

Nato & EU: The Dynamics of European Enlargement

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The end of the Cold War is itself now coming to an end, as Europe enters a new phase marked by the redivision of the continent. This is the real significance of the NATO enlargement and the likely significance of the next moves of the EU in the long saga of what is called EU eastward enlargement.

This may seem a perverse view of the processes that will be launched by the NATO Madrid Summit in July 1997 and the EU Commission's documents which are due to be issued in the autumn. After all, the continent has already been divided between those inside the EU and NATO since 1989 and those outside. And are not the decisions this year going to produce a less divided, more inclusive result? As far as NATO is concerned, this will be true only in an arithmetical and not a political sense, because the main political meaning of NATO enlargement lies not in Poland's inclusion, but above all in Russia's exclusion.

In the case of the EU, the break between the hopes of 1989 and the emerging realities has been more gradual, but the result is turning out to be the same: the European political economy is being fragmented once again, in ways that are different in character from those that existed during the Cold War but which, for a number of countries, are likely to be just as deep. We will attempt, briefly, to analyse the character, causes and consequences of the emergent divisions.

I. NATO's Expansion and the Exclusion of Russia

The populations of the former Soviet Bloc were assured after 1989 that once they became market economies and democracies the division of Europe would be overcome and they would be included in 'the West' and in 'Europe'. NATO officials touring the former USSR and East Central Europe assured audiences that European peace and security were now 'indivisible' and that all Europeans were now 'in the same boat'. Provided all the states became 'market economies and 'democracies' everybody would be included.

The seeds of this liberal order were supposed to be contained within the womb of the NATO alliance itself: the internal democratic systems and the shared liberal and democratic values of the Western states. If this was the case, then there was every reason to hope that the transformation of the former Soviet Bloc into liberal democracies would generate a similar harmony of shared values across the whole of the continent thus making real collective security based on common observance of shared norms and rules a reality. Such were the declaratory principles of the NATO powers during the 1990s. And, indeed, such are their declared principles today.

Of course, peace and security depend upon more than the design of security and political institutions. They rest on economic and social preconditions: without prosperity and/or economic development, such values and institutions can come under strain, if not collapse. This was the point at which the role of the EU and the other institutions of the West's political economy raised great hopes in Central and Eastern Europe. As in the case of Western Europe after the war, the CEECs now hoped that they would be offered a development-oriented insertion in the international division of labour and the latter would soon be anchored in their accession to the EC/EU.

NATO enlargement: the official theory

The US administration and NATO are presenting NATO's enlargement as a continuation of Bush's vision of a Europe 'whole and free'. This official theory advances a number of interlinked propositions:

1. NATO is no longer about defending territorial space, it is mainly today about defending and promoting certain values and norms, rather like the Council of Europe. There are two key norms: democracy and the market. States in Europe which achieve these norms can hope to join the main organisation which defends them. "Although Nato has not yet specified formal criteria for admitting members from the former Warsaw Pact, it is no secret that countries judged to have made the most progress in democratic and economic reforms will be favoured...." [1] Because NATO is norm-guarding it may expand further and further into Eastern and South Eastern Europe so long as the states concerned themselves pull themselves up to these norms. Thus, NATO wants to be an all-inclusive body and whether it will be depends upon the local states, not upon NATO.
2. NATO is internally a genuinely collective body in deliberation and in action. And whereas the OSCE is inevitably weak because of its unanimity rule and its lack of forces, NATO does not suffer from these weaknesses.
3. NATO is purely defensive and does not seek to weaken any external state. Therefore, the hostility of Russia towards enlargement is entirely groundless.

We will examine each of these points in turn:

1. The claim that NATO's membership basis is democratic norms does not square with the behaviour of one of its key members, Turkey, in its war with the Kurds and in its systematic use of torture internally. It also does not square with the attitudes of the US government (and the British government) to the one really serious violation of democratic norms outside the Yugoslav theatre: Albanian President Berisha's gross fraud in the 1996 elections. The US on that occasion replaced democratic norm with power politics: Berisha was supported because he (superficially) served US interests. Thirdly, why are the Baltic States not being included? The countries that are being included are such an obvious geopolitical package between Germany and Russia (Poland, the Czech Republic and Hungary) that the norm-centred explanation stretches credibility to breaking point. And if Romania, Slovakia and Bulgaria, as well as Russia and Ukraine are members of the Council of Europe, why does the expansion not include them as well? On close inspection the idea of the primacy of democratic norm crumbles.
2. If the OSCE lacks military force, it could be provided with some. Therefore this is not an insuperable problem. The decision rule about unanimity would be a more serious problem, but for a single snag: NATO is supposed to have exactly the same decision rule. In reality, of course, NATO is not a genuinely collective security body in the sense of having clear, respected rules for making decisions about action. It is dominated by the USA, not by unanimity.

3. The argument that Russia is not threatened by NATO's incorporation of Poland is disingenuous. Russia will be excluded from legitimate involvement in deliberation among the main Euro-Atlantic states over the major problems of Central and Western Europe. The American government is offering Russia consultation, but leading European NATO states know from their own experience that even they have often been presented with *fait accompli* by their American allies.

This exclusion of Russia is made a thousand times more powerful by the fact that it is not simply an exclusion from a political institution. Today NATO has three times the military strength of Russia and the rest of the CIS combined. With Poland and the other CEECs joining, NATO's factor of predominance will be four to one. Thus NATO expansion into Poland is a massive assertion of military power on Russian borders.

NATO enlargement: the unofficial justification

The media way of handling the expansion, at least in the UK, is to claim that the Russian government privately is far less concerned about enlargement than in claims in public. Anyone who talks to Russian officials or to non-governmental political figures in Russia knows that this is simply not true. The fashionable private explanation among West European diplomats as to what is going on with enlargement is to play it down by using a variant on Disraeli's remark about the causes of the British Empire: it was done in a fit of collective absence of mind on the part of the American administration: Clinton stumbled into it without much thought in his Detroit speech in October; [2] or he was after the Polish vote in the mid-West; or whatever. By implication, we should not take it too seriously. These kinds of explanations cannot be taken seriously, not least because they express unwarranted contempt for the American policy-making system.

Credible explanations for NATO enlargement are:

1. Russia's Weakness: First, the NATO expansion into Poland has nothing to do with current or medium-term threats to Polish security. It has nothing to do, for example, with potential Russian threats to Poland, never mind to the Czech Republic or Hungary. No such threats remotely exist. Furthermore, if Russia had possessed the capacity to threaten Poland, there would almost certainly have been no NATO expansion into Poland. The reason why NATO has not expanded into the Baltic States is precisely because there could, in future, be conflicts between Russia and these states, conflicts which Russia could easily win.

The conclusion is inescapable, that the first and main basis for the move into Poland is not a Russian threat but Russia's current extreme weakness. Because of the catastrophic social and economic collapse inside Russia and the fact that its state has, for the moment, being captured by a clan of gangster capitalists around the West's protog, Boris Yeltsin, the Russian state is in no position at present to resist enlargement. This Russian weakness will almost certainly be temporary. We must assume the Russian economy and state will revive. It could easily grow ten-fold stronger in resource terms than it is today. NATO is thus exploiting a 'window of opportunity' that will not stay open for very long. It is a case, therefore, of establishing a *fait accompli* against Russia swiftly. The expansion into Poland is about expanding the sphere of influence of the USA within the context of a revival of power politics in Europe. America is 'filling the power vacuum' in Central Europe which has been created by the Soviet collapse and Russian involution. This points us towards the reasons why the United States has been opposing the construction of a genuinely pan-European and authentically collective security order in Europe.

2. US opposition to norm-based collective security: Both the Bush and Clinton administrations have consistently opposed such conceptions for the obvious reason that they would undermine its single-power dominance over decisions and operations within NATO. To strengthen the OSCE would

have reduced US power to that of being only 'primus inter pares' in European affairs. But during the Cold War, the US had been more than first among equals: it had dominated and controlled the high politics of Western Europe. A European collective security regime would have required the US to have accepted a loss of direct institutional control, through NATO, of the destiny of Europe.

Worse, under a collective security order, the West European states could have developed their own security identity independently of the USA. The WEU could have replaced NATO as the primary locus of strategic policy-making and as the primary nexus of military forces amongst West European states. NATO could, at best, have become a meeting place only between two centres of strategy and two organisations of force - one American, one West European. And the West Europeans could have insisted that US actions in Europe conform strictly to rules laid down in a strengthened OSCE and in other such collective security fora. And if Russia had been included, there would have been three power poles within pan-European Security - the USA, a unifying Western Europe (around France and Germany) and Russia - raising the distinct possibility of the USA finding itself as one against two.

3. Forward from Bosnia: The expansion of NATO today is conceivable only against the background of Washington's successful rebuilding of its authority over the West European states over the last six years. The first step in this US effort was, of course, ensuring that Germany was unified within NATO. The US reconstruction of NATO ascendancy in Europe then passed through the Bosnian conflict.

With Germany's success in pushing the EC states to recognise Slovenia and Croatia at the end of 1991, the US, which had been against such recognition, found itself threatened with being marginalised in the major political conflict in Europe: that over the crisis of the Yugoslav state. In late January 1992, therefore, the Bush administration launched its campaign for an independent Bosnian state. As Susan Woodward explains, in this drive for an independent Bosnian state, the US was "...concerned that Germany was 'getting out ahead of the US' (according to Deputy Secretary of State Eagleburger) and that it had lost any leverage on the Yugoslav situation after the EC's December decision..." [3]

As the West European states pointed out at the time, an attempt to create an independent, unified Bosnian state would lead to war. The war that did result became the basis for a reassertion of NATO as the primary instrument of force in European politics and an even more decisive assertion of US dominance in Europe through its ascendancy over the entire management of the Bosnian war.

4. A US wedge between Germany and Russia: Beyond these matters of current institutional design for Europe's security order, there are deeper questions of geopolitical strategy into the twenty-first century for the USA. As the NSC document leaked in early 1992 made clear, the American government is preoccupied by its long-term position in Eurasia, which in turn governs its capacity to exercise 'world leadership'. The great danger here for the USA is that Germany becomes the hegemonic power in Western and Central Europe and then establishes a condominium with Russia over the bulk of the Eurasian land mass. To prevent that happening, US political ascendancy in the territory between Germany and Russia becomes pivotal. Via NATO expansion into Poland (as well as via US companies acquiring a strong presence in Poland), US influence in that key country can be secured.

5. The drang nach Kiev: For American policy planners, Poland is only one part of the necessary geopolitical wedge between Germany and Russia. In many ways, Ukraine is an even more important prize. A combined Polish-Ukrainian corridor under US leadership will decisively split 'Europe' from Russia, exclude Russia also from the Balkans, go a long way towards securing the Black Sea for the USA, linking up with America's Turkish bastion, and providing a very important base for the 'Great Game' for the energy and mineral resources of the Caspian and the Asian Republics of the former

USSR.

Of course, to move NATO into Ukraine today would cause an explosive confrontation with Moscow. For this reason, US policy towards Ukraine under President Clinton has been marked by considerable subtlety. Following Bush's notorious 'Chicken Kiev' speech in the Ukrainian capital in 1991, when he attacked 'unrealistic nationalism' at a time when the US was worried about the consequences of Soviet collapse, Clinton joined a partnership with Moscow to ensure that Kiev became non-nuclear. What was not noticed by Russian politicians was that if Ukraine had decided to maintain its nuclear status, it could have done so in the medium term only by means of rebuilding its security relationship with Moscow. Thus, Ukraine's abandonment of nuclear weapons freed it from such future dependence. Kiev is now the recipient of the third largest amount of US aid and Washington has been vigorously seeking to strengthen Ukraine's mass media integrity and to strengthen military co-operation under the umbrella of the Partnership for Peace, notably through joint exercises and through strengthening military co-operation with Poland.

The IMF has been unusually flexible in its approach to Ukraine's socio-economic problems.

Washington now feels confident that it has a strong policy understanding with the Ukrainian government whereby the latter insists to Moscow on its right to co-operate with the West through the PFP and on its freedom from any security pact with Moscow. After initially expressing strong reservations about NATO's expansion into Poland and stressing its own 'neutralist' posture, Kiev has evolved towards supporting NATO expansion and, at the end of 1996, President Kuchma went further, indicating that in a very distant future Ukraine might itself eventually seek to become a NATO member. This motive for NATO expansion into Poland, as a means of projecting US influence into Ukraine, was signalled by Polish President Kwasniewski. Speaking in London at the Royal Institute of International Affairs, he said: "We are confident that Poland's accession to Nato will lead to a projection of stability and security into areas stretching beyond our eastern frontier." [4] This can only refer to the goal of pulling Ukraine from a security link with Russia.

In short, NATO's expansion into Poland marks the return of power politics to Europe in place of the project of an inclusive and collective new security order. The relationship between liberal universalism and power politics turns out not be dichotomous: it acquires the complementarity of means and ends: liberal universalism is the rhetorical means towards US power politics ends.

6. The new Russian threat: There is an obvious criticism that could be levelled against this analysis of US power-maximisation interests in NATO expansion. This is that it overemphasises what might be called the traditional 'realist' way of looking at international politics: it exaggerates the military-strategic elements of power over the political-economy elements. Along this line of argument, the key way in which the American state assures its global dominance is today less through its military capacity than through the imposition of its global political economy regime on states. In other words, American ascendancy is assured through reorganising the internal structures of states to allow their penetration by American capitalist companies and through requiring these states to maintain their viability through competition on world markets in which US capital predominates.

All this is true in general: for the US in its relations with most states, military power is a reserve power, not the first means of influence. But it is not possible in the Russian case, because Russia is different: it has such vast energy and raw material resources that, even with a gangster capitalist elite on an almost Zairian scale of sybaritic corruption, it has not the slightest difficulty in maintaining a healthy trade surplus and in keeping Western capital at bay. And it can do all this without being integrated into the WTO. Moreover, it can offer both energy security and, at least in the medium term, significant credit support to governments looking for alternatives to the IMF. Its big capitals can also already move into other states and establish themselves as influential politico-

economic rivals to Western MNCs, especially in the crucial energy sector.

During the Cold War, this Russian economic capacity did not constitute a serious challenge because of the ideological divide against Communism. But with the Communist collapse, Russia's potential structural power in the energy sector and the expansionist capacities of its capitals constitutes a new kind of threat to US dominance over the international political economy. Since 1991 the American administration, its MNCs and the IMF have been involved in a complex double operation to influence developments in Russia. On the one hand, there was the real possibility that the Gaidar government would actually open Russia's economic assets to US buyers. If US capital had been able to buy up Russia's oil and gas resources as well as the bulk of Russia's other mineral resources we would not have seen any NATO expansion into Poland excluding Russia. Washington would have adopted a 'Russia first' policy. But the Gaidar-Burbulis drive collapsed, despite the West's successful promotion of the idea of a coup d'etat by Yeltsin against the Constitution in August 1993. The US then found itself backing Chernomyrdin-style Russian corporate capitalism against the Communist challenge. In this cleavage, Washington had to back Yeltsin-Chernomyrdin, but the latter was at the same time a potential challenge to the US drive for a 'globalised' capitalism in which all states would have to comply with market institutions designed to favour US MNCs. Thus as soon as Yeltsin had managed to beat off the Communists, the Clinton administration moved forward with a NATO expansion which will have the effect of containing the expansion of Russian capital abroad.

The likely consequences of NATO expansion

The first and major consequence will be that Russia will become a dissatisfied power and future Russian leaderships will tend to become a focus for all kinds of oppositional political forces within the NATO zone. If Russian economic and political strength revives in the context of a continuation of current economic and political trends within 'NATO Europe', the result will be that the new NATO order will come under strain. At the same time, if the US and the main West European powers can convince European elites that various conflicts and tensions, particularly in CEECs, are Russian-fostered, then some kind of new political 'Cold War' could re-emerge, particularly if a revived Russia had a dictatorial form of government and/or is developing new pan-Slavist themes (of if Communist leadership were to return in Moscow.)

Secondly, the states in South Eastern and Eastern Europe excluded from NATO will become a field of rivalry and conflict between Russia and the NATO powers (especially the US). This rivalry has already become intense in Bulgaria and Ukraine and in the latter country it is likely to become fiercer. Those who say Russia should not engage in these rivalries but should concentrate upon its domestic problems are simply engaged in the power discourse of Cold War victory. The quest for economic strength cannot be divorced from the quest for political influence, above all in Russia's case, where a close relationship with Ukraine and the Caspian and Asian Republics can bring the new Russian capitals very handsome rewards.

Despite its current weakness, Russia has some capacities to strike back at the US and NATO in the coming years. Russia could threaten Poland by stuffing Kaliningrad or Belarus with tactical nuclear weapons; [5] it could repudiate the CFE; scrap its START commitments; [6] engage in wrecking tactics in the UN; turn the Baltic states into hostages; turn nasty on the Black Sea Fleet; turn its base on the Dneistr into a threat to Moldova; embark upon a more activist policy to destabilise Ukraine or seek to expand its influence in the Balkans. None of this may seriously threaten the security of Western Europe and it might even strengthen the currently very ragged cohesion of the Atlantic alliance and US leadership in Western Europe. But it could cause misery for hundreds of millions of people in Eastern Europe and the former Soviet Union.

The other excluded states such as Slovakia, Romanian, and Bulgaria will fear a new local

assertiveness from the included and will be forced to devote more of their extremely meagre resources to military budgets. Thus already overstretched budgets and poverty-stricken populations will be strained even further. This may apply to both Romania and Slovakia in relation to Hungary. On the other hand, if Romanian is included in NATO, the potential for irredentist projects on the part of a Romanian government towards both Moldova and Ukraine (over North Bukhovina) may create a new zone of tension.

At the same time, those countries included within NATO can hope for an expansion of inward investment from Western MNCs seeking cheap labour for assembly plants on their Western borders for re-export to Western Europe. They can hope that such an investment influx will improve their generally dire trade balances and thus help them to maintain economic growth (or, in Hungary's case, start significant growth). While Mexican wages along its border with the USA are about 45 per cent of equivalent US wages, the Visegrad countries' wages are less than 10 per cent those of Germany. The result could be a further economic differentiation between the Visegrad countries and those excluded from NATO. In addition, NATO's inclusion of Visegrad states can encourage the EU to slow down its already glacial movement towards taking these states into membership. The belief in Warsaw that NATO membership will speed up Poland's accession to the EU is almost certainly an illusion.

NATO leaders hope that they can manage the tensions and potential security threats deriving from NATO expansion by pinning responsibility for a state being excluded from NATO on that state's internal characteristics: its inadequate 'market economy' or 'democracy'. Insofar as this message is convincing to the electorates of the excluded countries, local voters will blame their own state elites rather than the Western powers for their exclusion from the Western club of rich states. The politicians who have been demanding sacrifice after sacrifice in order to 'enter Europe' will not be discredited and will be able to call for one more big round of sacrifice to ensure eventual entry into the promised West.

II. The Contradictions of EU enlargement

After the collapse of 1989, the EC states sought to push the issue of future inclusion of the CEECs off the European political agenda. Since the justifying ideology of the EU is that of European political unification, and since the EU's definition of Europe has always included the CEECs, the EC 12 could not explicitly repudiate eventual unification with the CEECs. [7] They, therefore, adopted the posture of saying that, before there was any question of eventual membership, the CEECs had to become Western-style 'democratic market economies' through a great institutional transformation. Political leaders in the CEECs then subtly re-interpreted this EU posture, claiming to their populations that once they had become market democracies they would be able to join the EU. During the last seven years a particular path towards becoming a capitalist market democracy of a particular type has been trodden by the CEECs. The path has involved the fragmentation of their previous regional economic ties (the Comecon region) and a deep slump as well as an institutional engineering to globalise their economies - in other words to gear them to the interests of Western transnational capital.

Two main outcomes have been achieved. First, they have become (in their overwhelming majority) liberal democracies with largely globalised state and economic structures. This lays the basis for their being formally qualified for EU membership. They can therefore turn to the EU and say: we have done what you told us to do in 1989, so let us into the EU.

But the second outcome has been that the institutional engineering to bring the CEECs' structures into convergence with the EU's institutional orders has simultaneously made these countries poorer

in GDP per capita terms - only Poland has statistically returned even to its 1989 levels of GDP per capita, while the EU have moved on in GDP per capita terms since 1989. One of the reasons for this impoverishment has been the pronouncedly mercantilist trade policies of the EU towards all these countries during the 1990s.

This outcome presents the EU with a particularly tricky difficulty because of its stance towards the accession of new members. That stance is to require the new member to accept the EU's 'acquis communautaires' - all the policies, institutional arrangements and laws of the EU as it exists at the time of the accession. In other words, the EU requires institutional and policy congruence. Most of the CEECs are only too ready to accept the 'acquis'. They are currently busy re-writing their laws in line with those of the EC. But because the CEECs are poor, the EU itself does not want to extend the existing 'acquis'. To transfer the acquis to the new members would cost the EU financial and political prices that the EU's member states are not prepared to pay.

Therefore, the EU is placed in an acutely difficult political dilemma. The globalisation of the institutions of the CEECs has been enormously beneficial for EU capitals. Germany now exports more to the CEECs than it exports to the USA. EU multinational companies are making handsome profits from FDI as well as from speculating in CEEC debt and from playing the CEEC's small but lucrative stock markets (those of Russia, Hungary and Poland were the most profitable of all 'emerging market' stock markets in 1996). The status quo is perfect for EU business. But the EU is not prepared to pay the costs of accession. It cannot tell the truth: that the CEECs cannot join because they are too poor. But being poor is not a legitimate reason for exclusion. This dilemma then pushes the EU towards manoeuvring with disingenuous tactics for postponing enlargement, but these manoeuvres in turn threaten to destabilise the political systems of the CEECs. We will briefly survey the ways in which these current contradictions in EU policy have unfolded during the 1990s.

The missed development opportunity

In 1989, the US was in no position to launch a development strategy for the states of CEE because the cupboard was, so to speak, bare in the US Treasury. Grappling with enormous payments and budget deficits, and with a very large bill to pick up as a result of the collapse of US housing finance institutions, the United States lacked the financial resources to use positive economic incentives to influence the reorganisation of the ECE states. When Bush visited Poland in the summer of 1989 he faced ridicule from Lech Walesa when he was able to offer only \$200 million - the Polish authorities had been hoping for at least \$2 billion. If a Marshall Plan-style development strategy for the region had been adopted, the US government's weakness would have been exposed and Germany and the West Europeans would have taken the lead. As in the field of Europe's high politics, so in the area of Europe's political economy, the immediate aftermath of the collapse of 1989 left the US in danger of marginalisation.

In this context, influential voices were raised in Western Europe, particularly in Germany and France, for a development-oriented framework for the reorganisation and economic integration of the CEECs. One such development strategy for East Central and Eastern Europe was advanced by the Deutsche Bank president, Herrhausen, in the autumn of 1989. Herrhausen, who was close to Chancellor Kohl, argued for a major investment effort into the region while allowing it to preserve effective trade protection for its domestic industries. The plan would have allowed the turn towards capitalism in countries like Poland to have proceeded in conditions of economic revival rather than slump and it would have been carried out in co-operation with the Soviet Union. But Herrhausen was assassinated at the end of November 1989 and his plan was dropped. [8]

A similarly growth-oriented plan was proposed by French President Mitterrand's adviser, Jacques Attali. This would have involved a major public development bank with the resources and mandate

for large scale public and private infrastructure investments across the CEECs, including the USSR. The plan was championed by the French government and the bank - the EBRD - was actually created, but its role and mandate were emasculated by the Bush administration, with the result that it became little more than an adjunct to the operations of the Western private sector in the region: it was banned from playing a large role in public infrastructure investment; it was instructed to operate like a private sector bank, on strictly commercial lines, while at the same time it was banned from taking on investment projects which Western private sector operators took on. It was, therefore, little wonder that Attali, as the Bank's president, was hard put to find viable and acceptable projects to invest in during the slump of the early 1990s, before he was bounced out of the bank by claims on the part of British and American banking circles that he had been living too lavishly and spending too much money on the Bank's London headquarters.

This was the background to the West's turn towards the Baker Plan approach to the reorganisation and integration of the CEECs. The US lacked the public credit resources to take the lead itself. Germany, working with the other West European states, would have had ample resources to offer a Marshall Plan style development project. But the West European states were far too divided amongst themselves to stage such an operation: the Attali plan was in many respects promoted as a rival bid to the Herrhausen scheme and the American administration had little difficulty in manoeuvring to divide the West Europeans and de-gut the idea of using the EBRD as a real development lever. And once Chancellor Kohl realised that most of his partners within the EC were set upon trying to slow German unification down to a standstill, the final blow was struck against an expansionary approach to the CEECs: Kohl opted for what was in effect an Anschluss and thereby diverted the credit capacities of the Federal Republic (and of much of Western Europe during the early 1990s) to its eastern Länder for the duration of the decade.

Thus did the CEECs end up in the hands of the IMF and World Bank. This was the ideal solution for the United States because it controls the IMF and the World Bank and it could therefore mobilise resources other than its own but under its control. Furthermore the IMF approach requires slumps rather than growth as the favoured context for restructuring since the slump provides powerful pressures on key economic actors and it destroys the social power of labour in economic life. And finally, the IMF programme for reorganising political economies is precisely geared to shaping the social, institutional and economic orders of the states concerned in ways that maximise the opportunities for US forms of financial and manufacturing conglomerates.

American statecraft for a new division of labour

Thus, by default, the G7 decision at the Paris summit of 1989 to give the IMF the lead for handling the heavily indebted Polish and Hungarian economies laid the basis for the US approach to completely dominate the integration of the CEECs. The US launched its agenda by making the Polish Balcerowicz Plan the flagship for its operations throughout the region. The US Secretary of State, James Baker, was able to apply his own Baker Plan, launched with such stunning effect in 1985 upon Latin America's indebted economies, [9] to the former Soviet Bloc.

The huge academic industry on systemic transformation in the CEECs treats Baker Plans as if they have their origins mainly in economic theory or in some autonomous processes in global economic and technological life. In fact, of course, the Baker Plans emerged from the defeat of the containment liberalism of the 1960s and the defeat of figures like Robert McNamara by the rollback politics of the Reaganite right in the 1980s. The opportunity to launch the rollback against the countries of the South came with the debt crunch of 1982. By 1985 James Baker, Reagan's treasury secretary, was ready to unveil his Baker Plan for the Third World at the Seoul IMF conference that year.

The goal of Baker Plan restructuring has been to transform the states and political economies of the

South in two main respects:

(1) to replace a national industrial strategy for development through import substitution and the development of the internal market with a strategy based upon Western MNC direct investment and exports from the target country to the world market.

(2) to replace a state-centred financial and industrial system within the country with private financial markets, ownership of economic assets in the hands of private capital, deregulated labour markets, and a strong role for Western FDI and portfolio investment.

These two goals can be encapsulated in the term 'globalisation'. The result does not, of course, preclude growth. But it makes the local political economy immediately and persistently dependent on 'global' market forces, in other words, on decisions and developments within the core states. The changes have involved a radical restructuring of the social and political structures of non-core states. In some, there have been political breakdowns (notably in Africa), in others the state has survived via gangster capitalism (Colombia, Bolivia), while others have been able to carry through the socio-political transition (Chile, Argentina). But these have, nevertheless, faced other menacing consequences: the pauperisation of large parts of the population; a continuing inability to free themselves from debt, requiring constant state intervention from the IMF; and chronic vulnerability to financial crises and breakdowns in domestic banking and financial systems.

As Robert Chote recently explained in the *Financial Times*:

"At least two-thirds of the IMF's 181 member countries have suffered banking crises since 1980. In developing and transition economies, the cost of resolving these crises has approached \$250bn in total - absorbing between 10 and 20 per cent of a year's national income in the cases of Venezuela, Bulgaria, Mexico and Hungary. Banking crises inflict considerable damage on the economies in which they take place. One reason is that bank credit has grown rapidly in many emerging markets, relative to the size of their economies. Often these banks hold considerable stocks of domestic financial assets, operate the payments system and provide liquidity to security markets. So when crises strike they can cripple economic activity, choke off credit and place severe strains on interest rate and budgetary policies." [10]

With the collapse of state socialism in Central and Eastern Europe, the Baker Plan approach was transferred from Latin America to the eastern part of Europe with similar results. One state in the region was unable to cope with the transition involved in Baker Plan re-engineering: Yugoslavia. It therefore collapsed. [11] Other states have developed as gangster capitalism - the pattern in Russia and Ukraine. And many states have been struck by catastrophic financial system breakdowns - currently Bulgaria, and earlier Lithuania.

The Western powers have required the countries of Central and Eastern Europe to pass through the purgatory of Baker Plan structural transformation as a precondition for membership of the EU. A number of these countries have come through this travail and have returned to growth - notably Poland and the Czech Republic, along with Slovakia and Romanian. (Hungary has so far had little real growth following its catastrophic slump in the early 1990s). But it remains to be seen whether this growth in the strongest survivors will remain sustainable. The key current bottleneck is a chronic and serious trade deficit. As the *Financial Times* reported at the end of last year, "A rising tide of red ink is splashing over the foreign trade accounts of central Europe" and there is "a looming balance of payments crunch" and this is "already sparking warnings from central bankers and finance ministers that 1997 will require fiscal and monetary tightening to reduce domestic demand, slow the growth in imports and free resources for export.". [12] The Czech trade deficit in 1996 amounted to 7 per cent of GDP.

The source of these payments problems is not cyclical, but structural. On the one hand, imports are not only of investment goods but of consumption goods for the new propertied classes, flowing in especially from Germany which now exports more to the CEECs than it exports to the USA, according to the Bundesbank. [13] Exports from the Czech Republic and Poland are now concentrated in low value-added sub-contracting for West European companies, based on cheap labour costs:

“Many western companies are shifting labour intensive product lines to take advantage of much lower labour costs just over their eastern border. The problem is that the resulting exports often consist of made-up clothes or engineering sub-assemblies made from previously imported cloth or components. This means that higher exports are dependent on previous imports, and labour is the only real net value added.” [14]

Furthermore, some \$4bn of Poland's 'exports' in 1996 took the form of cross-border shopping by East Germans: not a sound basis for sustained export growth.

The specific activities of the EU in the trade field have only exacerbated the tendencies towards a general downward restructuring of the CEECs to low value added, labour intensive operations through strongly mercantilist trade policies. The one significant EU programme of aid to the countries of the region, the PHARE programme, seems to have been predominantly geared towards assisting Western economic operators to acquire assets and markets within the CEECs, with PHARE funds going less to the 'recipient states' than to Western firms.

Direct mercantilism has included the following:

1. export credits and export credit guarantees. These are, in effect, state aids to exporting companies though they are presented by EU member states as aid to the exporters' target country.
2. agricultural export subsidies for CAP exports. These have enabled agricultural dumping in both ECE and ESEE, enabling EU agribusiness to capture markets from local producers. 'Humanitarian aid' from the EU in the form of cheap or free agricultural products often acts as an initial destabiliser of markets for local producers in ECE and ESEE.
3. protection of EU producer sectors through non-tariff barriers: price setting agreements (eg steel), the CAP, textiles barriers, voluntary export restrictions etc.

Indirect mercantilism, however, has included:

1. market design rules of a 'free market' sort which favour EU oligopolies able to benefit from large positive externalities: eg much stronger (state supplied) regional infrastructures and access to much cheaper credit, while compensating state aid on the weaker side is banned by single-market competition rules.
2. imposition of common rules on state aids without equal resources for such aids. Thus, within the EU itself, 79 per cent of the actual resources devoted by states to aiding industry were allocated by the FRG, France, Italy and the UK.
3. imposition of common rules in one field while denying common rules in linked fields: eg granting rights of establishment of enterprises in the EU on the part of ECE enterprises but not granting free movement of labour and thus in effect making rights of establishment null.
4. imposing free market rules in conditions where Western economic operators can dominate market outcomes. This seems to operate in some stock markets in ECE. The big Western companies can

determine price fluctuations and rig the markets.

5. rules of origin. These are major ways in which West European businesses (and US MNCs operating in the EU) are given protection in ECE against entry by Russian or Asian MNCs.

6. powerful general trade protection instruments, especially anti-dumping instruments which can be used widely against cheaper ECE and ESEE products.

The EU from one dividing line to another

The unprecedented destruction of economic assets in the CEEC region and the downward restructuring of these economies does not in any way make it difficult for these states to meet the criteria of the 'acquis communautaires'. They will be more than happy, for example, to adhere to the structural funds, to the CAP, to free movement of labour. These would all greatly benefit them. And since their export industries are increasingly 'globalised' by being inserted into the internal division of labour of MNCs, while their trade protection regimes have already been largely dismantled, they find it fairly easy to change their laws and economic institutions to meet the broad requirements of the single market.

But all these pluses for the CEECs in terms of ease of entry are also precisely the reasons why the EU member states are overwhelmingly hostile to extending the acquis to the CEECs. To do so would cost the EU very large financial transfers. It would also enable, via the free movement of labour, large numbers of poverty stricken workers from depressed regions of Poland to travel into Germany in search of work. This problem would be exacerbated by the EU-encouraged efforts of the Polish government to organise a big shake-out of labour in Polish agriculture before accession.

There are, of course, also major problems of restructuring the EU's decision-making institutions for an EU of 20 members, but these problems are already acute with or without enlargement: the EU is today scarcely capable of claiming to have a cohesive, democratic decision-making structure with or without the adhesion of the CEECs. Against this background, the CEEC governments and political elites are seriously concerned about the real orientation of the EU member states in relation to eastward enlargement. The record so far is far from encouraging.

EU commitments and tactics

It was only in the summer of 1993 that the EC gave even a highly qualified commitment, at the Copenhagen Council, to the eventual integration of the CEECs into the European Union. The December 1994 Essen Council did not make the commitment more definite but did initiate a Structured Dialogue between the EU and the CEEC states with Europe Agreements with the EU. It also asked the Commission to produce a White Book indicating the tasks which the CEECs had to accomplish in order to bring their laws and institutions into line with the EU single market. The PHARE grant aid programme was also redirected towards assisting the CEECs to prepare for accession. And at the 1995 Dublin Council, the EU decided to instruct the Commission to prepare documents on the issues involved in deciding on eastward enlargement. We can expect these documents to appear in the autumn of 1997. A final aspect of these developments has been the so-called Stability Pact, launched by the Balladur Government in France to ensure that the CEECs sort out all their ethnic and interstate problems through legally binding treaties, in order to ensure that such problems will not be an obstacle both to European stability and to enlargement.

All aspects of this train of events are shot through with ambivalence and evasions. By far the biggest evasion lies in the fact that none of the steps taken so far has addressed the central problems of real preparation for enlargement, namely, altering the existing acquis - in other words *reforming the EU*

in order to make it capable of absorbing the CEECs. All such matters have been postponed and the impression has been spread that the chief problems of enlargement lie within the CEECs, in their institutional structures and processes in particular.

The Structured Dialogue has been a dispiriting experience for the CEEC governments because it has lacked significant substance. The EU member states have been supposed to maintain a common discipline in the discussions and the whole process has been almost entirely formal. It has combined a photo-opportunity for CEEC heads of government to present an impression to domestic opinion that they are being included, but nothing much more. The White Book is often presented wrongly as harmonising the CEECs with the *acquis* in order to bring them to readiness for full membership. [15] Yet the White Book could equally validly be read as it has been by French commentators: as about harmonisation only with the single market, as part of the construction, laid down in the Europe Agreements, of a free trade zone.

But it is the combination of all these 'positive steps' with the omission of EU restructuring which raises the most concern among CEEC experts. This combination suggests an obvious tactical option on the part of the EU for delay and division. This option would consist of declaring that unfortunately the CEECs, or at least the bulk of them, are not quite ready for EU membership because of their failure to live up to West European standards of democracy and markets. The real basis would be the clause in the Copenhagen Council decisions: "The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration..."

There are indications that such an approach is exactly what is being prepared by the Commission. If this is the case, the continent is in for a dispiriting and hypocritical exercise with potentially destabilising consequences. The real criterion for choosing the countries which will be in the 'fast' track for membership will be neither democratic stability nor economic strength, but the criterion of Western geopolitical interests, above all the need to consolidate the incorporation of the states constituting the eastern flanks of Germany and Austria.

The double division of Europe

The divisions accompanying NATO expansion and those attending the EU's differentiations between applicants will re-enforce each other in dangerous ways. NATO enlargement will take place before that of the EU. Contrary to the views of politicians in Poland or Hungary, these countries' entry into NATO will not speed up their entry into the EU, but may enable the EU member states to delay it. At the same time, the tendency amongst states excluded from NATO could be to increase insecurities and rivalries, not only in the former Soviet Union but also in the Balkans, thus risking the diversion of budgetary resources to military spending, imposing further strains on their crisis-ridden economies. The EU signal that some of the associated states can forget accession in the near future will exacerbate internal political strains, making them a greater investment risk and raising their costs of borrowing on international financial markets.

Those countries which are offered eventual membership of the EU will probably not join the Union for at least another seven years. And even for them, the prospect of gaining the full current *acquis* can be ruled out. The only question will be whether the systems of transfers will be reformed on the basis of some principle of equity across both new members and old, or whether the arrangements for the new Eastern members will be obviously those for a second class status of membership, as recent Commission report suggested. [16]

Conclusion: the need for shock therapy

The intellectual key to finding ways to reverse the drift towards a new era of division and conflict in Europe lies in turning current problem-definitions around 180 degrees. The current problem-solving agendas in Europe all have one thing in common: all the problems, threats, instabilities and policy disasters are held to reside in the East. Work towards a solution can begin when we recognise that the main sources of the main problems in fact lie in the West. Amongst the latter, two are fundamental and interlinked: the first is an unsustainable model of capital growth; the second is an unviable model of international political management.

The currently fashionable model for capital growth is that of globalisation. It is unsustainable because it is economically inefficient on a gigantic scale and it is a systematic breeder of systemic crises. The fact that it also currently generates enormous fortunes for very small social groups both in the West and in the East only makes it more dangerous because more difficult to change.

At present this system is staggering from one local blow-out to another, avoiding a systemic collapse through frantic and ceaseless state intervention by the G7 states via the IMF. This chaotic financial context is linked to deep sources of stagnation in the West's industrial structures. The lack of profitable outlets for productive investment feeds the global speculative bubble. It also threatens fierce industrial wars between the main Western states as the semi-monopolies of each state try to grab market shares from their rivals. To prevent such conflicts, the Western states seek through globalisation to grab extra market shares for their main companies in the East and the South. They also try to open new regions of capital growth within their own economies via privatisations and attempts to turn welfare systems into zones of capital growth for the private financial markets. Across all these activities the common theme is pauperising ever larger groups of the world's population. The weakest regions bear the brunt of the misery.

Despite conventional assertions that globalisation is a deeply organic process which cannot be tampered with, it is best understood as a policy of the Western states which can be amended or indeed reversed. The EU could, in principle, decide to integrate all the CEECs into its structures on the basis of making major modifications to its single-market regime to accommodate the new entrants. The modifications would not involve large financial transfers, but would involve allowing the CEECs to adopt a development strategy that would require West European MNCs to forego profitable opportunities in the region, that would require some restructuring in some sectors within the EU15, and that would also require a new recognition of the role of public bodies and of the labour movement in development.

This, however, brings us to the crippling political logjam within the West. With the Single Market programme and the Maastricht Treaty, the EU has enabled massive gains for the big businesses of member states and turned its own institutional structures into a diaphragm blocking significant political influence by other social groups. By far the largest democratic deficits today in Europe lie not in, say Bulgaria or Slovakia, but in the institutional structures of the EU. Moreover, this EU decision-making structure also blocks even mainstream policy planning with a long-range definition of EU collective interests. The German government has wanted just such a longer-term definition of interests by the French, but other governments have been largely dedicated to blocking such a larger view because Germany would grow stronger as a result. West European policy-making systems are thus largely gridlocked: the only forms of collective action on which the West European states can swiftly unite are those where they have a common interest in exporting problems abroad by engaging in collective mercantilism against weaker actors in the international political economy.

Gridlock within the EU forms the basis for the return of American leadership in Western Europe as a

supposed 'pouvoir neutre' above the petty, provincial squabbles over an essentially trivial agenda at, for example, the current EU IGC. But the US lacks the capacity for positive leadership in European affairs. The most that it is capable of is a dead hand of control: its main concern beyond that is to ensure that if anything is done in Europe, the Europeans should foot the bill.

As the EU states stumble towards a monetary union which simply exacerbates all the social and inter-state tensions in Western Europe, the likelihood of breakdowns and ruptures reminiscent of the inter-war years mounts. These logjams will unfortunately be unblocked only when Western Europe's political and social elites are faced with an exogenous shock which pushes them towards therapeutic reform. The best kind of such shock, leading to therapy, would be a social movement by the working peoples of Europe to demand a New Deal. The worst would be a blow-out in the globalised financial system leading to explosive tensions within the Western state system.

P.S.

* From Labour Focus on Eastern Europe, No. 56, 1997.

Footnotes

[1] Adrian Bridge: "Nato chief tours states fighting to join alliance", *Independent*, 15 April 1996.

[2] Clinton's Detroit speech marks the definitive American commitment to rapid NATO expansion.

[3] Susan L. Woodward, *Balkan Tragedy, Chaos and Dissolution after the Cold War* (The Brookings Institution, Washington DC, 1995), pages 196-197.

[4] Quoted in the *Independent*, 25 October 1996. Kwasniewski was speaking at Chatham House.

[5] Russian Defence Minister, Igor Rodionov has warned that Nato's enlargement might force Russia to target nuclear missiles on countries joining the Atlantic alliance. See the *Independent*, 30 November, 1996. Belarus President Lukashenko warned that Belarus might want to keep the nuclear weapons still on its territory if Poland joined NATO. See the *Independent*, 14 November 1996.

[6] Lebed, while still Yeltsin's security chief, warned of a change in Russia's attitude towards arms control treaties at his meeting with NATO leaders in Brussels in October. See *Independent*, 8 October 1996.

[7] And the British government wanted to include every possible state including Russia in order to fragment the political cohesion of the EC.

[8] He was assassinated just before he was due to unveil his plan in New York. The assassination was blamed on the Red Army Fraktion but it was an extremely sophisticated high tech. Bombing that could have been done only by professionals. A senior official in the German Foreign Office was also assassinated at this time. See *Der Spiegel*, No.49, 4 December 1989.

[9] In 1985 Baker had been US Treasury Secretary under Ronald Reagan. The Baker Plan was announced by Baker at the Seoul IMF conference that year.

[10] Robert Chote: "Banking on a catastrophe: Guidelines may help prevent fresh disasters in

emerging markets” *Financial Times*, 21 October 1996.

[11] See Susan Woodward, *op. cit.* for a pioneering account of this collapse.

[12] Anthony Robinson, *Financial Times*, 11 December 1996.

[13] *Ibid.*

[14] *Ibid.*

[15] This claim is made in Heather Grabbe and Kirsty Hughes: *Eastward Enlargement of the European Union* (RIIA,1997).

[16] A Commission report produced in the Spring of 1996 suggested that the CEECs should be denied CAP funding when they join, while acknowledging that this would not be easy to justify publicly. See Caroline Southey: “New EU members may face aid cuts”, *Financial Times*, 4 March 1996.