

WIDER EUROPE

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**THE NEW DEMOCRACIES
FACE A RISKY FUTURE**

The economic storm that swept through Europe during the past year has not subsided. It will have lasting repercussions for the new democracies as 2010 promises to be a year of severe challenges for political moderation and public resilience from the Baltics to the Balkans.

In the first post-transition crisis sparked by the bursting of the global financial bubble, some doomsayers predicted the demise of the liberal economic era and major reversals in democracy building. In reality, there has been no wholesale economic collapse and no systemic political failure even though several governments have been replaced.

Social unrest and political extremism has been limited, while yearnings for state control of the economy or for national protectionism remain limited. Although the region has been economically battered it has largely weathered the storm. Nonetheless, each country is bracing itself for further economic and social challenges that will continue to test the stability of their political institutions.

Several governments have fallen largely because of deteriorating economic conditions that diminished their parliamentary support and ruptured the ruling coalitions. However, there has been no domino effect and no lurch toward leftist or rightist radicalism. Discarded governments have been replaced by new center-right or center-left coalitions while electoral support for ultra-nationalists or radical populists has been limited.

Recent opinion polls indicate that a majority of citizens mistrust their political elites and much of the business class,

which they believe have benefited unfairly from the economic reforms and are not suffering during the recession. However, the public simply want a competent, honest, and uncorrupted government with a viable economic program. The democratic systems themselves are not under serious threat and each country's institutions seem resilient.

EU membership remains the only viable foreign policy alternative for all the West Balkan aspirants. These economies, which initially appeared to be relatively protected because of their low level of export dependence and external borrowing, will face increasing economic problems as the recession continues to ripple across the region. Additionally, the poor business environment that typifies much of the region further handicaps all the economies. On the other hand, reigning in budget deficits will guarantee that the impact of the crisis is even more painful for the public. A slow recovery is not expected until 2011.

The results will depend on many factors that cannot be easily forecast. These include the strength of the global economic recovery particularly in Western Europe, the condition of the financial sector, the diversification of exports and investments, and the pursuit of economic development models that utilize new technologies. The prolonged post-crisis recovery is likely to result in regional diversification as competition for capital and markets increases. Foreign investors are more likely to favor countries with more stable economies, predictable governments, lower corruption levels, and a beneficial business climate.

Analysts are unable to predict when economic performance will hit rock bottom and eventually rebound. The World Bank has warned that the Balkan economies are likely to recover more slowly than other developing economies and the social and political repercussions will be felt for many years.

In the broader region, among the more resilient states such as Poland and the Czech Republic where governments have survived or new centrist coalitions have gained office, steady economic performance depends on upholding fiscal discipline and reducing budget deficits. The suffering states such as Hungary and Latvia, which have witnessed financial meltdowns, will take longer to rebound but may have already hit rock bottom and are maintaining essential anti-recession policies and benefit from long-term EU assistance. The most troubling group of states are the economically uncertain Balkan and post-Soviet countries who are not EU members and cannot depend on being rescued by the Union.

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The public has displayed patience and resilience during the traumatic transition period from state socialism to liberal capitalism and during the arduous struggle for independent statehood. Radical or revisionist political forces have only limited appeal and nationalist economic prescriptions have been rejected by all governments.

Until now, the new democracies have demonstrated their adaptability and stability under enormous economic stress. Predictions about massive social unrest, political breakdown, or reformist reversals have proved to be misconceived. Nonetheless, there are too many unknown variables, including the full depth of the Europe-wide recession, to predict with any degree of certainty the social and political repercussions of continuing economic decline or indefinite stagnation.

In this unsettling environment Croatia's progress toward EU accession will be instructive for all EU aspirant in its neighborhood. Zagreb is in the final stages of closing all the requisite chapters in the EU's *acquis communautaire* and if all proceeds according to plan Croatia is expected to enter the Union by 2012. However, there are potential stumbling blocks ahead.

The EU Commission will be closely monitoring Croatia's commitment to anti-corruption campaigns and the proper management of EU funds. Lingering frustration is visible in Brussels that Bulgaria and Romania were admitted too soon into the Union without sufficiently cleaning up their houses. Indeed, an unofficial chapter may have been added to the EU *acquis* regarding the corruption quotient and Croatia is first in line for closer examination before admittance is assured.

There is an additional negative dimension in failures to tackle organized corruption. It opens up the country to Russia's state-directed business penetration and political influence. Whereas corruption in the Balkans serves private interests, in Russia it serves state interests and is a fundamental feature of government policy conducted primarily through its energy companies such as Gazprom. Kremlin leaders aim to embroil officials in targeted countries in business arrangements that favor Russia's energy and business expansion. Non-transparent commercial transactions can in turn increase Moscow's influence over foreign policy in parts of Central and South Eastern Europe.

Countries such as Bulgaria, Romania, Croatia, and Serbia, which are suffering from ballooning state debts, budgetary

shortfalls, and declining foreign investments, are being tempted to participate in Russia's energy contracts that may promise substantial profits and regular energy supplies but could in the long term promote even more extensive official corruption and dependence on Moscow.

Although the Russian government does not have the resources to bail out any former satellite, it has exploited the recession to inject loans and investments with specific political conditions among neighboring post-Soviet states while seeking to undermine the diversification of energy supplies from the Caspian basin that could undermine Russia's monopoly. Zagreb and other capitals must beware not to become entrapped in the Kremlin's web of energy operations that will leave them susceptible to political blackmail.

While EU accession does not fully shelter countries from economic hardship, membership ensures interdependence and shared responsibility for economic stability and is safer than being outside the Union. Clearly, the EU will not allow systemic banking failure or national defaults among any member state. The EU also works closely with international financial institutions to provide emergency assistance.



Because of deepening inter-state interdependence it is not the interest of EU members to allow any CEE economy to declare bankruptcy as their own banks and companies would also suffer and the Union as a whole would enter a period of unpredictable instability. This growing interdependence is mirrored in the political realm where the Lisbon Treaty, designed to better coordinate foreign policy making, went into effect on December 1, 2009.

Looking ahead, a longer term danger hangs over the western Balkans. The economic storm raging throughout Europe will probably place EU enlargement on hold and may indefinitely postpone the entry of

candidates and aspirants from the Balkans after the expected accession of Croatia. Governments in Germany, France, and Holland have signaled that allowing new states into the Union could increase public opposition at a time when national defensiveness is on the rise as a consequence of the economic slowdown. Indeed, the remaining West Balkan states could be entering a vicious circle, whereby denial of EU entry combined with economic crisis may stall the necessary reform process. This will in turn retard economic growth and lessen each country's qualifications for EU accession by stimulating the negative forces that hinder accession.

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KAZAKHSTAN TAKES OVER OSCE CHAIR

On January 1st Kazakhstan assumed the chairmanship of the Organization for Security and Cooperation in Europe (OSCE), an organization that now spans 56 countries and encompasses all of Europe together with the United States, Canada, and each of the former Soviet republics.

Kazakhstan's chairmanship is a landmark event as this will be the first Central Asian, post-Soviet, and predominantly Muslim state to lead the OSCE. The organization itself celebrates its 35th birthday in 2010 and was established through the Helsinki Final Act during a period of East-West detente. Since that time the OSCE has developed from a confidence building forum to a multi-national structure operating in three dimensions: security, economy, and human rights.

However, in recent years the OSCE has come under severe attack from the Russian government for its focus on democratization in the former Soviet Union. It is regularly accused by Moscow of interfering in the internal affairs of the post-communist states and encouraging the "colored revolutions" that pulled Georgia and Ukraine away from Russia's orbit.

As it assumed its OSCE chair, the government in Astana has come under strong criticism from Western human rights lobbies for its evident shortcomings in implementing European standards of democratic governance. Nonetheless, Kazakhstan is in a unique position to better assimilate these values as it feels more secure as a contributing member of the OSCE.

Astana continues to experience pressures from Moscow to adopt the Kremlin agenda designed to minimize the focus on human rights during its chairmanship and to weaken the OSCE's Office for Democratic Institutions and Human Rights (ODIHR). However, Kazakhstan calculates that it can benefit from its prominent role in 2010 to consolidate its national independence from Russia while maintaining the ODIHR mandate and gaining Western support.

The OSCE chairmanship will enable to country to develop closer ties with both Europe and the United States and to make its own contribution to Euro-Asian security. CSIS, working together with the Institute for New Democracies in Washington D.C., recently assembled a task force of leading American policy experts and published a comprehensive policy paper containing a number of concrete recommendations for the Kazakh government during its OSCE chairmanship.

The most significant achievement for Astana would be to host an OSCE security summit at this important juncture in the organization's evolution. Amidst growing questions about the OSCE's effectiveness in promoting stability and given the new security threats that confront the entire OSCE re-

gion, a summit assembling all heads of state in 2010 could serve four important goals.

First, it can take stock of what the OSCE has accomplished in enhancing international security and where it has experienced serious shortcomings. This will help develop a level of consensus on the organization's future direction. Second, the summit could assess the existing security threats within and around the OSCE area and formulate more effective common responses through the pursuit of the OSCE's three dimensions. The organization can also make a multi-national contribution in Afghanistan through the training of border patrols, police officers, and the national administration.

Third, the summit would need to examine the effectiveness of other security organizations active in the OSCE region, including NATO and the Collective Security Treat Organization (CSTO). The summit could address areas such as conflict prevention, humanitarian assistance, and post-conflict reconstruction, and devise ways to improve cooperation between them. And fourth, the summit could promote the integration process between Central Asia and the Euroatlantic sphere for the benefit of both regions, particularly through energy, trade, and business connections.

The proposed summit could also tackle Russia's recent proposals for a new European security architecture. To be effective, the summit should not become a mechanism to sideline any existing security organizations such as NATO, nor should it legitimize any country's "privileged interests," as depicted by President Dmitry Medvedev, or undermine existing European security treaties, including the Conventional Forces in Europe (CFE) Treaty or the 1975 Helsinki Final Act.

To avoid potential failure the objective of the OSCE summit should not be to forge some over-ambitious European Security Pact or an unnecessary new "security architecture" as planned by Moscow. This would simply create confusion and duplication without contributing anything concrete to international security. Instead, the summit can provide a unique opportunity to recommit all member states to the core values of OSCE, including the democracy agenda, national sovereignty, and international cooperation.

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Kazakh Secretary of State and Foreign Minister Kanat Saudabayev at the concert marking the start of Kazakhstan's 2010 OSCE Chairmanship (OSCE/ Subkus)

MEDVEDEV'S SECURITY TREATY AIMED AGAINST NATO



Russian President Dmitry Medvedev inspects a Russian mobile missile launcher.

Russia's President Dmitry Medvedev has formally issued the draft of a new "European Security Treaty" that Moscow has been unofficially promoting for well over a year. According to the document released on November 29, 2009 and distributed to the Obama administration and to all European capitals, Russia seeks an "equal role" in wider security arrangements throughout Europe and vis-à-vis the NATO alliance.

Moscow's proposal for a new European "security architecture" was launched by Medvedev soon after taking office in March 2008 and fleshed out during his trip to France in October 2008. Medvedev claimed that a new structure must be found to "guarantee equal security," as well as a "common security space." He simultaneously depicted NATO as a divisive force that threatens the security of non-members including Russia itself while asserting that "no state or international organization can have exclusive rights to maintain peace and stability in Europe."

In stark reality, NATO has actually contributed to stabilizing countries that were once in Europe's grey zone. And it has helped to promote essential structural reforms in countries on route to EU membership. Even more pertinently, the Alliance has improved relations between neighbors that were formerly in dispute over territories, minorities, or competing histories. In sum, NATO has actually stabilized Russia's western borders. Moscow's claim that NATO is a threat simply underscores its fears that once inside the Alliance no country will return to the Russian orbit.

At the Annual OSCE Security Review Conference, held in Vienna in June 2009, Russian Foreign Minister Sergei Lavrov outlined what he described as the "systemic drawbacks" of Euroatlantic security. He brazenly claimed that at the end of the Cold War no "sustainable and effective system" emerged that would embrace both East and West. Lavrov also asserted that NATO has tried to ensure its own security "at other's expense" and backed Medvedev's proposal for a European Security Treaty to "ensure the unity of the whole Euroatlantic space."

Kremlin's assertions that NATO and the United States divide Europe and create new blocs across the continent lies at the center of Russia's contentions. The claim is deliberately misleading because NATO is an organization open to membership for all states that can qualify by meeting conditions and contributing to transatlantic and European security.

The core of Russia's proposal for a "new European security architecture," or an "integral security space in the Euroatlantic region," is a legally binding European Security Treaty signed by all 56 OSCE member states. Its purpose is designed to enshrine Moscow's triple veto over transatlantic security arrangements: to prevent further NATO enlargement; to block the repositioning of NATO infrastructure eastward, and to disarm NATO's article five security guarantees.

Russia's triple veto against NATO is to be enacted through the principles of "indivisible, equal, and undiminished security" evident in specific formulations contained in the draft treaty. For instance, "a party to the Treaty shall not undertake, participate in, or support any actions or activities affecting significantly the security of any other party." Similarly, the Treaty will not allow the use of territory for "any actions affecting significantly the security of any other party."

The draft treaty also stresses the centrality of the United Nations Security Council, where Russia possesses veto powers, as the supreme security authority. It elevates the Moscow-directed Collective Security Treaty Organization (CSTO) on par with NATO. And it legitimizes Russia's position as a regional power and apparent equal with the U.S. and the EU.

The strategic timing in releasing the Medvedev draft treaty is also intentional. It is directed toward calling into question the development of NATO's new Strategic Concept, due to be formally approved at the 2010 NATO summit.

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Upcoming Events

CSIS Conference
SOUTH CAUCASUS FAULT LINES:
SECURITY, ENERGY, AND U.S. INTERESTS
Washington D.C., February 23, 2010

Since the fall of the Soviet Union, the United States has had significant strategic, economic, and energy interests in the South Caucasus. The region's strategic location at the crossroads of Europe, Russia, the Middle East, and Central Asia ensures its importance for U.S. national security interests and those of its European allies.

Newsletters

CSIS Europe East Select Briefing

Select Briefing is a weekly update of news from the new European Union (EU) member states, as well as from the countries aspiring to join in future rounds of EU enlargement. The CSIS New European Democracies Project monitors daily developments throughout the East, Central, and Southeast European regions and its research is nonpartisan and nonproprietary.

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(MEDVEDEV'S SECURITY TREATY AIMED AGAINST NATO)

It is meant to influence the new OSCE Chairman Kazakhstan in structuring the agenda for a planned summit in 2010 primarily to meet Moscow's security restructuring objectives. And it may potentially gain Russia more advantages from the impending post-START nuclear arms limitation agreement with Washington.

In sum, Kremlin leaders are seeking to replace the 1990 Charter of Paris for a New Europe and the 1999 Istanbul Charter for European Security, to eliminate the CFE (Conventional Forces in Europe) Treaty, to overhaul the OSCE and the 1975 Helsinki Final Act on which it is based, and to eviscerate NATO as the key European security structure.

Paradoxically, Moscow is proposing a new security framework while it has failed itself to comply with existing security arrangements including the CFE Treaty. Moscow's strategy is to provoke a crisis and then contend that no existing organization can resolve it. The August 2008 war with Georgia is supposed to vindicate Moscow's contentions that Europe remains insecure. In reality, it was Russia's two-decade long support for separatism in Georgia and its de facto dismemberment of the country in 2008 that created the existing insecurities. In effect, the very country that has engaged in an armed attack on a neighbor and violated various international laws and treaty agreements is proposing a new European security structure.

The NATO capitals have been lukewarm about Moscow's treaty proposal and do not view it as having much merit. For example, French President Nicolas Sarkozy insisted that the U.S. needed to be brought into any dialogue about new security arrangements and that NATO has primacy in European security.

If indeed there is to be serious debate on Russia's security proposals the participants would first need to examine the fundamental problems in relations between Moscow and the West. These include the unacceptable extent of Russia's ambitions and its claim to "privileged interests" among its many neighbors, the Kremlin's persistent zero-sum competition over the post-Soviet states, and Russia's questioning of the legitimacy of NATO as the pre-eminent and most effective transatlantic security organization.



Previous events

Lavrentis Lavrentiadis Chair in Southeast European Studies launch in Athens, Greece

Athens, Greece, December 8, 2009

The Lavrentis Lavrentiadis Chair in Southeast European Studies was launched formally in Athens on December 8 by Lavrentis Lavrentiadis and CSIS Trustee and Counselor Zbigniew Brzezinski. The event was attended by a substantial press corps and included a panel discussion on U.S.-European relations that was chaired by Janusz Bugajski, the inaugural holder of the Lavrentiadis Chair, and featured Heather Conley, director of the CSIS Europe Program, and Marc Grossman, a senior adviser at CSIS and former U.S. undersecretary of state.



Photos from the Chair launch event in Athens, Greece.

CSIS Roundtable

Montenegrin Prime Minister Milo Djukanovic at CSIS

Washington D.C., January 20, 2010

The Lavrentiadis Chair Program hosted Montenegro's Prime Minister Milo Djukanovic for an informal lunch discussion on Montenegro's role in Southeast Europe, its progress toward Euroatlantic integration, and the broader strategic environment.

CSIS Roundtable
Slovenian Special Coordinator for the Western Balkans Ambassador Vojko Volk at CSIS

Washington D.C., January 25, 2010

The Lavrentiadis Chair Program hosted Ambassador Vojko Volk for an informal discussion on the development in the Western Balkans with special focus on Bosnia-Herzegovina.

UPCOMING ELECTIONS FOR THE YEAR 2010 IN CENTRAL EASTERN EUROPE

Country	Election Date
Ukraine	7 February - Presidential (Second Round)
Hungary	11 April 2010 – Parliamentary
Slovakia	12 June 2010 – Parliamentary
Czech Republic	June 2010 – Parliamentary (First Round)
Hungary	June 2010 – Presidential
Latvia	2 October 2010 – Parliamentary
Bosnia-Herzegovina	October 2010 – Presidential
Bosnia-Herzegovina	October 2010 – Parliamentary
Czech Republic	October 2010 – Parliamentary
Poland	October 2010 – Presidential (First Round)
Azerbaijan	7 November 2010 – Parliamentary
Tajikistan	28 February 2010 – Parliamentary (First Round)

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