integration, competition, sustainability, RES, interoperability and secure system operation beside a cost-benefit analysis. Regarding the indicators, we can count on infrastructural developments in the CEE region\(^38\).

The projects resulting in a diversification of supply or in a new supply (like LNG) and southern corridor projects are generally considered of the highest importance\(^39\). Identifying the appropriate projects is in compliance with the 2\(^{nd}\) Pillar of MECO-S Model that urges tight connection of the trading regions. By means of infrastructure invest-


38 E.g. the HU-SK and PL-SK interconnections are ranked highest since they score high on all three key criteria of physical availability, diversification and promotion of Internal Energy Market (EC, 2012c).

39 Some other cross-border pipelines are considered of medium importance because they score well only on one or two criteria, but not all. The same happens with storage and reverse flow projects. In the absence of new infrastructure development (and in the case of missing new homeland energy production), the countries most likely to have problems with the security of supply are Bulgaria, Croatia, Romania and Slovenia.
ments, not only efficiency could be maximized on a regional scale, but also the asymmetry of price distribution across Europe could be reduced. However, according to the news of June 2013, even if a flagship project seems to work thanks to a stable financial background and seemingly enough regional political commitment, there can be a risk of failure as it seems to be the case with the Nabucco Gas Pipeline\textsuperscript{40}.

\section*{2.3. Responses generated in the framework of different co-operations}

The Commission’s Security of Gas Supply regulation of 2010 has introduced a three-level (industry, member-states and the EU) approach to energy security and stimulates increased cooperation in regulation at a single level. The Commission requires a minimum security of supply standard and, if needed, consultations among member-states’ competent authorities may lead to regional supply security plans\textsuperscript{41}. This regulation represents a shift of planning in the field of energy to the EU level. We question, though, the role and the efficiency of this shift in view of fostering energy security. The Regulation provides standards designed for all member-states, which, as we have seen, face different energy (security) challenges; a clear divide exists in this respect between the old and the new member-states. The Regulation contains implications for the role of different actors, like governments, national regulatory authorities (NRAs) and other market actors, but until now we are not convinced about its effectiveness in the improvement of the security of gas supply. A regulation of this kind should take into consideration regional characteristics of energy markets, otherwise the prospect for its efficacy is bleak.

We believe that cooperation must anticipate and amend initiatives such as the above mentioned Regulation with the intention to avoid supply disruptions. The CEEs’ interests in cooperation lie in their

\textsuperscript{40} According to the official homepage of the OMV Group on the 26 June in 2013 “The Shah Deniz II consortium informed OMV, as a shareholder of NABUCCO Gas Pipeline International GmbH (NGPI), about the decision on their preferred gas transportation route to Europe. The Nabucco West project was not selected by the consortium.”

\textsuperscript{41} MSs shall appoint a ‘Competent Authority’ who will be in charge of maintaining direct relationship with the Commission in case of any risks or supply disruptions.
common general characteristics as regards the energy issue. Responses to the challenges have been devised at the regional political level, through V4. The importance of such regional initiatives resides also in their policy forming capabilities. For instance V4’s voting power exceeds the cumulated voting power of France and Germany. The V4+ Energy Security Summit was held in 2010 with representatives from Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia, Slovenia and Romania and other important international stakeholders.

The declaration concluding the Summit expressed a clear commitment to tackle the challenges of monopolistic, isolated and small markets, long-term supply contracts and regulatory failures, the diminishing attractiveness in the eyes of investors or producers, the lack of regulatory coordination and of a common approach towards missing interconnections and concentrated investments. The aim of the initiative was to reaffirm that common energy challenges could be better dealt with in an EU framework on the basis of regional cooperation. Stronger cooperation and political agreement were urged as a means of fostering effective EU responses in the cases when separated gas markets are no longer able to respond to the gas supply disruptions. The attendees of the Summit fostered the acknowledgement of common regional interests followed by the architecture and backed by the budget of the new EU Energy Security and Infrastructure Instrument. They also agreed to set up “ad hoc” working groups at expert level on different projects, such as the North-South interconnections and other regional interconnectors, and the oil supply in the region.

Although the Baltic States, i.e. Estonia, Latvia, and Lithuania, seem to suffer from similar constraints as the remaining CEEs, they vary from each other with regard to important factors of the natural gas market. Therefore, the Baltic States seek to put an end to their status of “energy islands” as regards natural gas. According to the draft MFF

42 Bulgaria, Croatia, Hungary, Serbia and Slovenia are also involved in the Russian initiative of South Stream project which would provide them with supplies via an alternative route.
44 Lithuania, Latvia and Estonia face exclusive dependence on Russian gas as well as near-exclusive dependence on electricity, and lack of grids with other EU countries. This huge vulnerability is especially high in the gas sector: the three Baltic States have no gas reserves of their own and are 100 per cent dependent on imports from Russia (Natural Gas Europe, 6 May 2012, http://www.naturalgaseurope.com/baltic-energy-security-shale-gas).
for 2014-2020, roughly 2.275 billion EUR would be devoted to the infrastructure projects of the Baltic States, including electricity interconnection projects. The success of these projects requires effective and fruitful cooperation of the three Baltic States. However, since Latvia is lagging behind the other two states as far as the energy market liberalization process is concerned, it can obstruct the efforts to create a natural gas trade favourable to the Baltic States. They have made common efforts on professional level with the leading part of the Commission in the Baltic Energy Market Integration Project (BEMIP).

Other initiatives aimed at mitigating the energy security challenge in the CEE region include the Gas Regional Investment Plan (GRIP) under preparation by the Transmission System Operators of the relevant countries (Austria, Bulgaria, Croatia, Czech Republic, Germany, Hungary, Poland, Romania and Slovakia). Due to the range of interests in energy, several smaller sub-regional cooperation frameworks are established among countries enumerated above, for instance in the Danube Region as well as in the Black Sea and the Adriatic Sea. Furthermore, the alliance of European Energy Regulators introduced its Gas Regional Initiative in 2006. Other sub-regional initiatives could also be mentioned. What is common to all of them is that their success depends on the political commitment of the participating countries and their will to co-finance the investments implementing new possibilities.

2.4. EU-level answers to questions of energy security
Apart from energy prices, the rate and success of the efforts aimed at improving energy security depend on factors managed by the EU itself. The EU is likely to expand its influence, measures and “energy policy” on the widest scale it can. The EU is the world’s second largest economy, consuming one fifth of the world’s energy. Still, it does

46 The 14 Danube Region countries are: Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Germany, Hungary, Moldova, Montenegro, Romania, Serbia, Slovakia, Slovenia and Ukraine. They have even created a Danube Region Gas Market Model (DRGMM) published by REKK, Hungary.
not have substantial reserves of its own. The EU is highly dependent on deliveries from a few sources and on imports calculated on rising prices. As a result, the EU has set itself ambitious goals in the dissemination of its principles and ideas on how to create competitive energy markets and cooperate beyond the borders of the EU. The EU has published Energy 2020 – A strategy for competitive, sustainable and secure energy in line with Europe 2020.

A more detailed common document from 2010, i.e. the Energy Infrastructure, Priorities for 2020 and Beyond, names the projects and necessary investments that would improve the average level of energy security in the EU. In 2010, the European Commission published the European Energy Programme for Recovery (EEPR) in which they declare that “as a result of the recession, planned projects were in danger of being delayed or withdrawn, which would have undermined the Union’s security of energy supply and the quality of supply to end-users. The EU stepped in by proposing a series of well-targeted and appropriate measures to help boost investments in the energy sector.”

Improving cooperation beyond the EU’s borders means that the EU intends to make sure that its neighbours and/or suppliers serve the EU’s energy interests, not only for the purposes of secure transport of energy but also as a way of extending its energy market. The Commission’s formal proceedings in breach of EU antitrust rules were opened in 2012 to investigate whether Gazprom, the Russian producer and supplier of natural gas, might be hindering competition in the CEE gas markets. This is also in line with the above mentioned aims of the EU

48 European Commission, Energy 2020 – a strategy for competitive, sustainable and secure energy, COM (2010) 639 final of 10 November 2010 (EC 2010b). The relationship between climate change and energy is a key element in the strategy, where the detailed “20/20/20” goals were laid down. Out of these, two relate to our topic, the objective to “increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency”.
52 EC (2012a) says that energy also has to be part of the European external policies: development aid, trade and bilateral cooperation agreements.
and it shows that the Commission treats the case as a matter of priority. However, it is visible that in the negotiations with the Eastern European and Central Asian gas supplier countries, the interests of the EU as well as those of the CEEs vary from each other.

Generally, the EU should put more effort into energy diplomacy and the negotiations with both the old and new member-states in order to achieve visible results with a view to establishing a competitive and market-based energy sector\textsuperscript{53}. The EU aims at ensuring that energy prices evolve within competitive conditions so that the whole European market could better serve its overall competitiveness. However, if we think of the still existing market-opening problems with a traditional partner, namely Russia\textsuperscript{54}, we are able to estimate what a big challenge it is to promote European-style energy market restructuring. It seems to be a challenge in the countries – like those from the area of the Caspian Sea – where the European-style energy market restructuring has no tradition, and where Russia still (or again) has a big influence.

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Taking into account the four dimensions of energy security discussed at the beginning of this paper we could easily accept that the increasing needs, dependency, the changing natural gas supply patterns, or even regulatory constraints, represent a challenge for the CEEs. Current economic conditions add to this challenge. In general, the improvement of the availability, affordability and efficiency of the energy sector requires more than “just” national efforts. Collecting and summarizing different aspects of energy security problems of the “new” EU member-states highlights that these are mainly the problems of the CEE region. In fact, these countries, serving as transit routes, must handle their energy challenges not only in cooperation with each other but also in union with the EU.

\textsuperscript{53} One element of this process is the establishment and enlargement of Energy Community. The leitmotif behind the Energy Community Treaty is the importation of the EU energy policy into non-EU countries.

\textsuperscript{54} Until now small success could be observed resulting from the efforts to persuade Russia to introduce energy sector regulations used in market economies. The so-called Gazprom Clause intended to achieve this, but according to the Baltic States and Poland it became less powerful than the original proposal.
Among the ways of addressing the challenges of energy security we found market measures and policy actions. Market measures are mostly in line with the intention of creating competitive natural gas markets, trading regions, where, by interconnecting them with more than one supplier and introducing competition, affordable prices may appear. One condition of the success of market measures and the liberalization process is the increase of investments in the natural gas supply infrastructure. We think that technical improvements would have helped towards the attainment of the European Energy Policy objectives as well as towards energy market liberalization. In reality though, the situation is exactly the opposite. That is, support from the EU is conditional upon meeting the objectives of liberalization. For the introduction of the necessary investments, the EU requires from the new member-states to implement and introduce measures (like unbundling) of the energy market liberalization packages. We believe that the absence of perfectly competitive inland energy markets is a smaller threat compared to the danger of deficits in availability, affordability and efficiency on the energy markets by having supplied with although (already) enough amount but maybe within insecure conditions and/or without competitive wholesaler prices.

Despite every effort made by the EU to support the different dimensions of energy security through EEP, EEP seems to be less efficient on national levels than it is at the EU-level. The main reason behind it is that infrastructure projects connecting suppliers to consumer countries, and even the projects of RES, are financially demanding at present but visible only in a long-term run. The necessary infrastructure development requires a stable investment environment, hierarchy among projects and acceptable returns to motivate and support investors in the long run. Under the present economic circumstances, such investments are not backed enough since the EU, which holds the competence, seems to focus on other fields of economy, such as the debate over MFF, or is still combating sovereign debt crisis.
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Democratization and security in the post-Soviet space

Abstract: National security concerns are closely intertwined with the political transformation’s vector in the post-Soviet space. In the case of some former Soviet republics, security concerns play such a significant role in their state-building efforts that they can speed up the democratization process. It is argued that the approach to its own security that Russia implements has a fundamental twofold impact on the political developments in the countries in the area. First, Russian aggressive politics in the area partly explains why some of the post-Soviet countries wish to join Western institutions and thus follow the democratization path. Second, Russia stubbornly undermines their pro-western and pro-democratic vector of development. As a result, irrespective of some positive tendencies emerging recently, the prospect of democratization in the post-Soviet space remains uncertain.

Keywords: post-Soviet space, democratization, hybrid regimes, security

Introduction

Political transformation taking place in the post-Soviet space since the beginning of the 1990s serves as a vivid example that the optimis-

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1 For a decade and a half, the group of fifteen Newly Independent States (NIS) that succeeded the former Soviet republics bore the sobriquet of the ‘post-Soviet space’. This umbrella-concept stressed the common political and economic roots as well as the shared residual features and specificities of a group of countries that have increasingly diverged over time. But now, as Nikitin writes, after fifteen years of those states’ independent and at times controversial development, time has come to acknowledge the end of the ‘post-Soviet space’. This does not mean that the historical influence of the Soviet period has ended. ‘Sovietism’ within the NIS, especially in Central Asia, remains. But their common Soviet ‘origin’ has ceased to be the dominant integrative factor for the NIS. New vectors of policy have had a centrifugal effect, rapidly breaking up the ‘post-Soviet space’ into new geopolitical entities. Some analysts regarded the ‘post-Soviet
tic theory heralding ‘the end of history’ has not materialized. In line with the ‘end of transition paradigm’, the post-Soviet political regimes (with the exception of the Baltic states) are categorized as hybrid regimes, i.e. merging democratic and authoritarian tendencies and institutions. Hybrid regimes are divided into two categories: illiberal democracies (known also as electoral democracies) and electoral authoritarianism. A debate on the endogenous origins of their existence and gradual transformation continues among political scientists. Nevertheless, the phenomenon of hybrid regimes’ endurance and the increasing diversification in the post-Soviet space can be better understood by reference to exogenous explanation methods, for instance, to the concept of national security.

The aim of this paper is to grapple with the question of the complex interplay between democratization and security in the post-Soviet space. As far as this security – transformation nexus is concerned, there is nothing surprisingly new or extraordinary. The world’s political history abounds with examples which prove that security concerns can lead not only to the rise of authoritarian rule, but sometimes also to its breakdown.

National security concerns are closely intertwined with the political transformation’s vector in the post-Soviet space. In the case of some former Soviet republics, security concerns play such a significant role in their state-building efforts that they can speed up the democratization process. It is argued that the approach to its own security that Russia implements has a fundamental impact on the political develop-

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2 In 1989 F. Fukuyama wrote in an essay published in “The National Interest” that liberal democracy triumphs over other historical modes of political regimes that rivaled it: monarchy, fascism and communism. Liberal democracy, as Fukuyama argued ‘marks a final stage in human ideological evolution’ and has a real chance to become the ‘ultimate form of governance’ – heralding ‘the end of history’. Only liberal democracy is not stained with inherent setbacks, internal disharmony, lack of rationality, everything that brought all other political regimes to an end. F. Fukuyama, *Koniec historii*, Kraków 2009, p. 9.

opments in other countries in the area. This impact has a dual nature. First, Russian aggressive politics in the area partly explains why some of the post-Soviet countries wish to join Western institutions and thus follow the democratization path. Second, Russia resolutely tries to undermine their efforts to develop a pro-western and pro-democratic vector of development, which is why, irrespective of some positive tendencies emerging recently, the perspective of democratization in the post-Soviet space remains uncertain.

The argument is structured as follows. In the first section, the theoretical approaches to the political transformation in the post-Soviet space are discussed. In the next step, the Levitsky and Way’s theory on political systems’ international environment and its influence on politics in non-democratic countries is introduced as a means of addressing the puzzle of the endurance of post-Soviet hybrid regimes. In the following move, the relevance of geopolitical and security matters in the post-Soviet space is emphasized to show the salience of security concerns for political developments in the area before and after the Cold War. By linking Levitsky and Way’s theory to security concerns, the discussion about the predominance of national security demands over endogenous tendencies is opened. The next logical step is to present how the security–transformation nexus works in the case of some post-Soviet countries and why Russia is perceived as the main threat to their national security. Conclusions follow.

1. The grey-zone of political transformation

The third wave of democratization – that started back in 1974 – began to lose its initial impetus in the mid-1990s. Optimistic expectations of the end of history in the form of a universal triumph of liberal democracy proved premature. Instead, developments in political practice in an overwhelming number of countries, said to be subjected to the third wave of democratization, suggest that
the democratization paradigm needs to be put in question. That is, the democratization paradigm assuming a gradual move from liberalization through democratization to democratic consolidation needs rethinking.

Students of political transformation in Africa, Latin America, South-East Asia and Central and Eastern Europe come to a bitter conclusion that initial liberalization does not always lead to the next stage of transformation, i.e. democratization, and even less often to democratic consolidation. Over two thirds of the countries that started experiments with democratic arrangements stopped half-way down the path leading to liberal democracy. Instead of democratic consolidation we are witnessing a prolonged period of political uncertainty. Such political regimes, trapped between fully-fledged authoritarianism and liberal democracy, are in fact hybrid regimes. Importantly, inasmuch as such hybrid structures can be very durable over time, they do not have a transitory character. They combine elements of democratic and authoritarian rule, none of them clearly prevailing. They are locked-in in the grey zone of transformation. Countries classified as belonging to this zone employ such elements of the democratic repertoire as regular, quite open elections at all levels, and political pluralism, where political parties and NGOs are free to operate. On the other hand, they are plagued by a low level of citizens’ involvement in politics and a correspondingly low level of trust in public institutions. The rule of law is not universally respected, elections that are supposed to meet general democratic rules are not free from administrative abuses, and public institutions work ineffectively, deepening a general crisis of the state.

Nevertheless, hybrid regimes are not a monolith. There are regimes that are more repressive than other; some of them are very close, according to international democracy progress rankings, to liberal democracy, while others are one step away from unconsolidated authoritarianism. Wolfgang Merkel employs the notion of ‘defective de-

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mocracies’ that works as a synonym of hybrid regimes. He divides them into exclusive democracies, illiberal democracies, delegative democracies and guided democracies. Although all these conceptions have already been named and examined by other transitologists, Merkel invested serious effort to find these separate, unsystematic clarifications and findings their right place in the broad field of study dealing with the bumpy consequences of the third wave of democratization. Several typologies of hybrid regimes exist depending on: how repressive they are to their citizens and the opposition; the level of brutality; the level of political pluralism, respect for the rule of law and the conditions in which electoral process takes place. Essentially, two “species” of hybrid regimes can be identified: electoral democracies and electoral authoritarianism. Since each of them represents a separate case in how the electoral process develops, the following sections furnish these concepts with details.

The main feature of electoral democracies is that even if the rules of liberal democracy are not respected, elections are fair and competitive. As regards electoral authoritarianism, elections are broadly inclusive (they are held under universal suffrage) as well as minimally pluralistic (opposition parties are allowed to run), minimally competitive (opposition parties, while denied victory, are allowed to win votes and seats), and minimally open (opposition parties are not subject to massive repression, although they may experience repressive treatment in selective and intermittent ways).

2. **Endogenous factors and political transformation in the post-Soviet space**

The transformation process in the post-Soviet space differs significantly from that of Central Europe. Countries of the former Soviet Union have been affected simultaneously by internal and external factors. The predominant internal (structural) factors include the influence of totalitarian past and the lack of tradition of democracy or

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even statehood. Therefore, in many cases the countries of the post-Soviet Eastern Europe undergo a triple or even quadruple transition. That is they seek simultaneously to build democracy, a free market, an independent statehood and a modern political nation. This stands in stark contrast with the double transition, political and economic, that took place in such countries as Poland, the Czech Republic, Hungary, i.e. the champions of democratization in Central Europe\textsuperscript{11}.

The post-Soviet republics’ experiments with democracy seem to support a thesis that a group of polities exists that is unable to break the vicious circle of transformation’s grey zone and move in one of the two directions, i.e. either authoritarian or democratic. Instead, their existence oscillates between democratic and authoritarian tendencies, none of them exerting permanent dominance. There is no hope that they will quickly consolidate as liberal democracy or fully-fledged authoritarianism\textsuperscript{12}.

The waves of colour revolutions that hit several post-communist countries in the post-Soviet space (Georgia, Ukraine, Kirgizia) in the late 1990s/early 2000s awoke hopes that the post-communist countries were approaching a new stage of political transformation, i.e. the so-called secondary democratization, possibly the fourth wave of democratization. As a consequence, structural school arguments about the necessary set of cultural, social and economic factors essential for successful democratization were called into question. The ‘rose revolution’ (Georgia), the ‘tulip revolution’ (Kirgizia) and the ‘orange-revolution’ (Ukraine), the ‘twitter revolution’ (Moldova), raised expectations for establishing liberal democracy in the post-Soviet space despite a great number of hurdles.

As regards the ‘revolutions’ in Georgia and Ukraine and the political developments accompanying them, several common features and, what is even more important, origins, can be identified. The citizens in each of these countries were bound by the frustration and disagreement stemming from fraudulent general elections. Actions of civil disobedience following the announcement of the election results were


accompanied by demands for essential changes in the existing quasi-democratic political regime. In contrast to the changes in the authoritarian regimes of South Europe and Latin America, in the case of post-communist countries they were not caused by a lost war, a dictator’s demise, an economic crisis or clashes inside the ruling group of elites\textsuperscript{13}. During anti-government demonstrations, citizens demanded strict obedience to constitutional norms and regulations, including respect for political and civic rights and the organization of free and open elections. Protesters in Tbilisi, Kiev wanted the political process to be fair and transparent. They openly withdrew their support for home quasi-democracy. For example, during a ‘twitter revolution’ that broke out in Moldova in 2009 and put an end to the decade of Vladimir Voronin’s Moldova’s Communist Party rule, citizens’ demands included equal rights for all general elections candidates and conformity with the democratic standards and norms regarding political competition.

It is striking how diverse – despite their common historical origin of the rumbles of the Soviet Union – the polities in Eastern Europe and Central Asia are. It is also worth noting that this diversity has deepened over the last 8-9 years, especially after the “colour revolutions”. At the same time, all post-Soviet political systems (apart from the Baltic states, whose political regimes are full-blown liberal democracies) can be divided into several groups distinguishable on the basis of recurrence of certain similar features, such as: specific institutional architecture of the political system, patterns of political rivalry and political pluralism, civil society, the level of the development of political and civil rights, and the quality of elections. It is possible to distinguish post-Soviet countries whose political regimes represent consolidated authoritarianism, for instance, Turkmenistan, Tajikistan and Uzbekistan. By contrast, countries like Azerbaijan or Belarus can be categorized as unconsolidated authoritarianism. Russia and Armenia serve as examples of electoral authoritarianism. Finally, Georgia, Moldova and Ukraine can be best described as electoral democracies\textsuperscript{14}.

There is no consent among students of political transformation which political regime better serves the incumbents that want to hold on to power: consolidated authoritarianism or hybrid regimes leaning toward authoritarianism. Closed authoritarian regimes are prone to violent collapse (when changes are taking place) and, even more importantly, they are short-lived because of the worsening economic condition or the stepping down of a leader. Hybrid regimes with overt authoritarian tendencies should be more durable since they are equipped with some democratic mechanisms that give the society the opportunity to express its discontent, criticize the government and show its frustration in a manifestation. They are, in a way, “steadily unstable”. As the examples of Ukraine and Georgia demonstrate, a government that makes it possible for the opposition to express its concerns and for groups of dissidents to mobilize must be prepared for unpleasant surprises during the following general elections.

Drawing on the experience of the “orange revolution”, Vladimir Gelman claims that the events in Kiev in 2004 prove there are no absolute structural obstacles that make establishing liberal democracy in post-Soviet space impossible. This thesis notwithstanding, one must be aware of the problems facing post-Soviet politics.

A decade after the “colour revolutions” in Georgia and Ukraine, it seems that the ‘revolutionary energy’ has waned: Victor Yanukovych defeated the “orange revolution’s” iconic leaders, constitutional order was reinstated, the political consensus born in 2004 was broken, and opposition members suffer harassment in various forms. In Georgia, Michail Sakashvili lost the 2008 war with Russia; gone are the times when he was a national hero. He now focuses on consolidating his power using non-constitutional methods to achieve his goals.

16 Ibidem.
18 Ibidem.
Political developments in former Soviet Union republics can be better understood by reference to Steven Levitsky and Lucan Way’s ‘leverage/linkage theory’. The theory suggests that the mechanisms of international environment have significant (but not decisive) impact on internal affairs in a given region. In line with this argument, the post-Cold War international environment did not affect all countries evenly. External democratizing pressures were more intense and sustained in some regions (Central Europe, the Americas) than in others (sub-Saharan Africa, the former Soviet Union). It can be argued that the post-Cold War international environment is driven by two forces described as the Western leverage, i.e., governments’ vulnerability to external pressure, and the linkage to the West, i.e., the density of a country’s ties to the United States, the European Union, and Western-led multilateral institutions. Both ‘leverage’ and ‘linkage’ raised the cost of authoritarianism during the post-Cold War period. However, the mechanisms of leverage, such as diplomatic pressure, political conditionality, and military intervention, were by themselves rarely sufficient to democratize post-Cold War authoritarian regimes. Rather, the more subtle and diffuse effects of linkage contributed to the democratization more consistently.

International actors may exert influence in a variety of ways, including political conditionality and punitive sanctions, diplomatic pressure, and military intervention. The impact of such measures (or even the threat of them) on authoritarian governments is greatest in regimes over which Western ‘leverage’ is high. The level of Western ‘leverage’ is determined by at least three factors. These include: (i) the state’s size and military and economic strength, i.e., weak states with small, underdeveloped economies are far more vulnerable to external pressure than those with substantial military or economic power, e.g. in the case of Russia, sanctions, threats, military force, or other instruments of external pressure are less likely to be employed than in the case of other much weaker post-Soviet countries; (ii) the ex-

istence of competing issues on Western foreign policy agendas, i.e., the ‘leverage’ may be limited and regimes – less vulnerable to external democratizing pressures when Western governments have important economic or security interests at stake in these countries, e.g. for diverse reasons, Western powers are unlikely to maintain a consensus on political reform, thereby limiting the effectiveness of external pressure (Russia, Belarus, Azerbaijan, Kazakhstan); (iii) governments have access to political, economic, or military support from an alternative regional power, e.g. Russia provides critical support to autocrats in Armenia and Belarus. By contrast, as in Central Europe and the Americas, where no alternative regional power exists, the EU and the United States as well as Western-orientated international institutions were left as “the only game in town”\textsuperscript{20}.

‘Leverage’ is most effective when combined with extensive linkage to the West. The extent of a regime’s ‘linkage’ to the West is defined by the density of its ties to the United States, the EU, and Western-dominated multilateral institutions. There are at least five dimensions of such ties: (i) economic ‘linkage’, which includes credit, investment, and assistance; (ii) geopolitical ‘linkage’, which includes ties to Western governments and Western-led alliances and organizations; (iii) social ‘linkage’, which includes tourism, migration, diaspora communities, and elite education in the West; (iv) communication ‘linkage’, which includes cross-border telecommunications, Internet connections, and Western-media penetration; and (v) transnational civil society ‘linkage’, which includes ties to international NGOs, churches, party organizations, and other networks.

Although ‘linkage’ is rooted in a variety of factors, including colonial history, military occupation, geostrategic alliances, and economic development and openness, its primary source is geography. Countries located near the United States or the EU are generally characterized by greater economic interaction with the US/EU, a larger number of intergovernmental and inter-organizational connections, and higher cross-border flows of people and information than the more geographically distant ones. ‘Linkage’ also shapes the preferences of domestic actors. By increasing the number of individuals, firms, and organiza-

\textsuperscript{20} Ibidem, pp. 21-22.
tions with personal, financial, or professional ties to the West, ‘linkage’ creates important constituencies for adherence to international norms. Unlike ‘leverage’, ‘linkage’ is primarily a source of soft power. Its effects are diffuse, indirect, and often difficult to detect. Yet, where ‘linkage’ is extensive, it generates multiple pressure points – from investors to technocrats to voters – that few autocrats can afford to ignore. As a result, the democratizing pressure generated by ‘linkage’ is often more pervasive, and more persistent, than that generated via ‘leverage’ alone.\(^2\)

4. The ambivalent security-transformation nexus in the post-Soviet space

It should be noted that security issues, such as ethno-political disputes, geopolitical changes or prospect for membership in international military organizations can substantially influence the contours of political regimes.\(^2\) The same applies to the international relations format, e.g. the Cold War order. In this case, the bitter rivalry between two superpowers was especially conducive to non-democratic regimes, mainly military dictatorships. In the post-Cold War period, democracies and hybrid regimes emerge. Consolidated authoritarian regimes have not entirely disappeared but the dynamics of their growth stagnated. Between 1965 and 1988, 28% of the total volume of transition cases came from military dictatorships.\(^2\) “If the geopolitical trends existing during the Cold War had existed for the last half century, most of the autocracies would have been military regimes, followed distantly by single-par-

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22 In the case of Armenia and Georgia, the breakdown of democratization was caused by the complicated process of statehood-building. Both countries lost part of their homeland. They struggled with centrifugal tendencies and separatist forces that all put serious constraints on the democratization process. Elections were won by politicians who supported the nationalistic agenda, called for revenge and the recovery of the lost lands. Georgia struggled against the loss of South Ossetia, Abkhazia and Ajara, while Armenia has fought with Azerbaijan for the control of Nagorno Krabakh for the last twenty years. A. Visvizi, T. Kapuśniak, *Russia and the CIS in the broader regional context of Asia: foreign policy, security, economic cooperation*, [in:] T. Kapuśniak, (ed.) *Federacja Rosyjska – Wspólnota Niepodległych Państw*, Lublin-Warszawa 2011, pp. 17-36.
ty dictatorships”\textsuperscript{24}. Why so? It is because Cold War realities were quite conducive to the rise of dictatorship (in particular to military dictatorships) as dictators strategically played the different international interests of the United States of America and the Soviet Union to their advantage, gaining access to foreign and military aid without having to make policy concessions in terms of liberalization or democratization\textsuperscript{25}.

The post-Cold War era should thus unquestionably be associated with the spread of electoral authoritarian regimes. Dictators interested in gaining access to international funds have a strong interest in adopting multiparty elections because donors generously reward dictators who hold elections. Global economic forces also played an important role in changing the autocrats’ incentives to hold elections. The change in economic policies and the continued pressure of international financial institutions and donors to adjust macroeconomic policies triggered the collapse of patronage networks that had previously sustained authoritarian regimes. In the face of this weakening of the state, the loss of economic resources that resulted from economic liberalization coupled with sustained deterioration of the living conditions, the dictators’ opponents strengthened. In some cases, weakening autocrats were compelled to embrace the move to a market economy and democracy simultaneously.

It is striking that in the post-Soviet region the poorest countries, such as Georgia, Moldova, Ukraine, show the best records on the democratization scoreboard. It is in stark contrast to the natural resources-rich countries, such as Russia, Turkmenistan, and Azerbaijan. The answer to this puzzle lies probably in the lack of resources that could be used by the dominant elites to corrupt their opponents, buy journalists’ support and set up patronage networks with society. The above serves as a description of how feckless pluralism works.

In this context, the question is: Why do some donors (individual or collective international actors) reward multiparty elections so generously if autocrats continue to rule by corrupting electoral processes and by rigging elections? Kricheli\textsuperscript{26} suggests that, for the most part,

\textsuperscript{24} Ibidem, p. 135.
\textsuperscript{25} Ibidem, pp. 135-136.
\textsuperscript{26} Ibidem.
donors are not interested in promoting democracy; rather they care about political stability, which shapes the return on their investments. Autocrats holding elections and winning them signal their stability and supremacy, not their democratic commitment, and thus get rewarded. Even the European Union shows signs of an appeasement policy towards strategically important post-Soviet countries, such as Russia, Azerbaijan, Kazakhstan.

Western leverage over electoral authoritarian regimes is rarely sufficient to convince them to democratize. With the exception of the EU’s enlargement process, the instrument of political conditionality has generally proved too blunt to achieve complete democratization. International actors focused mainly on elections, often neglecting such essential components of democracy as civil liberties and a level political playing field. Countries often slipped out of the Western spotlight once elections had been held, even when elections failed to bring democracy. Western pressure is said not to be successful in deterring more subtle abuses of power, including government control and the manipulation of the media, the harassment of the opposition, and significant levels of electoral fraud\textsuperscript{27}.

5. Democratization, Westernization, and national security promotion

What is disturbing in the context of a discussion about the security-transformation nexus, as Merkel once noted\textsuperscript{28}, is that the integration with the western military alliance (NATO) that is most desired by some of the post-Soviet countries “escaping Russia” could not be a reliable democracy deliverer – that role can only be played by the EU. Integration into international and especially regional, economic or politically democratic organizations has of course considerable implications for the stability and quality of a democracy, but neither military alliances nor foreign-policy security structures can develop the same democratic effect, even if they are dominated by democratic states,


\textsuperscript{28} W. Merkel, *Embedded and Defective Democracies...*, pp. 47-48.
as is NATO. The examples of Portugal (until 1974) or Turkey show that both authoritarian states and hybrid regimes violating civil and human rights can survive in such alliances, since their inner power structure is subordinate to the particular purpose of foreign policy security\textsuperscript{29}.

The EU as “the only game in town” and the enlargement process enhanced both linkage and leverage in the aspiring candidate countries, as membership entails a high level of integration and policy coordination, with regulations encompassing virtually every aspect of domestic governance. EU’s political conditionality differs from that of other multilateral organizations in several ways. First, it is not limited to elections, but includes respect for human rights, free expression, and the rule of law. Second, European demands are reinforced by extensive monitoring, as the EU and related organizations rigorously observe electoral processes, scrutinize constitutions, and meet regularly with party leaders, parliamentarians, and bureaucrats. Simultaneously, the “big prize” of EU membership creates a strong incentive to democratize and pursue reform. Indeed, governments or parties that are viewed as an obstacle to integration often suffer political isolation and an erosion of public support.

Parts of the former USSR may also be categorized as ‘low-linkage’ and ‘high-leverage’ countries – examples include Georgia and Moldova, both of which have been governed by unstable hybrid regimes since 1990. Both countries are poor and dependent on foreign aid. At the same time, they are weakly integrated into the global economy and have only limited ties to the United States and the EU. In each case, autocratic governments fell twice after 1990, but neither country democratized\textsuperscript{30}. That was true back in 2005 when Levitsky and Way were writing their essay about ‘linkage’ and ‘leverage’.

Georgia, Moldova and Ukraine, despite their profound structural troubles (poverty, high rate of unemployment, and incomes disproportion) breeding the ‘feckless pluralism’ syndrome, are getting closer and closer to the West and its international organizations, trying to follow the path taken by Central European countries in the 1990s. By integrating with the West, they expect not only economic support

\textsuperscript{29} Ibidem, p. 47.
\textsuperscript{30} Ibidem, pp. 30-31.
and the opening of the single European market to their goods, but also protection from the Russian encroachment on their sovereignty.

Russian aggressive politics towards some of the former Soviet Union Republics in the post-Soviet space can take different forms. We have witnessed customs wars, including: the wine war, the mineral water war, the milk war; followed by a dramatic increase of energy tariffs, cut-off gas and oil flows, supporting breakaway provinces, questioning post-Soviet countries’ right to some territory, curbing their sovereignty in foreign relations activity (an effective veto on NATO membership) and finally open warfare. In view of the above, Kiev, Tbilisi and Kishinev are left with no choice but to speed up their efforts to join the European club and “escape from the East”.

Therefore, given Kremlin’s growing demands that pose a direct threat to the sovereignty of the post-Soviet republics, the security concern outplays the willingness of non-democratic regimes to seek (political) stability via cooperation with Russia. At the same time, the West wants to see real progress in building democracy, in its liberal mode, from countries acceding to its organization. Investment in security entails genuine efforts in liberal democracy building. The governments of the former Soviet republics accept the EU’s conditionality politics to gain trust and join the North Atlantic Treaty Organization (NATO), and to institutionalize their relations with the EU via Deep and Comprehensive Free Trade Area Agreement (DCFTA). In such manner, the pro-democratic stance seems to be a patriotic act, proof of pro-western and anti-Russian sentiments.

6. National security promotion... with authoritarian tools

The ‘colour revolutions’ in Georgia, Ukraine and Kyrgyzstan represent an important challenge to the remaining authoritarian regimes of the former Soviet Union. In lieu of relinquishing power, those regimes face the question of what steps they should take to protect themselves from regional democratic trends. Russia has been particularly active in pursuing solutions to this question by supporting the autocratic government in Belarus, undermining democratic governments in Georgia and Ukraine, and pursuing domestic policies aimed at
centralizing power and restricting the opposition. In addition, Russia is working with other like-minded states to delegitimize the notion of regime change in the former Soviet Union through the Shanghai Cooperation Organization (SCO). Their actions are concerted and regular; thus we can talk about authoritarian promotion. SCO’s values and norms are built upon the rhetoric of “stability” and “diversity”. The rhetoric of stability is aimed at undermining democracy promotion: anti-regime activities, such as the colour revolutions, are deemed to be inherently disruptive and linked to the “three evil forces” (terrorism, secessionism and extremism) which the organization openly seeks to combat. The rhetoric of diversity has a similar aim: to make it illegitimate for an outside power to criticize the governing structure of the organization’s members or to actively promote democratization within Central Asia.

Russia is seriously anxious about the European/Euro-Atlantic integration course pursued by some of the post-Soviet republics. First of all, the penetration of the post-Soviet space by the West (including individual countries and institutions) has a profound damaging psychological effect on the Russian ruling elite. The Russian sphere of influence is constantly and persistently shrinking and the West, directly and indirectly, via initiatives such as Eastern Partnership, undermines Russia’s efforts to re-establish its control over the area.

Moldova’s and Ukraine’s participation in some integration projects sponsored by the EU, e.g. DCFTA, renders it impossible for these countries to participate in integration initiatives proposed by Russia on the forum of the Commonwealth of Independent States (CIS), such as the Eurasian Union (EAU).

Former Soviet Republics’ gradual and more or less resolute move toward integration with the West and its international organization implies full-blown democratization, the acceptance of the rule of law standards, European Union acquis communautaire. As these factors make it difficult to exploit the economic resources of the neighbouring states, interfere in their socio-political process to own gains, and

influence their decisions in foreign affairs. In this sense, they curb their freshly gained and non-institutionalized sovereignty. Moreover, the more democratic the post-Soviet republics become, the firmer their ties with the West turn out to be. In this way they also become less susceptible to Kremlin’s demands and unfair proposals that negatively affect their national security in the post-Soviet countries. As far as political regime goes, if such a country shows non-democratic tendencies, it cannot expect support from the European Union/United States when in conflict with Russia (vide Belarus’ disagreements with Russia over natural gas and oil pricing, taxing, transit fee). In the case of such countries like Armenia and Belarus, their nondemocratic political regimes’ existence is at the mercy of Russia, their political elite are aware of that fact and show undisputed loyalty to their Kremlin patron.

But there is something even more important at stake for Russian elite’s interest. It is extremely important from their point of view that democratic modernization pursued under Western guidance brings no stability and prosperity to countries experimenting with it. To the contrary, as authoritarian modernization run by Russia and China seems to be bringing good economic outcomes at the moment – despite growing criticisms about the fragile nature of the sources of their growth – these positive economic outcomes are said to prove that Russia’s ruling circles have chosen the right way of modernization. If so, the narrative goes, it deserves post-Soviet societies’ honour and legitimization and should be universally applied to managing all post-Soviet political communities. Should the EU-sponsored mode of transformation work, Russian political elite gathered around Vladimir Putin and their grip on power would be questioned.

Summary
Security concerns, be it military, lost colonial wars, ethno-political conflicts or local insurgence wars, have always had a serious impact on the political transformation process. In many cases, security threats gave birth to military dictatorships; sometimes, however, they would pave the way to democratization.

In the post-Cold War era, problems of the national security promotion have directly and indirectly influenced the longevity of hybrid
regimes flourishing in post-Soviet space. Russia is generally thought of as the main source of threat to the sovereignty of former Soviet Union republics. This state of play is conducive to democracy promotion via integration with Western institutions, even in cases when the endogenous imperative for liberal democracy building is rather weak. In these cases, the fear of Russia’s revisionism and geopolitical appetite is stronger than the willingness to preserve a non-democratic regime and a privileged position of certain elite groups in the region. The cases of Moldova and Ukraine are representative of this observation. In this context, some say that Russian assertiveness in the post-Soviet space could not only stimulate democracy building in the region but also make this process irreversible.

Unfortunately, regardless of some recent positive tendencies, the perspective of democratization in the post-Soviet space remains uncertain. This is because Russian politics seriously undermines the post-Soviet countries’ course of integration with the West, thought of as having the potential of speeding up the democratization process in the region. For instance, Russia proved so determined to block Georgia’s integration with NATO that it resorted to military means in 2008. From a different angle, the post-Soviet political elites across the region prove instrumental as regards establishing partnership and working toward integration with the West. They are skilful at cracking political opponents, while simultaneously declaring their readiness to join the Western political community.

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Abstract: This paper examines the security strategies of small states and against this backdrop investigates what kind of security strategy Latvia is implementing. In order to understand the threats and risks that are relevant to Latvia today, its security environment is briefly analysed. The security strategy of Latvia is discussed. It is argued that Russia is still perceived in Latvia as a real threat both at the political and the social levels. It is also emphasized that the prevalence of a cooperative security strategy, rather than a more defensive approach, in Latvia's take on its security, is conditioned by Latvia's limited resources.

Keywords: Latvia, small state, Russia, security strategy

Introduction

Following the restoration of Latvia's independence in 1991 and its joining the EU and NATO, Latvia's security strategy has changed. Caught between military ambitions of the EU and NATO, Latvia has sought to satisfy both of them. At the same time, it has been trying to build its military capabilities to address the threat of Russia, which is still perceived as a security challenge of great importance. The aim of the paper is to characterize the security strategy of Latvia through the examination of its defence-policy planning documents, interviews with officials from the defence sector and by investigating the military policies implemented in Latvia. The argument is structured as follows. The first part of the paper discusses definitions of small states and the resulting security strategy options and locates Latvia in this context. The second part examines Latvia's security environment, in-
including challenges and threats to Latvia’s security as well as the corresponding perceptions of major risks. Here, the question of whether Russia is still considered a threat is addressed. Finally, the third part addresses the existing security strategy of Latvia.

1. **Small states and security strategies**

There exist various ways of defining a small state. As these definitions have evolved piecemeal one after another, Jean-Marc Rickli suggests referring to them in terms of four generations of definitions of small states, including (i) definitions based on objective quantitative criteria, (ii) qualitative approaches; (iii) definitions drawing on psychology and the notion of self-perception; and (iv) definitions employing the concept of power. Specifically, the first generation of definitions embraces the traditional view in which the size of a state is defined by reference to geographic and demographic parameters of the country or its gross domestic product. This approach is criticized by many. For example, Paul Sutton and Anthony Payne note that population or geography is not instructive of whether a state is small or big. These factors certainly do not explain the behaviour of a state, because small states can act as big states, e.g. the aggressive security strategy of Israel. In contrast, in the second approach to the question of what makes a country small, qualitative criteria are emphasized. Here the role and the influence of small states in the international system are pointed to. Raimo Väyrynen notes in this context that it is the ability of small states to exercise influence through international institutions by creating and enforcing rules and regulations. This, in turn, renders small states more or less secure, i.e. the more integrated in the international system, the more secure they are. Hence the inclusion and integra-

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tion in the existing international institutional framework is an important factor to be considered when evaluating the ‘smallness’ of a state. The crucial question then is how effectively a state uses the institutional system in order to meet its goals.

The third approach to the question of how to define the size of a country emphasizes the psychological aspects, such as the self-perception of its smallness by a state. Jeanne A. K. Hey argues that a small state could be treated as such if its people and institutions perceive themselves as small. Equally relevant is the perception of other states’ institutions and people in shaping a smallness self-perception of a given country, i.e. self-perceptions are influenced by how others see you. Lastly, the fourth generation of definitions analyses smallness through its relation with power, which includes material, relational or normative resources. According to Hans Mouritzen and Anders Wivel, the focus is not on the basis of the power a state possesses, but on the actual power the state exercises. Power in this context is perceived as the capacity to influence the behaviour of other states, while at the same time preventing others from exerting influence on its own behaviour. Hence, there are two crucial aspects of power, i.e. influence and autonomy. Accordingly, power is not only about the ability of one state to influence another. It is also about a state’s ability to maintain its autonomy when challenged by other state’s attempts to influence it.

Because of the very limited resources, small states lack the power to set agendas – meaning they have a limited capacity to influence or modify the behaviour of others and lack the power to prevent others from influencing their own [i.e. small states’] behaviour. Therefore, the objective of a security strategy of a small state is to compensate for this deficit of power. Various security strategies of small states have been identified. Rickli distinguishes two kinds of strategies. In order to maximize its influence, a small state may adopt a cooperative strat-

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8 J. M. Rickli, *Military policy strategies...*
egy, which includes an active membership in an alliance. The positive aspect of this strategy is that small states benefit from the protection provided by stronger states, members of the alliance. This strategy includes an active policy of a small state within the existing international framework by participating in international organizations and effectively using the existing international norms. As Väyrynen notes, “international institutions are the best friends of small states.” Nevertheless, when it comes to security matters, there is the risk for small states to be entrapped by the policy of their bigger partners and, therefore, to be forced to fight wars that are not in the small states’ direct interest. Hence the autonomy of the state can be undermined if the cooperative strategy is implemented.

In the case when a small state wants to protect its autonomy, it should adopt a defensive strategy that foresees security policies that favour sovereignty. In this case, the small state does not expect protection from great powers and consequently it can expected to be able to stay out of others’ wars. This implies a neutrality policy. The trouble spot for this particular strategy is that the small state risks being abandoned by great powers should a real threat to the small state emerge. Björn Moller defines non-offensive defence as a suitable strategy for small states, which embraces military policies that maximize defence capabilities and minimize the development of offensive capabilities. This strategy was designed during the Cold War, when bipolarity and predictability prevailed. According to Moller though, this strategy is applicable to the complex security environment of today providing that some kind of a guarantee in the form of collective security at a regional or global level exists. The challenge for this strategy is its intention to draw a line between the development of defensive and offensive capabilities. This can lead to contradictory results in terms of military policy because of the blurred character of this line. Hence, it would be hard to identify if a state really is using this strategy.

10 R. Väyrynen, Small States..., p. 42.
11 J. M. Rickli, Military policy strategies..., pp. 309, 310.
The cooperative and defensive strategies give small states more room for manoeuvre. That is, these strategies do not make it necessary to draw a line between the development of defensive and offensive capabilities but rather encourage the implementation of a more flexible approach to security. Military policies of small states tend to balance back and forth between cooperative and defensive strategies. Rickie refers to this practice as a security dilemma, i.e. the need to balance between protecting autonomy and maximizing influence. Similarly, as Goetschel notes, in an international system small states have to act in different ways in order to maximize their sovereignty or to minimize their power deficit. In other words, small states have to be flexible and adaptive in their military policies; capable to benefit from the cooperative strategy and able to minimize the likely attempts of others to influence their (i.e. the small states’) autonomy. Väyrynen emphasizes that despite of the fact that small states are constrained in their decision-making by their limited resources and external factors, they still have choices. It is up to them how they will swing between the cooperative and the defensive strategies.

2. Latvia as a small state

With regard to Latvia, it should be noted that Latvia corresponds to most of the definitions of small states discussed above. With a territory of 64 thousand square kilometres and a population of 1.9 million, by quantitative criteria, it is a small state. The power that it actually exercises is very limited. For example, the military expenditure is critically low, about 1 per cent of the gross domestic product (GDP) of Latvia, which significantly hampers the development of defensive capabilities. Similarly, by reference to the qualitative criteria, Latvia is a small state. Although it is an active member of the EU and NATO,

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13 J. M. Rickli, Military policy strategies..., p. 310.
14 L. Goetschel, The foreign and security..., p. 16.
15 R. Väyrynen, Small States..., p. 42.
its activities do not have significant influence on the policies pursued by these organizations and hence do not increase Latvia’s power. Latvia perceives these organizations, especially NATO, due to the collective defence principle, as its defenders against the permanent threat of Russia. Despite the official discourse hailing gradual improvements in the relations between Latvia and Russia, in the Latvian defence sector Russia is still perceived as a real threat and military policies are built to address it. Therefore, taking into account the smallness of Latvia and the perception of Russia’s threat, the question is what kind of security strategy Latvia implements. Is it possible to talk of a swing between the cooperative and defensive strategies? In order to address this question it is necessary to examine Latvia’s security environment, i.e. to identify other threats and security challenges that it seeks to address through its security strategy.

### 3. Latvia’s security environment: is Russia still perceived as a threat?

Examining Latvia’s defence-policy planning documents, three levels of threats can be identified as directly relevant to Latvia and its security. These include: indirect threats, regional threats, and local threats. *Indirect threats* are considered threats of a global scale such as rising regional powers, nuclear weapons, weapons of mass destruction, activities of terrorist groups and radical extremists, cyber threats, international piracy and attacks on the infrastructure of natural resources and energy. *Regional threats* are understood as military conflicts in the Middle East, Northern Africa and Afghanistan as well as ‘not friendly’ countries that possess nuclear weapons. *Local threats*, the most comprehensive category of threats to a national security, are defined as threats that include military, social and economic dimensions. Although the risk of a direct military confrontation in the territory of Latvia is evaluated as low, it is stated in the documents examined here that it cannot be

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17 Please see: Nacionālā drošības koncepcija (informātivā daļa) [National Security Concept (informative part)], Approved by Saeima on 10th March 2011 and Valsts aizsardzības koncepcija [State Defence Concept], Approved by Saeima on 10th May 2012.
excluded. Concerns are raised about emerging threats, such as cyber threats to information systems and low quality of public information space,\(^{18}\) which, if not properly supervised, can lead to the manipulation of the society and trigger domestic instability. In this context, the integration policy of the society is of great importance,\(^{19}\) especially after the language referendum in the spring of 2012\(^{20}\). Lastly, sustainable economic development is pointed to as a precondition of the security of Latvia in that it conditions the ability of the country to meet its commitment to allocate 2 per cent of GDP to the defence sector by 2020\(^{21}\).

Overall, the definition of threat and threat perception among Latvia’s policy makers involved with the defence sector is very broad and includes a wide range of military and non-military threats.

Regarding the question of Russia, few positive trends in interstate relations that have softened the perception of Russia as a threat can be identified. Among these trends were the signing of the border treaty in 2007 and the visit of Latvian President Valdis Zatlers to Moscow in 2010. The signing of the treaty and the state visit were expected to improve the inter-state dialogue and foster economic cooperation between Latvia and Russia. Nevertheless, a significant damage to the perception of Russia was done by the Russian-Georgian war in August 2008. The war highlighted the necessity to maximize Latvia’s activities within NATO. It has also revived the question of Latvia’s energy dependence on Russia\(^{22}\). The perception of Russia as a threat based on material reasons is reflected in the popular attitude\(^{23}\) of Lat-

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18 Public information space of Latvia is characterized by the dominance of Russian TV channels, an absolute minority of Latvian channels (only five channels) and an increasing demand for foreign channels. Concerns are raised regarding the dominance of Russian channels particularly on the eastern border of Latvia, where the society mainly watches these channels simply because they are more accessible.


20 In 2012 a referendum was carried out on the Russian language to become a second language in Latvia. The results showed that the vast majority of Russians voted for this initiative. That caused certain tensions within the society.

21 Valsts aizsardzības koncepcija [State Defence Concept], Approved by Parliament on 10th May 2012.

22 N. Muižnieks, Latvian-Russian Relations: Dynamics Since Latvia’s Accession to the EU and NATO, University of Latvia Press 2011, pp. 79, 80.

23 Graph 1. Percentage of respondents agreeing with the statement “Russia should be seen as a threat to Latvia’s independence” among Latvians and Russian-speakers. Source: N. Muižnieks, Latvian-
vians towards Russia. In 2008, the percentage of Latvians that perceived Russia as a threat raised to 48.8 per cent and to 13.5 per cent among Russian speaking respondents. In 2010, it dropped to 34 per cent for Latvians and 5.5 per cent for Russian speaking respondents. The attitude towards Russia in the long term (from 2004 till 2010) has not changed much, averaging 35 per cent of Latvians and 9 per cent of Russian speaking residents of Latvia who perceive Russia as a threat to the independence of Latvia.

An analysis of the defence-policy planning documents reveals that Russia is mentioned only in the National Security Concept of Latvia. It is stated in this document that it is important to have mutual trust-based relations and to develop transparent and fruitful relations with NATO and Russia. More revealing is the Prime Minister’s report to Parliament about the national security. In this report concerns are raised about Russia’s military activities within the Baltic Sea region in 2012. Notably, Russian air force flights across the Baltic Sea increased and tactical operations of the Russian Naval fleet intensified. Politicians and public officials from the defence sector are more open as to the question of Russia as a threat. Essentially, they emphasize that the geographical location of Latvia and the military activities of Russia in the vicinity of Latvia’s borders are the two most important factors that explain why Latvians perceive Russia as a real and direct threat. The dominance of Russian TV and radio channels in the public information space in Latvia is perceived as a demonstration of Russia’s soft power strategy that can result in a disintegration of the Latvian society and can be employed as an effective instrument of manipulation. Furthermore, in spring 2013, a cyber-unit was established within Latvia’s National Guard. To refer to the argumentation

*Russian Relations: Dynamics Since Latvia’s Accession to the EU and NATO*, University of Latvia Press 2011, pp. 79, 80.

24 Although the perception of Russia as a threat is a security issue of high relevance, the last social survey for public release dates from 2008.


26 An interview with J. Garisons, policy director of the Ministry of Defence of the Republic of Latvia, Riga, 18th April 2013.

27 See, for example, “Discussion on the information space of the Baltic States – common elements and differences, challenges and opportunities”, National Defence Academy of Latvia, Center for Strategic Research, 7th November 2012, Riga.
of the Ministry of Defence, the purpose of this cyber-unit is to address the numerous cyber-attacks that Latvian information system has been experiencing for the last couple of years. Unofficial information from the information technology experts reveals that these attacks come from Latvia’s eastern neighbour. Overall, as this section depicts, despite the relatively constructive relations between Latvia and Russia, when it comes to the question of national security, Russia is still perceived by Latvia’s politicians, officials and the society as a direct threat to the security of the country. Against this background, it is useful to return to the question of the actual defence strategy that Latvia implements today.

4. Security strategy of Latvia: swinging along?

According to the State Defence Concept, Latvia’s defence strategy is grounded on three pillars, i.e. to develop and modernize national defence capabilities; to support NATO’s collective security goals; and to contribute to international security by means of a bilateral and multilateral cooperation. The National Security Concept sets the guidance for military policies that are to be developed in order to address the potential threats, including the development of National Armed Forces of Latvia (LNAF)’s capabilities, the participation of LNAF in NATO’s and the EU’s international operations, as well as hosting military exercises in the territory of the Baltic Sea. Hence, the elements of both the defensive and cooperative strategies can be identified in the State Defence Concept. However, taking into account the very limited financial resources allocated to Latvia’s defence sector in the budget, it becomes clear that it is not possible to meet all the three strategic goals in a strategically meaningful manner. These three goals have been therefore assigned a specific hierarchy. Their sequence can be revealed from the interviews with officials and the military policies implemented by Latvia since joining NATO and the EU.

28 Internal seminar on cyber security, National Defence Academy of Latvia, Center for Strategic Research, 18th September 2012.
Interviews with officials from the Ministry of Defence suggest that one security strategy is formulated. Taking into account Latvia’s limited resources, the only strategy to provide its national security is its integration with the existing international institutional framework, thus representing cooperative strategy. The main arguments to support this strategy include: firstly, the historical experience of Latvia's occupation (both by Germans and Russians) and secondly, the lack of significant military capabilities – the main reason for not implementing the defensive strategy. Since Latvia does not have significant military capabilities, in contrast to, for example, Israel, it has no other option but to integrate with international institutions and develop close relations with allies. Lastly, the cooperative strategy has to be implemented wisely, based on careful cost-benefit analyses in order to get the maximum benefits with the employment of minimum resources. In view of this, the cooperative strategy can be regarded as the dominant strategy that Latvia implements and not too much swinging towards the defensive strategy can be traced.

When examining the military policies implemented by Latvia in the last couple years, the following three strategic priorities can be identified. These include: a proactive membership in NATO, participation in international operations and the development of LNAF’s military capabilities. As the first two priorities require significant financial and human resources, limited resources remain for the development of LNAF’s defensive capabilities. Nevertheless, the implementation of the first two priorities has certain positive spill-over effects on the development of Latvia’s defence capability, such as personnel training, procurement of military equipment and other. Therefore, the cooperative strategy, if realized in an adaptive and flexible way, can be supportive of the defensive strategy. In the following paragraphs, details concerning the two strategic priorities of Latvia’s security strategy are discussed.

29 Interview with parliamentary secretary of the Ministry of Defence of the Republic of Latvia, Veiko Spolītis, Riga, 23rd April 2013.
30 Interview with the Minister of Defence, Artis Pabriks, Riga, 26th April 2013.
31 Interview with State Secretary for the Ministry of Defence of the Republic of Latvia, Janis Sarts, Riga, 23rd April 2013.
32 Valsts aizsardzības koncepcija [State Defence Concept], Approved by Parliament on 10th May 2012.
Proactive Latvia’s membership in NATO is crucial as it supports the development of collective security. The strategy to speak with one voice in NATO, implemented by the three Baltic States, has been a successful way for all three small states to be heard in the Alliance. The two most important results gained by Latvia in close cooperation with the other two Baltic States include: the Air Policing mission in the Baltic States and the approval of NATO Contingency Plans for the Baltic States (2010). As for the contingency plans, during the negotiations, the Baltic States played out the card of “the power of the powerless”, convincing the NATO member-states to elaborate on and sign these plans. Moreover, the three Baltic States (on a rota basis and individually) host NATO’s military exercises that provide training of the armed forces units and the commanding staff. A crucial step in this regard was the approval of NATO Response Forces exercises in Latvia in 2013. Other examples of Latvia’s proactive NATO strategy include military policy initiatives, such as the development of military polygons in the territory of Latvia by means of hosting military exercises more effectively, as well as the political commitment of Latvia to establishing a NATO Strategic Communication Centre of Excellence. All these initiatives are implemented with a view to achieving one goal, i.e. to increase NATO’s presence in the Baltic region.

The second strategic priority of Latvia’s security strategy is LNAF’s participation in the international operations of NATO and the EU. LNAF have been participating in NATO’s mission in Afghanistan since 2003 and Latvia is among the few countries that despite the economic crisis in 2008 have not reduced their participation in the mission. LNAF participates in two EU military missions, i.e. the counter piracy mission at Somalia coast and a training mission in Mali. Apart from the general argument that through active participation in international operations Latvia increases its influence in a particular organization, such as NATO or the EU, other additional benefits exist. First of all, LNAF acquires operational experience and training. Second, in this way Latvia develops bilateral and/or multilateral relations with other

34 R. Väyrynen, Small States..., p. 42.
contributing countries. For instance, the positive cooperation in Afghanistan between Latvia and Norway led to the establishment of close relations between these two countries in the field of the military and accordingly allowed for the NORDIC-BALTIC cooperation framework to be established. This framework foresees close cooperation in the operational field in Afghanistan as well as in Mali. The NORDIC-BALTIC cooperation framework will most likely determine Latvia’s future involvement in other international operations. It is because Latvia, as mentioned earlier, does not have the resources and capabilities necessary to take a lead in international operations. Clearly it is always a question for a small state, such as Latvia, with whom to cooperate.

Finally, the third strategic priority of Latvia is to develop LNAF’s self-defence capabilities. LNAF’s long-term plan (2012-2024) is based on three pillars defined as collective defence, minimal self-defence capabilities and support for civil society. Furthermore, the long-term plan includes a long list of priorities regarding the issue of the specific capabilities to be developed in the first place as a means of strengthening the overall defensive capabilities of LNAF. One of the top priorities is to develop land forces for a full spectrum of operations. Additionally, cooperation with the armed forces of Denmark in training Latvian land forces has been launched. The reconstruction of “Lielvarde” airbase with partial NATO’s investments is the focal point for the development of the air forces’ capabilities. Lastly, naval forces have procured five mine-counter ships and five patrol ships that need to undergo modernization.

The fact that priorities are set is related to the availability of financial resources. In order for these priorities not to remain as items on a wish-list, it is necessary that spending on the military be brought to the level of 2 per cent of GDP by the year 2020. Limited financial resources are not the only stumbling block for the development of LNAF’s defensive capabilities. Equally important in this context are the negative demographic mid-term and long-term forecasts. To address the shortfall of personnel resources, various initiatives are being

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35 The framework includes Sweden, Finland, Norway and Latvia.
36 Latvian Armed Forces Development Plan (2012-2024), Approved by the Cabinet of Ministers of the Republic of Latvia on 19th June 2012.
elaborated on at the moment. These include, for instance, the integration of the National Guard into LNAF; initiatives aimed at attracting youth to the armed forces. Overall, due to the limited financial and human resources, the development of LNAF’s capabilities is constrained. This should be seen as the main reason behind a relative absence of a defensive strategy in Latvia’s security strategy.

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The examination of the defence-policy planning documents, as well as interviews with Latvia’s officials, reveal that elements of cooperative strategy dominate in Latvia’s security strategy. In close cooperation with the remaining Baltic States, Latvia has successfully integrated with NATO, seeking in this way to increase the Alliance’s presence in the region and thus enhance collective security commitments in the region. Latvia has been developing its military policies on appropriate cost and benefit calculations in order to gain maximum benefits for the development of LNAF’s military capabilities. Highly integrated in the international system, Latvia contributes both financially and with personnel to NATO- and EU-led military operations. In this way, Latvia’s influence in these organizations increases. LNAF itself gains important operational experience and Latvia, through its involvement in the military operation in Afghanistan, has launched successful cooperation with Norway and other Nordic countries.

When it comes to the development of LNAF’s defence capabilities, Latvia has an elaborate strategic vision for the next decade, in line with which it intends to develop land, naval and air forces. The main stumbling blocks that can leave this plan as a wish-list item are the limited financial resources and negative demographic trends that render the issue of LNAF’s future staffing an open question. Therefore, although certain elements of the defensive strategy can be identified in the security strategy of Latvia, there are just not enough resources that would allow for them to be strengthened. In this context, taking into account the constant lack of resources, the question of the necessity and rationale behind the development of all three forces – air, naval and land – in Latvia’s army needs to be raised. That is, instead of creating small armies with critically low capabilities, such as the Latvian one, their integration into NATO and the EU should be considered.
Simultaneously, Latvia’s multilateral and bilateral cooperation with partners in operational fields would have to be expanded and niches should be found where Latvia as a small state could acquire expertise and contribute both to NATO and the EU. In this way, the limited resources would be allocated to the development of particular capabilities of high quality. Clearly, the above possibility is a question more of the ability to transform the way of thinking about national security among the decision makers in Latvia rather than anything else. Hence the security dilemma is present in the security strategy of Latvia as the traditional approach foresees the development of defence capabilities and increasing the autonomy of the state. As a result, Latvia indeed has its own small army, but the question remains about its ability to develop LNAF so that it would be capable to address the potential threats and risks present in Latvia’s security environment.

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Abstract: Irrespective of the demise of the Soviet Union and active involvement of many regional organizations with questions of security in the region, the CEEs are challenged by a great number of threats to security. As the potential of political instability is therefore inherent in the region, the objective of this paper is to dwell on the question of how the EU’s involvement in the region contributes to its stabilization. To this end the CSDP as a stabilization mechanism is discussed.

Keywords: security, defence, missions

General remarks

At the end of the 20th century, the countries of Central and Eastern Europe (CEEs) are still challenged by a number of threats that they faced in the post-Versailles and post-Yalta periods. Clearly, the demise of the Soviet Union and the active engagement of many regional organizations, such as NATO, OSCE and EU, with the questions of stability and security (NATO, OSCE, EU), positions the contemporary security challenges in a fundamentally different context. After the collapse of the Soviet regional hegemony, minority-issues and unsettled border questions resurfaced in the early 1990s as a major security concern for the fledgling democracies of the CEEs.¹ Today, these

countries are not immune to numerous security threats that do not originate in the region, but serve nonetheless as sources of potential threats, including international terrorism, organized crime, illegal immigration, drug trafficking, as well as populist nationalism. The CEEs seek to improve their capacity to deal with any potential instability resulting from these and other threats. Using the available mechanisms, the EU provides assistance to the CEEs to help them counter the threats mentioned above. One of these mechanisms is the Common Security and Defence Policy (CSDP). Although a great number of authors have dealt with CSDP, in this paper CSDP will be examined as an example of a stabilization mechanism in the CEEs.

The EU is particularly interested in providing stabilisation in its ‘near abroad’ as a means of ensuring security within the EU. Establishing a security ring around the EU is carried out through the implementation of strategies like the European Neighbourhood Policy (ENP) and Eastern Partnership (EaP). The CSDP mechanism in this context is employed as a tool of last resort, i.e. in situations when a third country requests help and support and various issues may be posing a direct threat to the EU’s security. The objective of this chapter is to examine what means and methods are used in the process of implementing CSDP, and what implications it bears for the broader question of security across the region of Central and Eastern Europe.

With this in mind, the author will present the example of Ukraine-Moldova civil border mission, which was launched in 2005. It is worth underlining that the means of cooperation within the frameworks of ENP and EaP have been denominated as apolitical, in contrast to CSDP, which has received the tag of political and intentional to the EU. That is not always perceived well, especially by Russia. The argument is structured as follows: The first part is devoted to the EU’s activity within the frameworks of ENP and EaP in Central and Eastern Europe. Then the formation and role of CSDP in security issues of the CEEs is discussed. Finally, the issue of CSDP implementation is examined. Conclusions follow.

1. EU’s policy vis-à-vis the CEEs

2. Key initiatives

The EU’s activity in its external environment is based on the following instruments: ENP, EaP, Black Sea Synergy (BSS) and mechanisms specific to CSDP, including civil and military peace operations.

The ENP, as an instrument of bilateral cooperation, was launched in 2004. Its operation is based upon bilateral agreements between the EU and participating states, called “action plans”. Those strategy plans concentrate on widespread economic and political reforms, from market and regulation reorganisation to reforms of sectors such as energy, transport and information technologies. Action plans also work on the “human” level – they promote civil society and reforms of the education and health care systems. In return, the European Commission offers greater access to its internal market and integration with the EU member states. The Commission monitors the implementation of action plans, producing regular reports on each country’s progress. Prior to the establishment of the External Action Service (EEAS)\(^4\), the European Commission also had its delegation in each of the countries\(^5\). ENP was also supposed to be a remedy to external threats, which is confirmed by its key document – European Neighbourhood Policy-Strategy Paper. It said that through ENP: “both parties will strengthen political dialogue and increase its effectiveness. This will cover foreign policy and security issues, including regional and international matters, conflict solving and crisis management as well as common threats to security (e.g. terrorism and the reasons for its formation, proliferation of weapons of mass destruction and illegal export of arms).”\(^6\) Fundamentally a need to develop ENP towards an improvement of the EU’s internal security was noticed in 2003, which

\(^3\) Algeria, Armenia, the Palestinian Authority, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Syria, Tunisia and Ukraine.


was strongly underlined by the then High Representative of the Union for Foreign Affairs and Security Policy (HR), Javier Solana.

In a document from 2003, commonly called Solana's Strategy, the role of relations between the EU and its partners was underlined: “(...) Our role is to promote the ring of well-governed states east to the EU and on the borders of the Mediterranean area, with whom we can have close relations based on cooperation.”\(^7\) It was emphasized that good governance of the neighbouring states is in the European countries’ interest. The same was said about internal conflicts, which could potentially threaten European security.\(^8\) Since ENP addressed various states, its full implementation was difficult. Moreover, reforms were not sufficiently supported due to internal constraints which led to the launch of alternative initiatives.\(^9\) In 2007 a new initiative for additional and separate cooperation in the Black Sea region emerged.\(^10\) This partnership concentrates upon the stimulation of democratic and economic reforms, providing support for stability, promoting development and cross-border cooperation, creating civic society and encouraging peaceful conflict resolutions in the region. However, creating a common framework for combating climatic change, illegal immigration and organized crime are the long-term priorities.\(^11\) Eastern Partnership was next started in 2009 within the framework of ENP


\(^9\) Union for the Mediterranean, formed in 2008 by N. Sarkozy, was to be an alternative for the Mediterranean states. At present it rallies round 27 EU member states, the European Commission and 16 Mediterranean states.


as a multilateral instrument of cooperation and stemmed from the EU’s insufficient focus on the Eastern region. It is, however, a strengthening and complementary mechanism of the ENP, as it aims at providing support for democracy and good governing. Increasing energy security, supporting reforms and environment protection were denoted as important factors of the cooperation. The EU’s key initiative is to encourage social and economic development, as well as to offer additional financial support for schemes aimed at reducing socio-economic inequalities and increasing stability.

The above discussed instruments reflect bilateral relations, creating areas of priority for collaboration and realizing the assumed tasks, whilst the development and implementation of CSDP is the result of the obligations and problems faced by the EU, also during the process of policy implementation towards the Eastern countries. The Russian-Georgian war in 2008 and the regional conflicts in Moldova (Trans-Dniester) and Southern Caucasus (in Abkhazia, Southern Ossetia and Nagorno-Karabakh) are examples of the so-called frozen conflicts in this region.

The relationship with the Russian Federation occupies a special place in the EU’s external and Eastern politics. The agreement on partnership and cooperation signed in 1994 is its legal foundation. The EU-Russia cooperation is currently multidimensional and includes, inter alia: the modernisation of the Russian economy, security issues, inter-
national concerns and cooperation in the area of common neighbourhood in Eastern Europe. Within a comprehensive political dialogue the EU and the Russian Federation (RF) discuss the problems occurring in various parts of the world.\textsuperscript{15} Unfortunately, lack of a long-term strategic vision is noticeable in this bilateral relation, especially the EU member states’ inability to come to an understanding with the RF. Russia plays the role of a mediator in the Transistrial conflict, in which the EU has become involved as well – this deepened the antagonism.\textsuperscript{16}

### 3. Formation of the Common Security and Defence Policy

The EU’s presence on the international stage is tied to the use of adequate instruments and appropriate and effective performance. The operations within the framework of CSDP are worth mentioning here. Creating a mechanism with an institutional base essential to carry out the operations required appropriate legal and financial instruments, supported by a political intention to integrate in that area.\textsuperscript{17}

The basis for the cooperation in the area of security and defence was laid by the European Single Act, signed in 1986, and the following treaties of primary Community law: the Maastricht Treaty, Amsterdam Treaty, Nice Treaty and Lisbon Treaty. The decline of communism in the East, the political and economic transformation of Central European states, concerns about the outcome of Germany’s unification and the desire to increase the importance of the existing integrated states were incentives to upgrade the mechanisms of the Common Foreign and Security Policy (CFSP). Yet, the Common Foreign and Security Policy was used in the process of implementation of the European Security and Defence Identity concept (ESDI). The process of conceptualisation and crystallisation of the institutional concept of the European Security and Defence Identity and the Common Se-

\begin{itemize}
\item[\textsuperscript{16}] See: A. Huff, The role of EU defence policy..., p. 8-12.
\item[\textsuperscript{17}] B. Przybylska-Maszner, Operacje w obszarze Europejskiej Polityki Bezpieczeństwa i Obrony – dylematy dotyczące efektywności, [in:] J. Knopek (ed.), Unia Europejska jako współczesny aktor stosunków międzynarodowych, Toruń 2009.
\end{itemize}
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In December 1998, during a British-French summit in Saint Malo it was agreed that the EU should be able to play its role on the international stage and to achieve the capacity to act independently, backed by a solid army, power and means to make decisions about its use and readiness to react to international crisis. The French-British treaty was key to CSDP development. Thereafter, during an informal EU summit in Pörtschach in October 1998, the then British Prime Minister Tony Blair declared that CSDP could not remain in its present form and that European defensive ability had to be created, enabling common military actions, especially peace missions, to be undertaken by the EU member states. This change in Britain’s policy, which till then had been blocking cooperation development in that area, dynamised the states’ enterprise, including the neutral ones such as Finland and Switzerland, which had been sceptical about EU’s militarisation.

Santa Maria da Feira summit in 2010 only confirmed the interest in strengthening common defence policy and the states’ higher involvement in that area. In 2000, the newly appointed High Representative of the Union for Foreign Affairs and Security Policy (HR), Javier Solana, declared that strategies concerning European defence were developed at the speed of light, compared to the EU’s usual practice. This occurred due to numerous factors, most importantly the Bal-

kan conflict and the EU’s low reaction ability. Both Great Britain and France felt frustrated at not being able to take on military action and play a crucial role in the Kosovo crisis\textsuperscript{23}. Therefore, “green light” was given to quick development and a strengthening of the security and defence policy. The development was so dynamic that only a few have wondered over the pace and interdependencies which were formed as part of its dynamics, and most evaluated it in terms of activity and efficiency. Both within the framework of CFSD and CSDP the following aims are being pursued: promoting Western European norms and values (democracy, political pluralism, respecting human rights), establishing peace and security at regional and global levels, giving aid in order to solve international crises, which includes resolving military conflicts, supporting prevention of conflicts and expanding territorial regime of arms control. The so-called Petersburg missions were an area of intervention – that is mercy dashes, rescue, peace-keeping and peace-building.\textsuperscript{24} At present, the following actions are being undertaken within the framework of CSDP: demilitarisation, mercy dashes, rescue, counselling and support, military operations aimed at crisis management, peace and stabilisation restoring. It has been noted that all of the following may add to combating terrorism and give support to third parties fighting this phenomenon.\textsuperscript{25} Compared to CFSP, CSDP seems to be more political, mostly because setting up CSDP’s own bodies enabled it to reach decisions by majority, so the supranationalism and the pursuit of CSDP’s communautarisering (devolution of powers) are highly emphasised (that does not appear in CFSP).\textsuperscript{26}

Emerging threats and the necessity to undertake stabilisation actions have faced the EU with massive challenges that are dealt with in a more or less efficient way. It is worth mentioning that the EU started its operation within the framework of CSDP in the Central-Eastern Europe. Since 2004, it has carried out a few missions in the region

\textsuperscript{24} Sz. Niedziela, \textit{Tożsamość Unii Europejskiej…}, p. 176.
of Central-Eastern Europe, for instance a civil mission in Bosnia and Herzegovina between 2003 and 2012 (EUPM) or the EUPOL PROXIMA mission in Macedonia in 2004-2005. Some of them are ongoing, e.g. the mission in Bosnia and Herzegovina (since 2004). The EU’s operations are its response to particular events and all of them can be evaluated as effective and in accordance with the EU’s standards. The European Union Border Assistance Mission for Moldova and Ukraine (EUBAM) was an important factor in reducing the risks concerning the Transnistrian “black hole” within the European security system.27

4. CSDP’s peacekeeping as a stability mechanism

5. EUBAM Moldova-Ukraine mission (European Union Border Assistance Mission for Moldova and Ukraine)

Ukraine, although not historically or culturally part of the CEE (except for its three Western provinces), has an important role to play in the European security structure due to its size and geography. The emergence of an independent Ukraine, after more than three centuries of domination by Russia, has been one of the most important consequences of the collapse of the Soviet Union. Now that Belarus and the Russian Federation have signed a symbolic treaty of union, Ukraine is the only independent buffer between Russia and the CEE countries, particularly Poland. Since gaining its independence from the former Soviet Union in 1991, Ukraine has taken significant steps to justify its economic, political and strategic position as the second largest country in Europe. It has strengthened its democratic institutions. It has also adopted a number of economic reforms, but the pace of reform has not matched that of other countries of the area. Ukraine’s internal politics is characterized by frictions between those who prefer closer ties with Russia, and those determined to maintain independ-

Ukraine participates in the CSDP missions (the EUPM in Bosnia and Herzegovina, Operation Atalanta) and in the work of the EU HELBROC Battle Group (Greece, Bulgaria, Romania, Cyprus). Moldova represents a combination of potential “hard” and “soft” security risks for the European Union. The intractable Dniester conflict itself has both hard and soft security aspects: an obstacle to Moldova’s improving its relations with the EU and to the transition process, this regional conflict also represents a security threat to the enlarged European Union.

EUBAM border assistance mission, or the European Union Border Assistance Mission for Moldova and Ukraine, was launched as a response to Moldova’s and Ukraine’s Presidents’ request issued on the 2nd June 2005, but, in fact, had been started on the 1st December 2005. In 2011 it was prolonged until 2015. It is undoubtedly an interesting example of the EU’s involvement in the region of Central-Eastern Europe and for a few reasons: first of all, because Ukraine, since its location, has allowed for the intensification and relation strengthening with the EU. Additionally, its natural resources make it a partner of strategic importance to the Union. Ukraine, similarly to Moldova, is included in both the ENP and EaP – less antagonistic instruments, especially in relation to Russia. The EU’s appearance in CSDP caused a stir. Russia is a mediator in the Transnistrian conflict and does not wish to let Moldova approach the EU, which is the main reason for its constant presence in the region.

The EU’s involvement in solving the Transnistrian problem has increased owing to several factors: EU’s accessions between 2004 and 2007 (until then threats stemming from Transnistria’s existence, where organized crime and money laundering are flourishing, were prac-

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28 Primarily found in the eastern and southern part of Ukraine where some twelve million Russians live. A. Pellerin, NATO Enlargement...
tically invisible) and changes in perceiving Moldova’s policy evolution. At first EU’s actions to solve this problem were only reactive and fragmentary. For instance, since February 2003 members of the Pridnestrovian Moldavian Republic’s government have not been granted visas enabling them to enter the territory of the EU (similar restrictions have been introduced by the US). In the same year the EU undertook an advisory role by the Common Constitution Commission, elaborating on a basic law draft for the states’ reintegration. In November 2003 an intervention of the High Representative of the Union for Foreign Affairs and Security Policy was one of the factors that lead to the rejection of President Voronin’s proposal for a solution to the conflict (the so-called Kozak memorandum), which would lead to a legislative paralysis and cast a blight on Moldova’s European aspirations. Members of the EU Political and Security Committee held discussions concerning a possible peace stabilisation mission after the signing of a treaty between the conflicted parties.34

The following reasons led to a situation where the presidents of both countries petitioned the EU for a mission: a range of illicit cross-border activities, including human trafficking, smuggling and other illegal trade, were occurring along the 1,222 km-long MD/UA border, a phenomenon not helped by the secessionist region of Transnistria in Moldova (which is adjacent to 454 km of the same border), over which the government of Moldova has no control. As a result, both governments were losing substantial amounts in revenue to organised crime.35

The aim of the mission established following a joint request by the presidents of Ukraine and Moldova is to provide ‘advice and training’ for the Ukrainian and Moldovan authorities in establishing an ‘international customs control arrangement and an effective border monitoring mechanism’ on the border between Ukraine and the separatist Moldovan region of Transnistria. The mission’s main objectives are to help bring border management practices into line with those used in the EU, to combat smuggling and trafficking – one

of the most important sources of income for the Transnistrial regime, and to develop better cross-border cooperation between the two countries. Moreover, EUBAM also provides training and support for Moldova’s and Ukraine’s customs. Creating conditions for Transnistria’s conflict resolution through cross-border cooperation is one of the mission’s key objectives. Their personnel support Moldova and Ukraine in their efforts to harmonize the standards of border management and procedures in imitation of the EU member states. What is more, the EU provides necessary help in the process of quality raising of professional posts and customs officers in Moldova and Ukraine at the operational level. Amongst recent accomplishments it is worth mentioning the intensification of the visibility of export/import flow from the Region of Transnistria, an increase in the efficiency of border control and surveillance and better cooperation between foreign agencies of Moldova and Ukraine. The mission is neither a distinct ESDP mission (although the EU Council exercises political oversight), nor is it an exclusively EC-managed operation (due to the participation of the EU Member States). The implementation of the mission provides a good example of the exhaustive use by the EU of its instruments (joint actions, technical assistance, training, secondment, etc.). The coordination between the EU’s institutions in running the mission and in ensuring the advancement of concrete EU foreign policy interests in the region. Additional EUBAM’s success should not only be attributed to the EU, but also Moldova’s and Ukraine’s border guards. “Firstly, the EU succeeded in sending a civilian mission right to the border of a conflict zone, thereby contributing to the stabil-

36 EUBAM Moldova-Ukraine provides a counterpoint to EUJUST Themis: although the two missions were very different, they suffered from similar institutional ambiguity. Both missions involved elements of both Council and Commission competence; in both cases, there was some debate over whether Council or Commission instruments would provide the most appropriate mechanisms for the missions. Although established by a Council Joint Action in November 2005 EUBAM Moldova-Ukraine is financed and managed by the Commission, A. Huff, The role of EU defence policy..., pp. 19-20.


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sation of the region through the mere presence of its border guards. Secondly, EUBAM contributed to the introduction of a new customs regime between Moldova and Ukraine. This allowed Transnistrian businesses to register with Moldova’s official agencies and to receive the official customs documents (their number reached 539 by mid-April 2009). Furthermore, EUBAM’s technical assistance and advice has contributed to a number of spectacular busts involving large-scale meat-smuggling, but also the smuggling of cigarettes and alcohol and the dismantling of human trafficking networks. In one case of meat-smuggling the potential loss to the Ukrainian budget was estimated at €43 million. On the other hand, there has been no substantial seizure of weapons over the years, which may suggest that concerns related to weapons’ trafficking were excessive. The fact that the mission was extended for another two years in November 2007, and for the next two years in 2011, points to the fact that the EU and its partners countries in the region still perceived a need for continued training and technical assistance leading to yet more effective border controls. In a broader context and within the framework of ENP, EUBAM is a unique instrument by which the EU strives, on the one hand, to encourage the movement of legitimate trade and travel, and on the other hand, to guarantee security for its citizens and tackle criminality. The Mission’s six cherished core values are neutrality, partnership, reliability, results, service and transparency.

An analysis of CSDP and its EUBAM mission lays grounds for a confirmation of the thesis that the EU’s missions have a large impact on stabilisation in the region of Central-Eastern Europe (and other world parts). Mainly, it is due to a noticeable security deficit in the region, and the reason that there are no better candidates to the role of a security guardian. The EU’s involvement in the region has a relative character since it is a response to emerging crises. This is due to the fact that EU has to offer various instruments that could be used

40 www.eubam.org
depending on a particular region’s needs, from financial means to technical support. Civil mission’s EUBAM budget for 2011-2013 amounts to 21 million euros and is spent on practical ways of supporting public authorities, whose main task is to improve governing capacities. The training of border guard officers of both countries is one example. Another method used to combat corruption in Moldova and Ukraine is reflected in EUBAM’s Anticorruption Assistance Strategy 2010-2014. Additionally, there are practical actions, such as training and lectures for both appropriate organs and the youth, which aim at raising consciousness and creating frameworks that would regulate corruption in keeping with European Union’s standards. Those are only a few examples of actions carried out within the framework of the mission, but it can be deduced that methods used within the scope of CSDP aim at stabilising the region’s situation – the region to which precisely the EU has to respond. The EU’s missions in the CEE region are a stabilizing factor, and, at the same time, contribute to improving security in the region. Depending on the type of mission, the objectives of these activities are to prevent the spread of conflict, strengthen the rule of law, fight against organized crime and terrorism, monitor, consult and train. All these tasks either directly or indirectly improve security. Therefore, the presence of the EU in the region is important, both for the relationships between the CEE countries and the EU itself.

Conclusions
The enlargement of the European Union in 2004 and 2007 extended its borders further east, to touch the western fringes of Moldova and Ukraine. The European Neighbourhood Policy was developed in 2004 to create a cooperation framework within which the EU and 16 of its closest neighbours, including Moldova and Ukraine, could work in partnership to enhance prosperity, stability and security for all parties in the region. In 2009, the Eastern Partnership initiative further expanded the EU’s cooperation offer to its eastern neighbours. In the context of the EU’s Neighbourhood Policy and the Eastern Partnership, the EU Border Assistance Mission to Moldova and Ukraine

(EUBAM) offers a two-fold contribution. Firstly, the Mission promotes the approximation of EU standards and practice in border management in the Republic of Moldova and Ukraine. Secondly, as a monitor and a neutral, technical advisor, EUBAM contributes to the peaceful and sustainable settlement of the Transnistrian conflict, by providing conditions to solve this conflict through cross-border cooperation and a concept of integrated border management. Both these elements directly support the aspirations of EU member states for regional security, stability and prosperity. Along the entire Moldova-Ukraine border, the Mission supports efforts to make border checks more efficient to further enhance legitimate trade. Streamlining border and customs controls, supporting the effective use of border resources to target threats and supporting cross border and international information exchange all in turn support European and international trade. Odessa Seaport is a busy trade transit point for EU markets.43

The EU’s missions within the scope of CSDP have a more technical character, which enables a better access to various problems Central-European states are facing. The EU’s target is to support reforms in this region and attention to security, and CSDP can be a great executive mechanism, which is exemplified in already carried out missions in the region. Central-Eastern Europe needs the EU as a mechanism of assistance in conveying internal reforms and as a mechanism of stability useful in providing security, settling and terminating disputes, yet the EU should act more decisively in this region, and its actions within the framework of CSDP should be even more coherent.

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Book Reviews
A chain is only as strong as its weakest link: rethinking the EU’s socio-economic model

The 2008+ global economic crisis and the eurozone crisis opened a new chapter in the history of European integration. They revealed weaknesses in the European integration model and – ipso facto – forced the key EU players to restart the reform process. As ever, policy decisions concerning the nature and extent of the necessary reforms require an understanding of the (most probable) long-term consequences that these two crises may have on the EU. In this regard The Aftermath of the Global Crisis in the European Union adds to our understanding of current developments in the EU providing at the same time valuable insights into the long-term impact of the crises on the EU’s (1) economic growth, (2) fiscal and monetary policies, and (3) the cohesion countries, incl. southern and new EU member-states. The volume consists of three parts. Part One offers a discussion on the growth perspectives in Europe. Part Two focuses on the variety of post-crisis challenges and risks that the EU faces with regard to the fiscal and monetary policy. Part Three upholds the crisis-related problems experienced by the cohesion countries.
The major strength of the volume lies in its theoretical contribution to the convergence theory, and specifically to the European convergence model, discussed by Beáta Farkas in Part 3 of the volume (pp. 134-149). This model frames the case-specific empirical insights presented in the remaining contributions to the volume. From a different angle, the variety of analytical, conceptual and methodological perspectives employed by the authors of the volume, offers a well-balanced and comprehensive insight into current developments in the EU. Although the volume has been written by twelve authors, representing different styles of narration, most of them are gifted writers and their individuality, in my opinion, adds to the value of the book.

Even prior to the global economic crisis, the EU had to deal with the challenge of demographic change (population ageing and decline), resource scarcity, rising social inequalities, and increasing competition from emerging markets, such as China, India, Russia, Indonesia, Brazil, Mexico or South Africa. At the same time, the relevance and sustainability of the European socio-economic model started to be questioned. The global economic crisis and – afterwards – the crisis in the eurozone aggravated these challenges. These two crises have also made it clear that the EU’s socio-economic model needs to be rethought. Part One of the volume addresses this issue. Specifically, Fabian Zuleeg poses the question of possible systemic changes that would enable the European economies to adapt to the long-term challenges the EU faces and to overcome the recession and the crisis in Europe. In a similar context, Matti Viren seeks to identify the triggers of growth in Europe. To this end, an econometric model is constructed to inquire into “the relationship between key institutional and structural variables and the growth of output” (p. 21). Accordingly, the functioning of labour markets, availability of labour and capital as well as the size of government are pointed to as the major determinants of growth in Europe. Surprisingly, such growth stimulators as – for example – innovative activity and the adaptation of innovation, are excluded by the author from the analysis (p. 31). Clearly, there is room for further research.

The discussion of the EU socio-economic model acquires a new twist when examined through the lens of Japan’s experience of economic slowdown. In his very interesting discussion on the long-drawn economic slowdown in Japan, Masahiko Yoshii puzzles on the lessons learnt by Japan. Albeit implicitly, Yoshii suggests that these lessons may be useful for the EU and the anti-crisis reforms in the Eurozone (pp. 36-52). His advice for Europe is very simple though: to take prompt and decisive measures (p. 52). Looking at the argument developed by Yoshii one feels inclined to say that despite many differences that exist between the Japanese and the European socio-economic models, the preferences concerning the welfare-state are surprisingly similar. Over a year ago, the World Bank, referring to the EU’s social model, called Europe the world’s “lifestyle superpower”. Back in 1992 though, it was Japan’s Prime Minister Kiichi Miyazawa who had officially promised to make his country such a superpower. Irrespective of the pro-welfare reform of the social system in Japan, Miyazawa failed to deliver on his promise. Simultaneously, the overly generous social transfers put in place at that time should be seen as one of the reasons behind Japan’s long-lasting economic downturn. In this view, what Yoshii seems to be suggesting, the case-study of Japan may be very useful for the European decision-makers today.

Part Two of the volume is devoted to the issue of fiscal and monetary policy. Here, Gabriele Ciprani (Director of the European Court of Auditors) addresses the question of whether the EU budget could be helpful in setting conditions for better national spending (p. 60). In order to answer this question, he presents an extensive and valuable analysis of the functions being played by the EU’s budget expenditure as well as the results that the expenditure enables to achieve. Ciprani argues that the actions related to the EU’s expenditure, which are taken at the supranational level, represent a kind of “Trojan Horse” to achieve specific objectives with better results than the EU member states could do by themselves (s. 78). This conclusion may be considered as an argument in favour of deepening European integration and establishing common fiscal policy within the EU (or EMU). The lack of such a policy, Darvas argues, constitutes one of the “roots” of the present euro-area crisis. The remaining nine reasons are discussed by Darvas in his chapter devoted to the “examination of the most pressing problem that also constitutes the most serious threat to the integrity
of the euro-area [that is]: the dreary economic outlook of southern euro-area member states” (p. 83). According to Darvas, the EU institutions and national key players (heads of states, governments, etc.) – instead of discussing exiting or breaking-up the euro – should focus on the southern EU member-states. He argues that it is in common European interest to assist these countries in improving their economic outlook. The problems of the southern euro-area member states, as well as the new EU member states, are discussed in detail in the following chapter.

As an introduction to further analysis, Beáta Farkas compares the southern part of the euro-area to the new EU member-states. Farkas upholds the question of whether it was a coincidence that the economies of these two groups of countries were so vulnerable since the beginning of the global economic crisis (Chapter 3, p. 134). Farkas convincingly argues that this vulnerability was closely related to the flows of capital. On the one hand, the EU managed to create a convergence model encouraging capital flow from high-income to low-income countries. Therefore, the cohesion countries were able to overcome their lack of savings. On the other hand, however, the dependence on foreign capital has made the low-income countries and hence the European convergence model vulnerable. This vulnerability has been highlighted during the economic crisis. As a result, following the crisis, capital flows in Europe declined and the convergence process slowed down. [The dangers related to the changes in capital flows have been well-illustrated in the most recent literature on the subject suggesting that – in the case of Central and Eastern European Countries (CEEs) – relatively low saving rates, combined with high investment needs, led to the accumulation of private debt owed to foreigners. Hence, the global financial turmoil that may considerably limit the ability of CEEs to raise new capital may also increase the risk of default on foreign debt].

The next part of Chapter 3 is entirely devoted to the problems of the EU’s CEEs. Gábor Dávid Kiss and Andreász Kosztopulosz exam-

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ine the adequacy of inflation-targeting monetary policy and from this perspective dwell on the possibility of the CEEs joining the eurozone. To this end, the authors discuss the liquidity-sensible environment that has defined the range of monetary policy decisions in selected CEEs over the last decade. They then employ the bond and currency markets as indicators and stock markets as control variables. Next, Árpád Kovács explains how and to which extent crisis management by the CEEs contributed to maintaining the stability of their public finance (p. 153). Given the fact that the solutions applied in the CEEs revitalized respective economies, Kovács puzzles on whether these solutions constitute an alternative model of sustainable development and thus whether they could be emulated to the rest of Europe or whether simply they are just a short-term relief.

In the following move, the empirical focus of the discussion turns to Greece, representing the southern euro-area member-states and to Hungary, representative of the new cohesion countries. Here, Anna Visvizi offers an insightful analysis of the role and efficacy of fiscal policy and fiscal policy measures in addressing the crisis in Greece. She points out that the fiscal adjustment programme implemented in Greece since 2010, consistent with the introduction of excessive taxation and only marginal reduction in expenditure, dramatically constrained economic activity in the country. As a result, it led to an exponential rise in unemployment (27% by the end of 2012), a dramatic fall in general government revenue, and increased expenditures on social transfers (p. 212). Interestingly, Visvizi sheds new light on the hotly debated issue of tax evasion in Greece. Visvizi explains that “although tax evasion exists in Greece, it is not as severe a problem as the media and some politicians portray it to be” (p. 234). Visvizi

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4 The International Monetary Fund itself admits, in its latest report on Greece, that the Greek economy encountered a much-deeper-than-expected recession with exceptionally high unemployment. The reform programme for Greece (carried out in the period: May 2010-March 2012) assumed a liquidation of the estimated 20-30 percent competitiveness gap through wage adjustment and productivity gains. However, despite the fact that the competitiveness of the Greek economy has slightly improved (because of falling wages), structural reforms stalled and productivity gains proved elusive (IMF, *Greece: ex post evaluation of exceptional access under the 2010 Stand-By-Agreement*, Country Report, June 2013, No. 13/156).
points out that the argument of tax evasion was employed instrumentally by the Greek socialist government in 2010 to manipulate public opinion and Greece’s creditors, and is not the main reason behind shrinking government revenue in Greece.

Péter Mihályi discusses the causes of Hungary’s comparative failure in catching up with the core economies of the EU-15. Mihályi focuses on the problem of low productivity of domestic enterprises, pointing out that Hungary lacks large companies, which could maximise workers’ output through economies of scale and scope. Policy recommendations formulated here are as follows: “there is a need for ownership concentration of fixed capital and natural resources (e.g., agricultural land and forests). Such a strategy would require a fast consolidation of micro- and small enterprises into transparently functioning middle-size and large firms” (p. 265).

The Aftermath of the Global Crisis in the European Union constitutes an excellent contribution to the debate on (the future of) the EU’s integration project. It adds to the debate on the sustainability of regional integration models in that it reminds us that ‘a chain is only as strong as its weakest link’. Taking the above into consideration, it was a very good choice of the Editor of the volume to focus on the southern and the new EU member states. The multidimensional crisis in Europe confirms that this is the group of countries in which the EU’s weakest links are to be found. The volume is easy to follow, as the authors present clear explanation of the issues discussed. It will be of interest not only to researchers dealing with the topics covered but also to students seeking to understand the problems related both to the global economic crisis and to the eurozone crisis.
Since the outbreak of the financial crisis in 2007, a rich body of literature has emerged to deal with the causes, the spread and the consequences of the crisis. Poland is not an exception here. The volume reviewed here constitutes a deliverable of a project funded by the Polish National Science Center, which focused on the study of the consequences of the global financial and economic crisis. Three international conferences were organized within the framework of this project to present and discuss its research-findings.

There is a tendency in the literature on the financial and economic crisis to limit the scope of the analysis, for instance, to economic factors only, such as macroeconomic imbalances, unsustainability of sovereign debt, economic stagnation or high level of unemployment. In the case of studying a phenomenon as complex as the economic crisis, this has to be considered a real limitation as both its causes and repercussions go far beyond economic factors. For this reason, a high value-added of the reviewed volume is its interdisciplinary nature. The volume consists of eight chapters, which contain a total of 21 individual articles, written by researchers as well as by practitioners from the public and private sectors. The authors pursue their research from different
perspectives, including economic history, economic policy, international finance, international politics, law, and social security. By examining the crisis from various regional perspectives, including North America, Latin America, Middle East, Asia Pacific and the Commonwealth of Independent States, the analytical scope of the publication goes beyond the Eurocentric approach. This variety of topics and geographical focus is uncommon in the literature. While it allows a more complete picture of the crisis, it also presents a great methodological challenge. In other words, the edited volumes authored by representatives of many disciplines bear the risk of fragmentation and thus require a strong, common research framework that the contributors would follow. This can be a daunting task.

As regards the structure of the publication in question, it mostly fulfils the criteria of clarity and consistency; however, some changes would further improve its transparency. For example, several contributions dwelling on the coordination of the anti-crisis policies in the EU and the eurozone sovereign-debt crisis are scattered across the volume. Grouping them in one chapter might have added to the transparency of the volume. Accordingly, a chapter on the EU-, and then on the US-approach to the crisis, could have been followed by other regional perspectives. It must be admitted though that the structure of the chapters shows the necessary level of consistency. The research framework of the volume is clear and formulated in an interesting way. The first research-question concerns the assessment of policy decisions and instruments introduced as a response to the crisis and whether they can prevent the outbreak of similar problems in the future. Secondly, the issue of inducing changes in economic policy decisions in the context of the classical debate between the neo-liberals and neo-Keynesians is tackled. Finally, the research focuses on parallels between the current economic crisis and the Great Depression of the 1930s.

The volume begins with a historical perspective. The article by Wojciech Morawski is a good starting point and a strong invitation to further reading. The author skilfully puts the current economic crisis in a broader context of economic history. Morawski examines the historical parallels concerning the crisis, its characteristics, and their importance vis-à-vis current economic policy dilemmas. It is difficult not to agree with the author on the mishandled process of the deregula-
tion of the financial sector. Concerning the crisis of liberal thinking, the author rightly points out the importance of ethical values in this system. Without these values, the financial sector promptly becomes dysfunctional and degenerated. It seems that this is a key to understanding the problems in the banking sector where caps on salaries and increased supervisory powers can do little if the corporate system promotes egoistic and opportunistic behavioural patterns. Morawski offers his own view of future developments of the world’s economy; this renders his contribution particularly interesting to readers.

The following article by Piotr Jachowicz sheds some light on the British experience with the global financial crisis. The choice of this country as a subject of analysis is well-grounded as the UK is the largest financial centre in Europe. Therefore, an examination of its current and historical experience by looking for parallels between the 1930s and the post-2007 period is interesting to follow. Subsequent articles continue with the description of the crisis developments and policymakers’ reactions in the EU and the US.

Katarzyna Żukrowska took up perhaps the most demanding challenge by engaging with a discussion on the broader context of the global financial and economic crisis. By employing the case of the US’ and the EU, she focused on fiscal problems as well as on the global implications of the crisis. Given the breadth of the issues, this article is the most extensive in the volume. The detailed analysis of the US origins and developments of the crisis is compared to the EU experience. The EU part focuses on fiscal stabilisation efforts both on national and EU level with an emphasis on the most recent measures such as: Treaty of the Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), commonly referred to as ‘Fiscal Compact’, on the question of separate fiscal capacity for the eurozone or actions undertaken by the European Central Bank. The author rightly concentrates on the most recent issues whilst other questions, such as those concerning financial assistance mechanisms, new supervisory architecture of the banking sector or reforms of economic governance are elaborated in other parts of the book. It is uncertain though if an emphasis on fiscal policy is the most optimal to apply in an analysis of the eurozone problems. Presumably, fiscal problems of the eurozone member-states represent a symptom of an illness. Thus, their examination allows uncovering the possible faults in eco-
nomic policy-making on various governance levels. The paper contains many interesting points and observations. The author skilfully adds the global governance perspective, which brings a considerable added value as most of the crisis-oriented analyses show a very limited geographical angle.

Several other contributions in the book concern the EU’s reactions to the crisis. It gives the reader an opportunity to look at these reactions from different angles which were adopted by the authors. In one of them, Joanna Stryjek also takes a fiscal approach but focuses on the eurozone by taking a closer look at the subsequent financial assistance packages and the role of the European Central Bank in the adjustment programmes. One of the most interesting analyses in the book is authored by Jolanta Zombirt. She offers a down-to-earth assessment of the EU institutions’ actions in response to the crisis, mercilessly pointing out most of the missing points, mistakes and even populist actions. Although critical stance toward the EU institutions is very common in academic and journalistic assessments of the EU response to the crisis, it tends to be based on superficial analysis and thus misses the most important points. In contrast, Zombirt starts with enumerating the weak elements of the current architecture of macro- and micro-prudential supervision, to continue with an analysis of the EU economic governance reforms and financial assistance mechanisms and conclude with an assessment of the European Central Bank actions. The clarity of the structure, the language and the courage of expressing own very uncommon opinions make this chapter a real ‘must-read’ for anyone interested in the EU’s economic integration. Another analysis concerning the EU response to the crisis is authored by Artur Nowak-Far. He adopts a completely different, i.e. a legal perspective to the issue at hand. Before assessing the systemic EU actions, Nowak-Far offers an interesting theoretical insight into the role and limits of legal measures as a tool of achieving certain economic and social objectives and their relation to the political and economic systems. After describing the theoretical framework, the author takes the EU’s political and legal responses to the crisis as a subject of further analysis. This contains the European Economic Recovery Plan, the Euro Plus Pact, the European Stability Mechanism, the ‘Six-pack’, the ‘Two-pack’, the so-called ‘Fiscal Compact’ and the banking union. The way the EU adopted its measures as a reaction to the cri-
sis is, according to the author, a proof of the flexibility and complementarity of the legal and political spheres. Nowak-Far concludes that the crisis in the case of EU economic governance was a consolidating factor. The strong point of the analysis is that the measures and mechanisms adopted by the EU members are examined against the broader context of EU economic governance, including its basic legal and axiological fundamentals. Another reference to the EU policies can be found in Aleksandra Kisielewska’s article that deals with the scope and levels of coordination of the anti-crisis policies. Kisielewska emphasises the importance of the EU budget as an instrument contributing to a faster recovery and convergence; in this context, the so-called ‘Six-pack’ and the European semester are examined briefly. By offering an interesting insight into the evolution of the EU economic governance reforms, this chapter fills in a gap left by the preceding chapters.

As it was indicated above, a considerable value added of the book consists of the broad geographical scope of the analysis. Chapter 6 might be of particular interest for readers interested in the crisis and its variability as seen from other than the EU perspectives, such as North America, Latin America, Africa, Middle East, Asia and Pacific and the Community of Independent States. It proves that particular countries and regions were not affected by the crisis in the same way. This chapter also includes a thorough analysis of the ‘mother of all crises’ – Greece. Anna Visvizi, not only presents the structural malfunctions of the Greek economy laying at origins of the crisis, but also points out the mistakes of the international creditors in their approach to the country’s economic problems.

Apart from applying a regional governance perspective to the crisis, the reviewed volume considers the crisis also from the global perspective. In her second article, Żukrowska discusses the evolution of global governance in the economic, financial and social fields. Here, the development and problems of the United Nations system are dealt with. The author also puzzles on the attempts at coordinating economic policies at the global level, through such forums as G-7/8 and G20. The major argument raised is that not only are the United Nations system and the G20 not competitive structures, but they can also reinforce each other in the field of global economic coordination, possibly leading to the introduction of a uniform global currency in the future.
Another approach to the crisis elaborated in the book concerns the influence of the crisis on international trade. First, Małgorzata Grącik-Zajączkowska describes the influence of the global financial crisis on the volume and structure of international trade; numerous examples of national protectionist measures are provided and the importance of the WTO regulation is emphasized. It is argued, though, that WTO, due to its inflexibility, failed to adjust to the post-crisis global economic environment. In a complementary analysis that follows, Joanna Kwiecień dwells on the influence of the crisis on the international services’ sector. The conclusion is that various branches of the services’ sector reacted to the crisis differently. That is, the volume of services linked to trade in goods as well as financial services recorded a considerable decrease. Overall, however, the services’ sector proved more immune to the crisis than trade in goods. Anna Zorska, specialising in multinational enterprises (MNEs), dwells on the question of how geographical locations and the crisis condition the structural adjustments of MNEs. This article represents an important addition to the research-project providing a niche-approach to the crisis and its implications. The key conclusion of Zorska’s article is that the number of MNEs from developing countries increased after the global financial and economic crisis. These MNEs employed more offensive strategies than their western competitors. The discussion on the crisis that unfolds in the volume could not be complete without considering the social implications of the crisis. Piotr Błędowski argues that, contrary to popular belief, no major deterioration of social conditions (as measured by the level of wealth or income redistribution) occurred after 2008. There are some important factors, caused by social, demographic and economic changes which appeared independently of the crisis. These trends will sooner or later impose challenges on policymakers. The crisis may cause these problems to occur earlier.

To sum up, edited volumes bear the risk of overlaps and inconsistency. The volume reviewed here is not an exception in this context. Nonetheless, the diversity of perspectives employed in the analysis of the same issues, e.g. TSCG, gives an opportunity to acquire a comprehensive and critical insight into the issues at stake from a different angle. An attentive reader will identify some minor lapses in the volume. For instance, the abbreviation of the European Stability Mechanism once is applied in its English version (ESM, page 175), in some
other parts in the Polish one (EMS, page 588). The names of TSCG and Pact Euro Plus are also not uniformly applied. Perhaps a common list of abbreviations could have helped to eliminate these differences and prevent explaining the same abbreviations throughout the volume. Other issues that require mentioning in the same context are as follows: it is not fully correct to describe the European Financial Stability Facility as a fund, as it does not dispose of its own capital (page 605). These rather minor weaknesses do not affect the value of the volume. As such, the book contains not only a thorough description of the crisis and its escalation, but also a sober assessment of anti-crisis policies devised on different levels of the policy-making process and in various geographical areas. As several authors in the volume do not shy away from presenting their bold assessments of future developments of the crisis and measures which should be undertaken, the value added of this book is further boosted.

Currently, it is difficult to find a more complete and comprehensive work including the analysis of trends in the world economy after 2008, written in the Polish language. Therefore, the volume reviewed here should be recommended as compulsory reading to theoreticians and practitioners of economic policy-making. The idea behind the research-project – to provide a broad, interdisciplinary focus – that led to the publication of this volume, guarantees that readers will find here useful ‘food for thought.’
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The EU's multiple cores and the CEEs: A threat or an opportunity?

The sovereign debt crisis in the eurozone has caused a fundamental shift in the EU's internal power balance with Germany, the strongest political and economic player, essentially determining the political response to the crisis. The establishment and implementation of more efficient mechanisms to ensure fiscal responsibility amongst the eurozone members and the aspiring ones led to the emergence of complex differentiated multiple cores of integration, i.e. the Euro-17, Euro Plus and a detached periphery. The CEE countries are represented in all three of the emerging cores. This puts them at the heart of the emerging political division of the EU, thus generating several challenges and opportunities to their broadly understood political and economic security.

Beáta Farkas

Weakening cohesion as a security challenge for the European Union: the CEEs in focus

One of the fundamental goals of European integration is to provide opportunities to less-developed Member States for both convergence and the strengthening of the economic and social cohesion. Prior to the 2008 global financial crisis, the convergence process across the EU had spectacular results. The aftermath of the crisis, however, threatens the prospects of convergence in the EU. In other words, the EU's cohesion policy, which could mitigate the crisis' impact, has not received a prominent status in the forthcoming programming period and in the 2014-2020 multiannual financial framework (MFF). As a result, in the medium term, economic and social cohesion in the EU's periphery is threatened, thus generating a number of security challenges for the Southern as well as for the Central and Eastern European countries (CEEs) members of the EU.

Nora Vanaga

Is Russia still a threat to Latvia? An analysis of Latvia's security strategy

This paper examines the security strategies of small states and against this backdrop investigates what kind of security strategy Latvia is implementing. In order to understand the threats and risks that are relevant to Latvia today, its security environment is briefly analysed. The security strategy of Latvia is discussed. It is argued that Russia is still perceived in Latvia as a real threat both at the political and the social levels. It is also emphasized that the prevalence of a cooperative security strategy, rather than a more defensive approach, in Latvia's take on its security, is conditioned by Latvia's limited resources.