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Perspectives for the Balkans and a Wider European Order

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The wiiw Balkan Observatory

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Perspectives for the Balkans and a Wider European Order





The wiiw Balkan Observatory

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About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.

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Perspectives for the Balkans and a Wider European Order

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Abstract

CEPS established a template for EU strategy towards the Balkans already during the Kosovo war, and this was refined in the Ljubljana Declaration by the think tanks of the region (with CEPS) in July before the Sarajevo Summit. The subsequent evolution of policy in the region and of the EU and Stability Pact is compared with these proposals. Some parts of the CEPS proposals are developed further. Implications for the rest of the wider Europe are also examined, in search for the defining concepts and mechanisms of an order for the entire European space.

Summary

Since the end of the war over Kosovo the main policy developments relating to South-East Europe have consisted of (a) the launching of the Stability Pact, (b) the birth of the UN led administration of Kosovo, (c) the EU Commission's new paper on enlargement policy, and (d) the new Commission President's first sketches of his intended policy for the wider Europe.

How is all this shaping up? A template for comparison is the plan formulated by the Centre for European Policy Studies (CEPS) for the whole of South-East Europe to "join Europe" [Emerson and Gros, 1999]. This was published already during the war over Kosovo, but later taken over and adapted by the think tanks of the region in their Ljubljana Declaration of July 1999 [CEPS, 1999]. An alternative general view is now provided by Gligorov, Kaldor and Tsoukalis [Gligorov et al., 1999].

The Stability Pact has become active with first meetings of the three working tables, for democracy, economics and security. The records of these first meetings shows that wide-ranging agendas have been adopted [CEPS, 1999b]. A fair assessment is provided by Gligorov [1999]. The Stability Pact is so far a policy discussion forum, based on some statements of doctrine such as made at the Sarajevo summit in July [CEPS, 1999a], but not (so far at least) a source of strategic policy proposals. Many of the intended beneficiary countries have taken the occasion to submit their own pet projects in the hope of endorsement and financing. Apparently some 500 such proposals have been submitted to the Stability Pact secretariat, now established in Brussels. But the Stability Pact as such has no money. Nor is it a mechanism for project prioritisation. It might be best to characterise the Stability Pact as becoming a kind of regional OECD organisation, which means both qualities and limitations. It is yet another example of how, when the EU and US do something together in Europe, there is proliferation of overlapping international mechanisms, sometimes known as the "alphabet soup".

The radical agenda proposed by CEPS, and reactions from the policy makers, may be summarised as follows:

1/ *Trade policy*. There should be a comprehensive, multilateral liberalisation plan for the whole of the region. So far the Commission has come up only with a rather confusing message as between the EU accession candidate countries and the Western Balkans, apart from continuation of its bilateral approach (as for Macedonia).

2/ *Euro-isation*. There can be a useful role for early, unilateral euro-isation in the most unstable or institutionally weakest countries [Gros, 1999]. Actual DM-isation of both Kosovo and Montenegro now follows this model, adding to the Bosnian and Bulgarian currency board repertoire of euro-linked monetary regimes in the region. Countries with moderately successful monetary policies can take their time over integration with the euro.

3/ *Infrastructure*. There should be a region-wide investment mechanism, for which ideas are now elaborated further in CEPS under the label "Balkan Treuhand" [Hager, 1999]. The EU financed reconstruction agency for Kosovo has made a

welcome and prompt start. But deeper initiatives along the lines advocated are not yet forthcoming from the IFIs, who only draw up lists of possible projects.

4/ *Education*. Ideas on education policy for the region are in circulation [CEPS, 1999b]. However significant initiatives at the regional level are not yet on the table, although the present paper describes an interesting project that could be based in Dubrovnik.

5/ *Civilian security*. The EU should develop operational capacities for police and judiciary support as part of its new 3^d pillar competences, for deployment in the whole of the South-East Europe. The EU Tampere summit focused mainly on internal EU security, although official communiques do make token remarks about the need to work more pro-actively in Eastern Europe where the problems come from to such a great degree. The main policy mode is thus still set upon securing the impermeability of EU frontiers, which is not a very plausible proposition for South-East Europe, given the proximity of candidate and non-candidate countries, and the overlap of integration processes of different speeds.

6/ *Military security*. The Stability Pact engages a certain agenda of topics. However major ideas for the future security system for South-East Europe may stay on hold, awaiting the end of the Milosevic and Tudjman regimes. As and when new and congenial governments emerge in both these countries, then the security architecture will surely be open for more fundamental reconsideration. Both NATO and the EU face the same problem of having enlargement strategies which give priority to the most convergent applicants, compared to the weakest or most unstable or most dangerous countries of the region, which need anchorage in the Euro-Atlantic institutions most.

7/ *Constitutional/institutional models*. Both the Bosnian and Kosovo protectorates may be described as *bricolage*, or do-it-yourself protectorates. One may have some understanding for the powers not having been prepared in advance for these eventualities, less so for Kosovo of course. But what stands out today is the gap between the ambitious and basically sound principles of EU integration for the whole of South-East Europe and the capacity of the EU institutions to deliver the mechanisms. Of course there is awareness of this problem, and it is hoped that the new regime in Brussels will make rapid progress on such concepts as “virtual membership”. However there is also need for thinking about how the protectorate regimes of Bosnia and Kosovo should evolve into something appropriate for an integrated Europe of the 21st century, rather than just to struggle with poorly fitting paradigms of the late 20th century, with its profusion of small newly independent states. Some ideas are sketched below.

The overall suggested system of EU responsibility for its South-Eastern backyard is compared rather favourably, on grounds of its prospective democratic legitimacy, with analogous experiences that the US has had in its Central American backyard.

The problems of stabilising the wider Europe extend of course way beyond the Balkans. The so-called Western Balkans involve some 25 million people. Just suppose that the Stability Pact were a fine success and the EU enlargement goes ahead for the present candidates. Then, what about the neighbours of the EU of 27 member states? What about the 60 million Turks, 50 million Ukrainians and 150

million Russians? The present paper ends with some outlines of this wider European picture (going beyond ideas already set out in Emerson [1998]). It is suggested that the concepts of “virtual membership” of the EU have indeed wider applications beyond the Balkans, for a Europe that would move out of the binary logic of being “in” or “out” of the EU, on into new ideas even of some overlap between a widening EU and a decentralising Russia in the context of the Northern Dimension.

Part I – The Balkans

1. Market integration for all

The EU intends to lead the Stability Pact process, and should do so with its first and foremost policy - for trade and market integration. The economies of the Balkans have no hope for a prosperous future as small protectionist states, either from orthodox trade barriers, or by courtesy of the mafia. It is equally obvious that the present state of extreme aid dependency of Bosnia and Kosovo, by courtesy of the EU taxpayer, cannot go on for more than a few years.

The CEPS team has argued [Emerson and Gros, 1999] for a radical policy of early free trade and customs union of the whole of the region with the EU. This would be supplemented by EU control of customs posts, supported where necessary by EU police or military forces to stamp out frontier corruption. Budgetary grants from the EU would compensate for loss of customs revenues for states with very weak budgets. These proposals have elicited a certain number of reactions and refinements.

From the countries of the region the response from the independent policy analysts of *Europa South-East* is seen in the Ljubljana Declaration (op. cit.). They make the proposals more explicit and detailed (see paragraph 6). In particular an asymmetric four year implementation plan is proposed, with the EU to go to free trade on its imports on 1.1.2000, whereas the region would go to free trade also on 1.1.2000 only for its own intra-trade, eliminating tariffs on imports from the EU only in four equal steps by 1.1.2003. From discussion it becomes clear that the business community in the region and independent economists to a large degree support these proposals. Opposition tends to come mainly from people who are impressed by the political influence of crony capitalists and mafia elements. In particular the honest business community strongly supports the radical proposals, the more so the more corrupt the country, since they know that this is the most detrimental business climate factor. A background analysis has been supplied by Gligorov [1999], pointing to the extremely limited extent of present trade within the region.

The Stability Pact communiqués talk of promoting “free trade areas” (N.B. in the plural). This seems to be a casual remark, without being worked out precisely. Would the idea be for one free trade area between CEFTA and the EU and others for the former Yugoslavia?

The outgoing EU Commission made trade policy proposals in its new association agreement paper that amounted only to technical adjustments of existing trade

preferences [EU Commission, 1999]. The outgoing EU Commission finally adopted on 8 September recommended negotiating directives for a Stabilisation and Association Agreement with Macedonia, which have to be decided by the Council [EU Commission, 1999a]. This included “provisions .. , including the perspective of establishing free trade areas between the countries of the region” (again, several regional free trade areas??) and “the perspective of the establishment of free trade with the EU within ten years of entry into force of the Agreement”.

Actual EU Commission policy with its accession candidates is to request re-introduction of tariffs between, for example, Slovenia and Bosnia and Croatia. This would be a backward step for a “full integration” strategy.

The new Commission has not yet made a policy paper on the Western Balkans, but its recent Composite Paper on EU enlargement includes some rather confusing lines of policy for the Western Balkans [EU Commission, 1999b]. In particular it suggests a regional trade integration organisation, of which the countries in question should become members as a pre-condition for negotiations over Stabilisation and Association Agreements.

These proposals can be criticised for:

- lacking a multilateral strategic content, instead continuing with small scale bilateralism between the EU and individual countries, even suggesting a multiplication of (presumably very small) free trade areas;
- timidity over the time horizon, if the key-note is 10 years after entry into force of the new agreements, yet to be negotiated;
- demanding re-introduction of trade barriers between accession candidates and Western Balkan countries;
- seemingly trying to establish a trade bloc at the level of the former Yugoslavia and Albania.

It is to be hoped that the new Commission has a re-think of strategy here, and does not lose sight of its own origins, when multilateral trade liberalisation was the first flagship of the EEC’s integration process.

2. Euro-isation for the most unstable

Euro-isation, ahead of EU membership, could become an instrument of integration of the region itself and with the EU. The CEPS plan sets out a scenario, in which countries with very weak monetary institutions could profit from euro-DM currency board arrangements for the time being, with full euro-isation to become possible when the euro bank-notes are in circulation from 2002. As. Gros points out [1999x], the schedule of cost-benefit ratios for euro-isation is not some continuous function. Instead, it is most beneficial attractive at the two poles, for the very convergent and very monetarily unstable and weak economies.

Developments may be reported from three sectors: official EU institutions, the region itself, and independent analyses.

From the official EU institutions there has been mainly silence. Understandably, the European Central Bank and the Euro-Council have in 1999 so far been primarily

concerned with assuring a smooth operational launch of the euro technically (which was done successfully) and securing good credibility for the new institutions and money. There was a phase of pronounced weakness of the euro against the dollar in the first half of 1999, which financial market commentators were aggravating with speculation that the euro could drop a long way under parity with the dollar. This phase seems to be over, but the episode showed the sensitivity of the question. In these circumstances the official institutions have certainly not wanted to show pro-active interest in associating the euro with countries of weak monetary governance.

However market demands for the euro as international currency is already significant and will get stronger, such that the topic in any case cannot be dismissed. The European Central Bank published in its Monthly Bulletin in August 1999 for the first time a substantial analysis of the international role of the euro [ECB, 1999]. Doctrine was summarised as follows: “The development of the euro as an international currency will mainly be a market-driven process.” .. “The Eurosystem therefore adopts a neutral stance, neither hindering nor fostering the international use of the euro”. Regarding Central and Eastern Europe, as well as African and Mediterranean countries, the same source says: “... in the foreseeable future changes are likely to take place as a result of the prospect of EU enlargement. Besides geographical vicinity and economic links with the euro area, the other key variables are the denomination of foreign debt in euro and political relations with the euro area”.

In South-East Europe itself markets are driving quite strongly towards the euro. The DM, now the euro-DM, has long been an important parallel currency in the region. In Serbia pay day becomes a race to get to the market really fast, so as to get the dinars into black market DM before the exchange rate declines further. At the policy level one may notice the following:

- Bulgaria has a DM pegged currency board, with a debate engaged about when to jump to full euro-isation;
- Bosnia has a convertible marka, which trades at strictly 1 for 1 with the DM, posing the issue what to do when the euro bank-notes are introduced in 2002;
- Croatia follows a soft peg on the DM;
- Kosovo: the UN administration has declared freedom for use of any convertible currencies, but the reality is DM;
- Montenegro has also liberalised use of the DM on November 2nd, hoping to establish it as the effective currency in the near future;
- in Belgrade the G-17 economists (M. Dinkic et al.) favour similarly a liberalised use of the DM initially, with full euro-isation later.

It is now evident that the euro-DM and later the euro are the only ways of returning to a monetarily united FR Yugoslavia. For the region as a whole also the market demand for euro-isation, both from the private sector and public policy, could well become a general band-wagon as soon as euro bank-notes are introduced. This would become a European major integration factor, in terms of economics, politics and even popular sense of identity. However, for countries with moderately stable currencies the balance of advantage for early euro-isation needs to be carefully weighed. Full access to international capital markets, much lower interest rates and

certainty over future monetary stability are important advantages. But the risks of getting stuck with an overvalued real wage rate still have to be borne in mind, in drawing the purely economic balance sheet for this option.

From leading private market participants the following conclusions of a study of Deutsche Bank [1999] may be noted: "In our view, a programme of the type envisaged by CEPS (an EU-backed currency board plus customs union) could be a useful step towards full engagement. While the benefits of establishing a custom union are undoubted, it is necessary to perform a cost-benefit analysis on the basis of individual cases to determine the merits of a currency board". It is argued that the benefits for Romania could be significant. But it would be less appropriate for Croatia. Put more generally, the argument (of the present author) is that for the next few years the euro-DM currency board could be useful for the countries with particularly weak monetary governance. But later also for relatively stable countries such as Croatia, full euro-isation may offer substantial benefits, eliminating risk premia in the rate of interest.

These considerations at least require recognition of an additional paradigm for European monetary integration [Gros, 1999]. The standard doctrine is to converge first according to the Maastricht criteria, then join the euro. For the Balkans the doctrine becomes: the weaker your monetary institutions, the greater your advantage in joining the euro unilaterally, without a seat on the ECB, and before EU membership. The act of joining the euro area delivers the convergence and credibility immediately, without risk premia. But the ECB also takes no risks. In setting the monetary policy, it would ignore the countries in question, their size being in any case insignificant for the macroeconomy of the euro-zone. A fair deal, similar to that for Panama and Puerto Rico in the dollar area.

3. The Balkan Treuhand

The tracing by ministers of transport of the pan-European corridors has usefully anticipated the day when politics would allow a rational investment in the major economic infrastructure networks, taking the region as a whole, and assuming its suppression of frontiers barriers. The corridors of interest to South-East Europe are:

No.'s X and VII, which are the arterial highway and (Danube) waterway, going South-East through Belgrade. These now require urgent reconstruction, following bombing damage;

No. IV, which is the parallel route going through Hungary, Romania and Bulgaria;

No.'s V and VII, which go inland from the Adriatic, across Bosnia and Albania respectively.

This set of plans seems largely adequate, except for the omission of the Adriatic Highway concept. The case for the Adriatic Highway would be based on a/ the great tourism potential of the entire Adriatic Coast, from Trieste, down the Croatian coast, which is interrupted by a small piece of Bosnian coast before reaching Dubrovnik, on through Montenegro and Albania into Greece; b/ decongesting the Italian highways

that lead down to its southern ports; c/ avoidance of monopoly for Belgrade routes, and d/ facilitating inland connections for the Adriatic ports (Bar, Durres etc).

Now that the war over Kosovo is over there are new priorities. The first is the obvious one of repairing the war damage in FR Yugoslavia, the broken bridges across the Danube, damaged roads and rail networks, electricity and telecommunications.

The second is to use the new political context of the Stability Pact and the perspective of EU integration to overcome some long-standing (and frankly shameful) political blockages, where key investments affect local vested interests, as any transport infrastructure investment always does. The most notorious example concerns the needs for more bridges across the Danube on the Romanian-Bulgarian frontier. *Europa South-East*, representing experts from all countries of the region, was able to agree in their Ljubljana Declaration to recommend to ministers a formula: build two new bridges, one to the West at Vidin-Karafat corresponding to Bulgarian preferences, and one to the East at either Bechet-Oriahovo or Rastu-Lom or Turno Magurele-Svistov corresponding more to Romanian preferences. The Bulgarian and Romanian ministers might usefully announce an agreement along these lines at the first meeting of the economics Working Table of the Stability Pact. This would build on the example of energy ministers of Albania, Bosnia, Bulgaria, Greece, Macedonia and Romania, who with the EU Commission signed on 10 September an agreement to establish a regional electricity market.

The third priority is more novel and complex, but ultimately the most important. It concerns the governance and management of new infrastructure investments. The wars over Yugoslavia may be ended, but the next battle is going to be against a vicious cocktail of mismanagement factors: crony capitalism and corruption in the processes of privatisation and management of state assets, and small-scale nationalism in investment priorities. For countries so small, it is vital that the main infrastructure networks be planned coherently for the whole region's integration (with itself and Europe), and that property rights and management be organised in a way to attract the necessary international capital. Radical proposals are in circulation [Hager,1999]. These ideas draw on three experiences: that of the early days of the European integration, when in certain priority sectors bold pooling of political powers and economic assets was agreed (European Coal and Steel Community); that of Germany's recent privatisation in the former D.D.R., with the Treuhand Gesellschaft being granted temporary title over former state assets, and empowered to organise their privatisation; and new methods of public and private partnership in the financing of infrastructure investments (PPP in British experience) or the Build-Operate-Transfer (BOT) model used elsewhere, for example in Turkey.

The essential idea, drawing on these experiences, would be to create a South-East European infrastructure authority ("Balkan Treuhand"), possibly under the wing of the European Investment Bank (EIB) or the European Bank for Reconstruction and Development (EBRD)¹. The Balkan Treuhand would have temporarily transferred to it infrastructure assets, or powers in relation to concessions that were in serious need

¹ Ideas originally advanced by Goran Lindahl in a paper reproduced in CEPS [1999a], and currently being developed at CEPS by Wolfgang Hager.

on new investment and management. The Balkan Treuhand would award concessions to private operators for rational bundles of assets or investment opportunities. Given the international standards of property rights and corporate governance that would be assured by Balkan Treuhand, the financing of investment would be greatly facilitated and get present severe limitations (as assessed by western financiers) of sovereign risk capacities of the states of the region.

The proposal would mean innovation both by the IFIs for the policies of governments of the region. But there will have to be many revolutions in the corporate and public governance of the Balkans, if there is to be success.

4. Renaissance for Dubrovnik

A modern South-East Europe, integrated economically as a region and with Europe, will see all manner of restructuring and specialisations happen. Often the focus is on the pain of running down obsolete industries. But in any dynamic economy the bigger story is about new growth areas, typically regional clusters of investment and specialisation in fast growing branches of the economy. Urban agglomerations find their niche. They retain and expand their market position on the basis of a critical mass of people with certain skills, economies of scale and reputation. In the modern Europe and globalising world these specialisations have to be based on an uncompromisingly international rationale.

Dubrovnik (the city and county, corresponding roughly to the old republic) has made a strategic choice consistent with this theory of economic geography. The choice is to complement its obvious tourism vocation with the creation of a South-East European hub for intellectual, academic and cultural activity. The Mayor has taken the initiative to create a Dubrovnik International Foundation for Education and Culture, dedicated to this objective. The assets that are put behind this plan are i/ sufficient real estate, including diverse architectural monuments worthy of the most eminent and ancient university cities of Europe, ii/ an ideal geographic location in the middle of the region, iii/ a history that fits perfectly with a such a role, iv/ current experience with 20 years of an International University Centre and 50 years of the Dubrovnik Festival. The Dubrovnik Foundation will be controlled by an international board, empowered to raise funds from private and official sources world-wide, to refurbish the real estate endowment and to contract with strategic partners the establishment of a cluster of institutions and centers.

Possible examples (in the author's opinion) could include:

- an University College of South-East Europe, teaching post-graduate contemporary European studies and social sciences (modelled on the College of Europe of Bruges, or the Central European University of Budapest),
- a South-east European Centre for Vocational Education and Training,
- a Centre for Management Studies (specialisation hotel management and tourism),
- a Centre for South-East European Policy Studies,
- a Centre for the Performing Arts, etc.

A plan of this type could be submitted to the relevant Working Table of the Stability Pact, and obtain endorsement also from the EU to help fund-raising and expedite operational launching.

5. Law and order for the most unruly

Albania could be a test-bed for new security policies of the EU, and indeed for the whole Balkan integration strategy. Today Albania has a democratic government, which functions only to a limited extent. The ports are controlled by Albanian criminal gangs, who freely engage in speed-boat trafficking across the Adriatic. The North of the country is not governed by Tirana, but by criminal gangs. The judiciary hardly functions at all. The police and customs services are thoroughly corrupt. The ministry of the interior is widely believed to be part of the problem, more than of the solution.

However Albanian people could be rather receptive to the idea of EU intervention to establish law and order, except those profiting from crime and corruption. Already Italy had a useful experience with the Alba operation of 1997, which put a stop to the state of violent anarchy, reigning after the collapse of the pyramid savings schemes. The WEU had then declined the invitation to intervene. This negative decision, due to Germany and the UK, is now regarded as having been a mistake and a missed opportunity.

The EU/WEU currently has two aid programs of interest: the Customs Assistance Mission (CAM) of the EU, which advises the customs service and trains it; and the Multinational Advisory Police Element (MAP) of the WEU, which tries to train the police force. The latter has about 150 EU policemen operating in uniform (carabinieri, gendarmes, police constables etc., alongside each other).

These two operations are quite expensive (multi-million euro per year), employing a lot of competent people. But they have no chance of success with their present restricted terms of reference: advisory only, excluding all enforcement operations. However they could be the starting point for a programme for effective EU/WEU intervention, which could hit the mafia really hard, and get Albania onto a path of normal (non-criminalised) development, thus:

- Transform and expand the MAPE operation. Create a new elite Albanian police force of 5 000 policemen for fighting organised crime, pay them reasonable salary supplements from the EU budget, deploy 500 EU policemen to control and train them, and assure adequate equipment. The new elite police force would be permanent, whereas the EU participation would be gradually wound down after a period of years.
- Change the terms of reference of the CAM to allow control by mixed EU/Albanian teams of customs officials, with full powers to EU team leaders. Albanian customs officials will have reasonable salaries paid by EU. Albania joins the EU customs union. This customs service is supported by the new police force.

- Reform the judiciary, creating a selection jury for judges of mixed Albanian/EU composition with the chairman from the European Court of Justice, salaries of the high court judges to be paid by the EU, training schemes also etc.
- Availability of a Rapid Reaction Force of a few hundred soldiers from NATO/EU for occasional support of selected police operations, like to regain government control of the wild Northern territory, or Vlore port.

The terms of reference for these operations would be defined in a special security agreement between the EU and a government of Albania, which was sufficiently committed to reform and European integration. It would also require substantial development of EU police capabilities available for deployment (the military is already available), and an institutional capacity for putting together multi-pillar programmes (economic, political, civilian and military security).

More generally the model for combating organised crime and corruption is here spear-headed by a triple action aimed at the customs, the police and the judiciary. While the Albanian case is an extreme one in terms of sharpness of the proposed intervention, this three-point action (customs, police, judiciary) represents the inevitable agenda for any serious law and order component of an EU integration process for the Balkan region.

6. Constitutional order, Belgian model

What could the future constitutional order of the former Yugoslavia come to look like, particularly where there have been the most bitter conflicts - Bosnia and Kosovo? What will these international protectorate regimes graduate into in due course, say in 2010 to 2020?

The idea of the Belgian Balkans is meant entirely as a compliment to Belgium. It is all about a territory that was for centuries the battle ground of the European powers, whose frontiers were carved up mercilessly time and again, and where the powers decided in the last century to make into a new sovereign state as a matter of their geo-political convenience. The result was a nation with two ethnic parts, each belonging culturally to bigger neighbours to the north and south. An artificial state, some say. There is even a third ethnic group, belonging culturally to the eastern neighbour, and a cosmopolitan capital region.

So far it could be either Belgium or Bosnia, and FR Yugoslavia (Serbia, Montenegro, Kosovo) in some respects too.

The territory adopts a federal constitution, which continues to devolve powers to the communities, such that it is looking in some respects more confederal. The territory also is part of the single market of the EU. Its currency is the euro. Its transport infrastructures are completely integrated into trans-European networks. The territory is small, and the traveller crosses frontiers almost without having time to notice. Its small army is integrated into the Euro-Atlantic structures, and has no meaning other than the ceremonial at the national level. This Belgium of today could be the Bosnia of tomorrow (after a lot of disarmament).

This two way devolution of powers leaves the nineteenth century sovereign state with not too much left to do. In Belgium there is a king, a national debt and taxation, and a national representative at the table of the Council of Member States of the EU. There are some hard-line nationalists who talk about breaking up the state, but they are not mainstream politics. The reality of the EU makes the break-up of the state seems implausible to most citizens.

Moreover there have been devised mechanisms for dealing with the fact that the ethnic communities coincide only approximately with territories. An extra layer of government adds to the familiar federal structure, with the cultural communities having competences which overlap the territorial frontiers (thus each language has group specific governmental functions and structures). With the EU this actually means five layers of government (EU, federal, cultural communities, geographic regions, local government). Certainly this is an expensive solution bureaucratically, and complicated politically. But it buys peace between the ethnic groups, between which relations are tense, and could have been a lot worse.

This may seem to have been a long digression, but the analogues with a future solution to the Bosnian and Kosovo/Yugoslav situations can be explored. Some features can be taken over completely, namely the three key economic components - the integrated market, the single currency and the integrated infrastructure networks. The decentralisation of education, health care, police and details of microeconomic policies to the sub-federal levels would also be similar. Three features need further comment.

First is the security system, where of course the situation is different, between the recent histories of war and peace. In Bosnia and Kosovo the SFOR and KFOR presences are clearly in for a long time. Without them today there would be new wars. However the long-term scenario might be like this. The UN and US will both be looking for exit strategies. The EU is all about permanent entry strategies. The EU prepares a military competence, which will be for heavy peace keeping tasks (Petersberg tasks). The EU already supplies most of the troops in the Balkans. The new NATO structures (for Combined Joint Task Forces) already have built-in arrangements for being able to switch between NATO or European led modes of operation. There is also OSCE activity aiming at arms reductions in Bosnia. This could be generalised and made more effective for the whole of the former Yugoslavia in the post-Milosevic and post-Tudjman era. The area should be progressively demilitarised at the national level. However, smaller forces would be integrated into new Euro-Atlantic/EU security systems for the Balkans. The EU would in due course take over the role of regional policeman. The term "policeman" covers both the light military and heavy civilian police functions. The latter of course links to the agenda for anti-crime and anti-Mafia policies (see Albanian example above).

Second is the role of the language communities, overlapping territorial frontiers, important especially for Serbs, Croats and Albanians. Surely there is a place for modern, Belgian-style innovations, in which educational and cultural initiatives can be calmly organised by these three main communities, without calling into question political frontiers. Such activities have existed on an ad hoc basis between Serbs,

Croats and Albanian communities. Maybe they could be given a politically ordered framework and developed.

Third and finally is the question of overall constitutional design and frontiers. The model surely has to be that frontiers do not change territorially, but they do change in political and economic significance. Like in Belgium there are risks that the two way devolution of powers - to the region and the EU - leaves insufficient substance for the nation state to survive on. In the Belgian case the EU is the glue that prevents the nation from breaking up. Of course the whole question of nationhood in the Balkans is in a different category (as analysed in masterly fashion before the recent wars by Banac [1984]). The international presence has to be a different one. For civilised Belgium the presence of the civilian EU institutions is sufficient, coupled to a substantial tradition of inter-community democracy. For the Balkans the international presence will no doubt have to be one of military force for a long time, but that should gradually be rolled back as new generations of more modern political leaders take over.

The model has relevance both for the future of Bosnia and FR Yugoslavia. The Serbia-Montenegro-Kosovo tensions would be substantially diluted with integration of the whole area into the EU's economic and monetary union. But this should not be considered some remote, theoretical matter for the long-term. Montenegro now opens itself to the DM officially, and FR Yugoslavia is no longer a monetary union. Hopefully this will not lead to a next war of the Yugoslav secessions.

The very difficult problem of refugee return remains only very partly solved in the whole of the former Yugoslavia. All refugees have rights to their properties, some now wish to return, but some will never want to do so. In this situation there is a place for market mechanisms to help sort out the problems. The Bosniac who fled the Serb Republic wants the money from the sale of his old house to buy a new one in Herzegovina, where the Croat owner fled back to Croatia, and where he would like the money to buy a house belonging to a Serb who fled, etc. There are some financing initiatives now reported to help lubricate such transactions. Maybe they deserve more support, although the mechanisms would have to be carefully controlled so as not to become a new economic tool for ethnic cleansing.

7. Pax Europa

The European Union, obviously a major economic and monetary power, is extremely cautious about giving itself hard policing and military responsibilities in its geo-political neighbourhood. This is for deeply held reasons: conviction that the EU's most precious asset is that it has made war unthinkable in Western Europe; the still relatively recent experiences of World War II and decolonialisation; and uncertainty over how the EU would perform as a hard power actor. These arguments are so fundamental that they call for more explicit consideration.

There are obvious points of comparison, when considering the EU's possible relationship with the Balkans, with those between the US and Russia and their respective "backyard" and "near abroad", in both of which there have been recurrent

uses of force. The size and power of the EU in relation to the Balkans is in the same proportions as the Caribbean basin and Central America for the US, or the Caucasus and Central Asia for Russia. Additional similarities lie in the extent of the political instabilities in these fragmented neighbourhoods of the US and Russia.

The EU does not relish these models. The US has found itself dragged into seemingly endless conflicts and contradictions in its neighbourhood [Pastor, 1984]. The phrase “send in the marines” became common usage because this was indeed a frequent occurrence for US foreign and security policy. The experience was often unrewarding. The US found itself at times supporting notorious dictators in the name of fighting communism. It has always under constant Congressional pressure to have exit strategies. Its best efforts were frequently greeted by virulent anti-Americanism, and cultural antagonism between the Hispanic and Anglo-Saxon world. This has been seen even in the case of Puerto Rico, which is the most serious and relatively positive experiment in US-Latin American integration. Only recently has the NAFTA experience with Mexico begun to introduce a different experience, somewhat closer to European integration.

Russia’s experience with its near abroad has also been plagued with problems. Chechnya has in the 1990s offered the spectacle of a completely delinquent state, being a violent centre of arms and drug trafficking, a public menace for the international community. Still Russia found it impossible in its war of 1994-95 to master the situation even with a massive use of force. Russia’s political institutions were also incapable of controlling themselves, relapsing into a desperate, totally inefficient yet brutally disproportionate use of firepower. In trying to control Chechnya, Russia has encountered growing Islamic fanaticism, mixed up with the mafia state. The conflict moves on now into Dagestan, and risks further escalating. But analogues with Russia and the Caucasus become extremely convoluted, as Serbs may argue that it is they that were treated by NATO like the Chechnyans, except that NATO lacked the legitimacy of Russia, which was intervening within its state borders. Indeed official Russians declared that the attack by NATO against Serbia was an attack against Russia also (prime minister Stepashin before the Duma).

With these kinds of entanglements in mind, European public opinion can understandably be tempted by the argument that it is better to stay out of any analogous “backyard” policy engagement. Moreover the examples of Bosnia over several years and Kosovo over a few months only confirm the severity of the task of bringing law, order and democracy to these territories.

However the argument should not stop there, for there are some crucial differences in the possible relationship between the EU and the Balkans, which may be decisive.

First, the multi-lingual, multi-cultural, multi-national Western Europe has far more in common with the Balkans, compared to the culturally homogenous US and Russia in relation to their neighbours. Integration with the US and Russia means, for their neighbours, assimilation into an overwhelmingly dominant culture. For Western Europe the Balkans are adding just another complicated mosaic of competing nationalities. Only the region has not yet learned the art of mutual respect and

political balance between the nations and nationalities (or not re-learned, since old Sarajevo knew about this).

Secondly, the EU is a profoundly democratic place, so it will certainly never permit an abuse of military power as Russia indulged in over Chechnya. The democratic checks and balances over the use of force are obviously very strong.

Thirdly, the Balkan people do genuinely seem to want to enter Europe. And one can understand why.

Fourthly, there is no ideological conflict overlaying the relationship between the EU and the Balkans, of the kind that complicated the US relationship with a Latin America that involved a “fight against Communism”. There is only left a last dying communist regime in Belgrade.

Fifthly, there do not seem to be insuperable problems of religion, not of the Islamic fundamentalist kind that Russia faces in the Caucasus. Bosniac and Albanian Islam is hardly the problem. Rather it is more like in Northern Ireland where Catholics and Protestants have been killing each other over matters of identity, not because of their feelings over matters of religious dogma.

However, the EU has its own constitutional complications to sort out. It is struggling with the widening versus deepening dilemma. It is not going to be easy to find the path between two hazards. The first consists of enlarging faster than the EU’s capacity to act. The second consists of trying to deepen the EU’s capacity act faster than its limited degree of democratic legitimacy allows. The next Intergovernmental Conference has to resolve the dilemma.

For the Balkans the new President of the Commission, R. Prodi, has spoken in favour of the concept of “virtual membership” as a way of helping solve this dilemma in his speech before the European Parliament of 14 September 1999. He gave some first hints of what this could consist of: “I am thinking of closer cooperation with those countries, perhaps granting them “virtual membership” in certain areas as a prelude to full membership. They could, for example, be offered the fullest possible participation in economic and monetary union, new forms of security cooperation adapted to their needs, and new forms of consultative and observer relationships with the European institutions”.

Part II – Wider Europe

The President of the Commission President also sketched how the wider European agenda concerns firstly the existing enlargement process, but then also the future relationships with three groups of non-accession candidate countries in the EU’s neighbourhood:

- the Balkans, as candidates for “virtual membership” (as detailed above),
- Russia and Ukraine, as candidates for “strategic partnerships”,
- and the Mediterranean countries of the Barcelona process as candidates for “partnership of cultures”.

How do these pieces of the map fit together, when it comes to the concrete mechanisms? Is the Balkan area a specific case, or will it mesh in with a continuum of regimes for the wider European space?

8. EU enlargement horizons

The political dynamics of pan-European integration are very strong. The most important initial policy statement of new Commission has been to extend the enlargement process. In its "Composite Paper" of October [Commission of the EU, 1999b], the Commission weakened the distinctions between different categories of candidate, and basically reverted to the so-called "regatta" strategy. In regattas the many sailing boats leave the starting line together but reach the finishing line according to their performance. All the remaining candidates not yet admitted to the negotiation table - Lithuania, Latvia, Slovakia, Bulgaria, Romania and Malta - were added, albeit with some conditions of detail for Bulgaria and Romania. The goal posts were shifted for the opening of negotiations. For example, Romania is obviously not meeting the Copenhagen economic criteria. The criterion now becomes whether they could make policy reforms in order to do so.

These fine points of semantics and diplomacy are not our concern. The essential point is that the EU and Romania (etc.) feared that without the enhanced incentive of a conditional opening of accession negotiations, the weakest candidates would suffer negative "exclusion effects", i.e. the dynamics of disillusionment and social unrest would dominate, and the country might revert to old-fashioned Communist leaderships or descend into chaos or both.

But these political dynamics of EU integration do not end here. Next is Turkey, where the enlargement process also moves into a new and positive mode. The policy status quo had become unbearable for both sides. The last two years saw how the "exclusion effect" could poison Turkish-EU relations and interact negatively with vicious circles in the political economy of Turkey, with political and economic instabilities combining with ethnic and religious tensions (see a new CEPS study [Tocci, 1999]). The Kosovo war in the Balkans, the Stability Pact focus on the whole of South-East Europe (which excludes Turkey as direct beneficiary state) and then the summer 1999 earthquakes in Turkey and Greece punctured the policy status quo. It remains for the EU Helsinki summit to adopt a new Turkey policy.

Next the political dynamics move on into CIS territory, beyond what Russian foreign minister Ivanov still, with a bizarre nostalgia, calls the "red line".

Moldova, whose economy suffered devastating losses from the Russian financial crash of August 1999, simply has to reorient its trade structures westwards. Moldova has been a prudent member of the CIS diplomatically. But it becomes obvious that Romanian speaking Moldova gravitates culturally as well as economically towards the Stability Pact region and the enlarging EU. The anomalous Republic of Transniester remains an historic relic to be sorted out some time.

Much more important of course is Ukraine. It is said that President Kuchma, if re-elected on 14th November, will radicalise Ukraine's "European choice" and renew

the reform process. The election is a serious contest between the Europeans and the Slavophiles. What is apparent is a clear generational shift towards Europeanisation of Ukraine. This was intensified in the last year by the Russian financial crash, undermined by negative perceptions of NATO bombing of Yugoslavia, but revived by the spectacle of Russia's new war over Chechnya. As and when a Kuchma Mark II Ukraine formulates a serious Europe+reform policy, the inevitable agenda of the EU's wider Europe policy will surface again: free trade, monetary cooperation, pan-European transport corridors, frontier policies for the movement of persons, law and order cooperation, strategic security systems, institutional linkages etc. Already, however, it is clear that Ukraine sees itself as an eligible future member state of the EU, even if only in a distant future. It marks out the difference here compared to Russia's position, while stressing its hopes to retain good relations with Russia.

8. Russian roulette and the Northern Dimension

It might be said the Russia seeks not to complicate further the wider European landscape, in being the only European country (with its union partner Belarus) not envisaging EU membership itself. Nor is Russia considered as a potential member state by the EU. Russia stated its position on the strategic character of the Russia-EU partnership at the October 1999 summit in Helsinki between Russia and the EU, as follows:

“partnership ... will be based on the treaty relations, i.e. without an officially stated objective of Russia's accession to or ‘association’ with the EU. As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies, its status and advantages of an Euro-Asian state and the largest country of the CIS, and independence of its position and at international organisations”.

Moreover the EU has itself adopted a “common strategy” towards Russia. Both sides agree on cooperation in particular for the border territories, under a policy advocated first by Finland for the Northern Dimension. We may call this Model no. 1, with the Northern Dimension representing a policy of *good neighbourliness*. The EU and Russia try to solve problems on or near to their common frontier, such as the environmental hazards of the nuclear power stations and weaponry around Murmansk and the some heavily polluting metallurgical plants nearby. There are programmes of local government cooperation. There are projects to improve transport networks linking the Finnish and Baltic frontiers with inner Russia. There are energy projects for the exploitation of oil and gas and their transport to EU market. There is question of integration of electricity networks. There is collaboration in forest industries.

This set of activities can be regarded as confidence-building measures, using traditional language, and in continuation of Finnish-Soviet/Russian diplomacy of recent decades. This is certainly an important investment, because of the considerable chances of some rocky times ahead, as explored in the next models. With Russia facing all manner of uncertainties internally, and with some political circles in Moscow willing to indulge in paranoias in relation to alleged Western intentions, it is

indeed essential that the EU be understood to be a reliable and friendly partner, which will not be indulging in geo-political games at Russia's expense. But the Northern Dimension concept can also be seen in terms of much more modern, and indeed post-modern conceptions of contemporary European developments (see Joenniemi [1999, and 1999a] for extensive presentations of this view).

More generally, there are several scenarios or models for Russia's development and its relations with the EU to consider, two of which are dangerous:

- *no. 2, the fault line between cosmos and chaos*
- *no. 3, a disintegrating Russia,*

while two others could be promising:

- *no. 4, a new model of decentralised transition*
- *no. 5, a zone of overlap between Russia and the EU*

In general these alternative models see far more dramatic transformations in Russia – in its constitution, in the post-Communist transition of its economy and society; also in relation to the transformation of the EU itself, which for its part searches for the definition of its outer frontiers².

Model no. 2 sees the Northern Dimension as *fault-line between cosmos and chaos*. The good neighbourhood policy is nowhere near strong enough to stop this divergence. This story was announced already with Russia's financial crash of August 1998, which caused devastating economic damage in Russia and Ukraine, whereas the three small Baltic states, Poland and other central European candidates for EU accession escaped with much less damage. The Asian financial shock was the trigger, but the explosive lay in the divergence in cultures of corporate and public governance between Russia and Ukraine on the one hand, and of the EU candidate countries of central and eastern Europe on the other. Russia's corruption, criminality, unreliability in commercial contract, crony capitalism and weakness in public administration had some consequences. Tax revenues and foreign long-term equity investment were inadequate. The state became dependent on short-term financing from Western financiers at manifestly unsustainable rates of interest. When the prospect of financial collapse became apparent, every Western investor and Russian capitalist had to get out fast, hopefully 5 minutes before his competitor. The new Russian capitalism and Western finance belonged to different worlds. Their combination proved to be highly unstable (see Emerson [1999], for a more detailed account). The result was the financial crash that cut living standards instantly by half and dealt a devastating blow to the interests and morale of the masses of the Russian population, who had been trying to build their new lives in the post-Communist world. The population is left confused, embittered and impoverished. Even the Russian intelligentsia have little idea where the nation goes or what it becomes [Arbatova, 1999, Leshukov, 1998]. Survival becomes the only urge.

Sadly, this contrasts with the relatively buoyant economic, political and societal condition of most of central Europe, where identification with Western civilisation and European integration is clear. The problem also is that this cleavage becomes

² The author has greatly benefited from the detailed survey of trends and prospects in the Russia's constitution and politico-economic system by Herd [1999].

self-deepening. The EU candidate countries grasp hold of their future connection, work away at their pre-accession strategies. Russia perceives exclusion, feels it materially, and public opinion rallies to support an increasingly brutal, nationalistic response to the Chechen problem. Cosmos and chaos hate each other and move further apart. Russia is excluded from international capital markets. The economy becomes increasingly autarkic. In fact this has been happening over the last year. Industrial production has recovered. Domestic goods supply domestic demand. There is even a sense of national self-reliance that emerges. Maybe the situation stabilises in this mode.

But the story may not stop there. Model no. 3 is about *a disintegrating Russia*. The integrity of the Russian federation is threatened, not from the outside, but internally. This is a prospect that Western diplomats, as well as Russians hope will not happen. All fear that it could become a violent, uncontrollable process. There are indicators of three types to bear in mind.

First, leaders in Moscow have been making public speeches warning explicitly about the risk of disintegration of the Russian federal state (Yeltsin, Primakov, Stepashin, as well as academic, non-government experts such as Karaganov. For sources see [Herd, 1999]). One should perhaps allow for a degree of exaggeration and political tactics in such speeches from the politicians, but not from the academics.

But, secondly and objectively, there is the growing amount of detailed disintegration unfolding before our eyes:

- the refusal of regions to pay their dues to the federal budget, the incapacity of the federal budget to pay its transfers to poor regions, some of these virtually collapsing;
- the export blockade by regions well endowed with food preventing exports to other food importing regions with food price differences opening up in this disintegrated market;
- withdrawal of the federation from social security functions, which are dumped on the regions without financial resources;
- the incapacity of the federal military to pay for conscripts, with the region's taking over this burden in exchange for use of the conscripts for public works;
- unilateral constitutional violations by autonomous republics or other "subjects of the federation";
- the emergence of privatised natural resource empires as states within the state, run by baronial oligarchs, etc.

Thirdly, as a matter of common sense, any democratic political structure failing to deliver a reasonable life for its people must be in danger of collapse or being overtaken by some other system: it is reported that 92% of the Russian population now live off monetary incomes of under \$50 per month. One possible reaction could be the emergence of a new "Iron Fist" leader in Moscow, to re-assert control in a brutal and undemocratic manner. Some rumblings along these lines emerge at the present time as the ugly new war over Chechnya proceeds. Generals are apparently unhappy about not being given sufficient room for manoeuvre by Putin for a really decisive military victory, even though they have secured permission to fire ballistic missiles with conventional warheads at Grozny (see *Izvestia*, 6 November 1999).

Turning to the more positive scenarios, Model no.4 is about *a new model decentralised transition*. The Duma elections of December 1999 may result in a positive renewal of parliamentarians, and big losses for old communists. Russia tries to draw the lessons of the failed first decade of post-Communist transition. The illusion of return to old-fashioned solutions is out. There is recognition that the system of corruption/criminality/crony capitalism is no good. There is constitutional reform, which re-orders relations between Moscow and the regions. There is a more differentiated confederation, and one in which there is also a consolidation of the regional structures. The number of subjects of the federation, presently over 80, is greatly reduced. Maybe a Russia of large regions, about 12 in number according to mayor Luzhkov, emerges. Maybe the Inter-Regional Economic Associations acquire significant competences. These include the North-West (almost exactly the same as the area of the Northern Dimension).

In the best case Moscow manages to re-establish unity of the internal market of all Russia, moves external trade policy in a liberalising and stabilising direction (WTO accession and EU free trade prospects). The rouble is kept fairly stable and convertible. Beyond that the regions have almost complete economic policy autonomy.

Then there begins to develop much more than so far a process of virtuous competition and mutual demonstration effects between regions. The North-West ought to be a leader in this process, helped by proximity to the EU and Northern Dimension policy. So far only Novgorod Oblast has managed to create for itself a positive reputation as a business-friendly regional administration. It has won a good share of the thin flow of foreign investment in Russian manufacturing industry. But the competition and demonstration effects begin to manifest themselves. The local government regulatory decrees are apparently in high demand for photocopies in the circuit of Russian regional governments. It is obvious that two neighbouring *oblasts*, Novgorod and Pskov, are comparable as investment locations, and that “enlightened Novgorod” is getting a lot of investment, whereas “old-fashioned Pskov” is getting very little.

The big prize would be when conclusions are drawn by the electorates and local leaders of the St Petersburg region, both the city and the surrounding Leningrad Oblast, which have miserably failed to capitalise on their outstanding assets – of economic geographic location, of intellectual and scientific strengths, of historical and cultural endowments. So far the city remains mired with a tragic and violent criminality. But the whole of North-West Europe is just waiting for leading indicators of a St. Petersburg renaissance, then to join in.

To this could be added major investments in the oil and gas potential of the Barents Sea basin, Timan-Pechora and Yamal Peninsula. With new production investments and pipelines this could become a further major change in the economic geography of the region. Ultimately its geo-politics as well, since there is potential for something on the scale of the decision of Brezhnev and Helmut Schmidt to build the main gas pipeline from Urengoy to Germany some decades ago.

Model no. 5 sees the Northern Dimension as a *zone of overlap between the EU and Russia*. First some concrete elements, and then ideas about the system. Some overlap is certain.

With accession of the Baltic states, the European union will have nearly 2 million citizens of Russian nationality. These will be considered as EU citizens as any other. Moreover the legal meaning of EU citizenship is on the rise. This means in a very deep sense that Russia becomes part of the EU and the EU becomes part of Russia. It will also pose sharp issues for the policy on movement of person across the frontier zones, for example between Narva and Ivangorod on the Estonian frontier with Russia. This means some creative thinking that lies ahead for how the Schengen and EU visa rules should apply in such cases.

With Kaliningrad surrounded by Poland and Lithuania there will have to be a new model regime for this enclave. At present the condition of this region is disastrous, described by one observer as “an unstable and poorly administered centre for criminal activity, with an aids epidemic competing against the role of organised crime gangs in sustaining prostitution, drugs and illegal migrant networks for the media’s attention” [Herd, 1999]. Russia may contemplate for its Kaliningrad region two possible futures. It could become an increasingly closed ghetto. Lithuania already refuses to extend visa-free regime for Kaliningrad citizens. The EU is obviously not going to have open frontiers with a highly criminalised entity. Or, at the other extreme, there is a radical break with the present, with a complete opening of the enclave to become a Baltic free enterprise zone, accepting EU support for cleaning up law and order, and considerable aid to modernise its collapsing infrastructure. Kaliningrad becomes part of the integrated Baltic/EU economy, with a free trade regime established some years ahead of a similar prospect for the rest of the Russian economy. Joenniemi [1999a] extends this logic into the longer-term to the point of “a kind of joint EU-Russia governance”.

We return to the general concepts. What does Russia become? A reformed federation? A confederation with differentiated regimes for its regions? Or, a core Russian federation/confederation, giving way in some frontier territories to something more like a Commonwealth of Russian States? A Russia where some parts become more like member states of the CIS, or where Belarus has become more strongly integrated with core Russia than, for example, Tatarstan.

Where does the enlargement of the EU end? What will be the continuum of institutional arrangements between the core EU and its close neighbours? The EU already has its special formula for the European Economic Area, where countries such as Norway are completely in the single market, but outside the political institutions. The EU now discusses further concepts of “virtual membership” for accession candidates whose full membership cannot be for many years. This might mean full inclusion in the economic and monetary union, special security agreements (both civilian and military) and progressive inclusion in institutional mechanisms. The idea is to break down the barriers between the “ins” and the “outs”, to make this less a black and white issue, to have maybe several shades of grey, above all to lessen both the perceptions and realities of “exclusion” from modern Europe. These concepts receive a boost from the experiences in the Balkans. The perception in the

EU is that these very disordered societies need real perspectives for “inclusion” to motivate their transition from states of conflict and disorder to states of civilised order. If such concepts have a real application for the small Balkan states, they can also be developed for much larger cases, starting with Turkey and leading on possibly to Ukraine. These concepts run on into mechanisms such as the “Euro-regions”, as well as the larger idea of the “Europe of the regions”.

Could this loosening of the concepts of what is the EU and what is Russia indeed lead to some territorial overlap and integration of systems, especially in the area of the Northern Dimension. While one could imagine some fanciful schemes, it may be better to start with the official Russian text:

- *“Such partnership (between EU and Russia) could include the following steps to be made in the following decade: ...*

- To take advantage of the common EU-Russian border and its prospective extension with a view to raising the level of the transboundary interregional cooperation and regional development of both parties up to the standards established within the so-called Euroregions. To seek to extend to such activities the supranational and national incentive schemes operational within the EU, including visa and border regimes. To encourage contacts among Russian and EU regions, in particular, by using the resources of the (EU) Committee of the Regions, with a view to fostering the humanitarian and economic ties and sharing of experience of local self-government and business administration. ...

- Given the special geographic and economic situation of the Kaliningrad region, to create the necessary external conditions for its functioning and development as an integral part of the Russian Federation and an active participant in the transboundary and interregional cooperation. ...To pursue a line to the conclusions, if appropriate, of a special agreement with the EU in safeguarding the interests of the Kaliningrad region as an entity of the Russian Federation in the process of EU expansion as well as to its transformation into a Russia’s pilot region within the framework of the Euro-Russian cooperation in the 21st century”.

So overall the official message from Russia at summit level is interesting. Russia does not intend to apply for membership of the EU, contrary to some rather bizarre statements in former years by Yeltsin and Chernomyrdin. However Russia can imagine integration of its European frontier regions with the EU frontier regions and states. This does not put into question formal state sovereignty, but the EU and Russia could in principle go far in some joint Europe of Regions projects. The EU and Russia could have some “virtual overlap”, with Kaliningrad maybe the pilot region.

Both the EU and Russia could find themselves participating in the early 21st century in a continuing de-construction of the 19th century nation state. They both resort to somewhat flexible and differentiated, multi-tier constitutional structures. West and East meet with overlapping zones of territory and policies, not just at mutual frontier posts. The question where the EU’s frontiers and expansion ends, and how far Russia is part of Europe thus receives some more subtle and interesting answers than generally imagined.

10. Other dimensions

Alongside the Northern Dimension, there are going to be Southern and Eastern Dimensions that loom up on the EU's foreign policy agenda – as surely as the sun rises in the East and sets in West. There is already a Southern Dimension policy, called the Barcelona Process, which embraces the East and Southern Mediterranean countries. This policy has been stuck in recent years because of the stalled peace process between Israel and Palestine. This may be ready for a new impetus, due both to the change of prime minister in Israel and the priorities of the French EU Presidency of one year from now. President Chirac has already announced a new initiative for late 2000, a year ahead (Finnish style planning). The EU's North-South dialectic keeps on moving.

Looking a little further ahead, certainly as and when the Bulgarian, Romanian and Turkish accession questions have advanced, there will be a new Dimension which does not have a name yet. But its substance is already obvious, and concerns the Black Sea, Caucasus and Caspian Sea zone: "Eastern Dimension" perhaps. And maybe the Eastern Dimension will not wait that long. The Trans-Caucasus is already the dramatic crossing point of an East-West vector and a North-South vector. The East-West vector is all about new transport corridors and energy developments and pipelines, adding diversified routes, adding to the former Soviet Union infrastructures. The North-West vector is today all about the violent struggle between Chechnya and Russia, which is a mix of confrontations – between fundamentalist Islam, mixed up with gangster capitalism and terrorism and post-Soviet decolonialisation on the one side, and a wounded Russian bear on the other. For the moment the conflicts are still escalating. The strategic sensitivities are extreme. Russia can view the conflict as a double threat, with one movement seeking to form a Caucasian Islamic confederation from the Black to Caspian Seas, and another movement seeking to penetrate up the Volga into the Islamic heartland of Russia in Tatarstan and Bashkiria. These movements are, quite understandably, seen in Russia as a dagger striking at the heart of the nation. The EU is largely absent from this theatre of operations, little beyond some diplomatic demarches favouring political solutions to the conflict, possible brokered by the OSCE. But later an EU Eastern Dimension could become a civilising force in this explosive region. The EU should some day be able to help Russia and the other states of the region focus on peaceful economic and political development and reconciliation of former enemies. Russia may discover that the EU is actually trying to be helpful wherever they meet, in the North or South or East.

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