

EU-28 WATCH



No. 10
July 2014

ISSN 1610-6458

www.EU-28Watch.org

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On the project

Euroscepticism and the European Parliament elections in 2014, the EU's Neighbourhood in light of the Ukraine crisis and power relations in the EU: The EU-28 Watch project is mapping out discourses on these issues in European policies all over Europe. Research institutes from all 28 member states as well as Iceland, Macedonia, Montenegro, Serbia and Turkey give overviews on the discourses in their respective countries.

This survey was conducted on the basis of a questionnaire that has been elaborated in March 2014. Most of the 33 reports were delivered in June 2014. This issue and all previous issues are available on the EU-28 Watch website: www.EU-28Watch.org.

The EU-28 Watch No. 10 receives significant funding from the **Otto Wolff-Foundation, Cologne**, in the framework of the *"Dialog Europa der Otto Wolff-Stiftung"*, and financial support from the **European Commission**. The European Commission is not responsible for any use that may be made of the information contained therein.

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Europe's path out of crisis: amidst power shifts and divisions

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The Euro crisis has deeply affected Europe's economic and political landscape. Years of economic recession have fuelled intra-European divisions and Eurosceptic tendencies. Germany has emerged as the EU's main economic motor and 'reluctant hegemon'. North and South have been divided in the so-called 'austerity vs. growth debate'. Meanwhile, one of the most powerful EU member states, the United Kingdom (UK), has announced a referendum on its continued EU membership. Recent years have thus seen signs of important and potentially durable power shifts. While Europeans broadly acknowledge these changes, their perspectives on them often differ.

Germany: 'too big for Europe, too small for the world'

There is general consensus that Germany's power has increased throughout recent years. The key reasons were Germany's position of unparalleled economic strength and resilience coupled with its active role in the management of the Euro crisis. What was formerly known as Europe's 'Franco-German motor' has gradually turned into the 'German engine'. In EU member states and candidate countries, Germany's leadership role is closely associated with the *persona* of Chancellor Angela Merkel. In 2014, she ranked top of the Forbes list of the world's most powerful women for the ninth time in a decade. Some of the EU-28 Watch country reports quoted national press to depict her as the 'mother of all Europeans' or as the 'Queen of Europe'. However, Germany's increasing power and leadership role in the economic domain have provoked mixed reactions across Europe.

A first group – largely composed of smaller as well as Central and Eastern European member states – view Germany as an anchor of stability and call for a more pronounced leadership role. This is exemplified by Polish Foreign Minister Radoslaw Sikorski's 2011 statement that he was less afraid of German power than of German inaction. This group of member states also favours stronger German engagement in the Common Foreign and Security Policy. In light of developments in Ukraine, the Baltic countries specifically call on Germany to play the role of a security guarantor counter-balancing against Russia. Other member states, such as Finland, also perceive Germany as an ally of smaller states.

France and the UK can be said to form a second group. Both member states acknowledge Berlin's predominant role but view it with a degree of scepticism. A stronger Germany also implies a diversion of power away from them. The UK is wary of a 'reluctant hegemon', which does not know how to use

its power and may effect changes in European integration or within the Eurozone that are inimical to British interests. Meanwhile, French President François Hollande has been struggling to implement an alternative economic model and was, at first, reluctant to cede Europe's economic leadership to its Eastern neighbour. Paris has attempted to compensate for its economic weakness through an active foreign and security policy, for which it often sought German and European backing *ex post*. Hollande has increasingly bowed to Germany's economic leadership and its austerity course. However, domestic resentment culminated on 25 August 2014 when pointed remarks by former Economy Minister Arnaud Montebourg on the country's 'Merkel-inspired' austerity course induced the President to dissolve the government. Germany's European leadership has thus become part of France's internal power struggles.

The third group is constituted of the Southern member states and the 'bailout countries'. The Cypriot country report captures their general perception rather well: "The euro crisis has transformed political and economic relations within the EU from a club of supposedly equal countries to groups of creditors and debtors. As the largest creditor country, Germany has gained disproportionate political power within Europe." Germany is viewed as the principal proponent of Europe's strict austerity 'diktat', with its dire socio-economic consequences. In recent years, Berlin's leadership was often perceived as a 'selfish' or 'ruthless' effort to economically dominate the continent. In several of these countries, opinion polls revealed that Germany was even seen as an outright threat to the domestic economy. Populist political forces, particularly in Italy and Greece, engaged with these narratives and nourished the brewing anti-German sentiment with references to the country's Nazi past.

Another dimension relevant to the perception of Germany's role in Europe is related to the enlargement dossier. Germany is generally viewed as a rather strict gatekeeper in the enlargement process. This is certainly the case for Turkey's EU accession, but also – to a lesser extent – for the Western Balkans. Candidates for EU membership such as the former Yugoslav Republic of Macedonia and Montenegro view Germany as a key player in their accession processes whilst recently acceded Croatia described it as a 'hardliner'. Iceland constitutes a special case. The Icelandic government has suspended accession negotiations in May 2013. In this wavering candidate country, the question of power relations in Europe is perceived in terms of the interaction between large and small member states. The Icelandic No-Campaign depicts Germany's predominance as another sign that the EU is a slow moving train in which large members impose speed and direction while smaller ones have to follow (see Icelandic country report).

Germany has thus encountered ambiguous and partly contradictory expectations from its neighbours. In reaction to harsh criticism from crisis-torn countries, Berlin underlined that decisions have been taken by the Eurozone countries as a whole and were not imposed by Germany. Meanwhile, the foreign policy elite, led by Federal President Joachim Gauck, has responded to external calls for more political leadership. In his opening speech at the 50th Munich Security Conference in 2014, Gauck

announced the new paradigm of 'responsibility', promising a more proactive German foreign and security policy, including the use of military force.

This rhetorical shift away from the traditional culture of political and military restraint reflects the elite's awareness that Germany is expected to play a role in international affairs that is commensurate to its economic weight. However, for historical reasons, the broader public remains uneasy about pronounced German leadership, particularly in the military realm. Germany is also reluctant to play a counter-balancing role *vis-à-vis* Russia. Political elites and the public oppose a permanent NATO presence in the Baltic countries or Poland. In addition, polls show that most Germans oppose further EU enlargement. While Germany undoubtedly remains Europe's economic powerhouse, it is not ready to project political or 'hard' power on or beyond the continent.

From austerity to growth and fiscal flexibility?

Recent years have seen intense debate concerning the best way out of economic crisis and recession. The debate featured a divide between northern economies advocating a strict austerity course and debt-laden, mostly southern economies, opposing strict austerity and calling for measures to stimulate growth and employment. Whereas the first group has enjoyed low borrowing costs and gradually increasing growth rates, the second has struggled with high borrowing costs, large public debts, zero-to-negative growth, and record unemployment. The divide between austerity and growth also ran across countries along the left-right political axis. The ideological rift became apparent during the European Parliament elections, in which European Socialist candidate Martin Schulz advocated a renunciation of the austerity course, while his counterpart Jean-Claude Juncker from the European People's Party backed German-style austerity prescriptions.

Proponents of a strict austerity course view fiscal consolidation and discipline as well as structural reforms as prerequisites for sustainable growth and competitiveness. Meanwhile, opponents of the austerity course all for the introduction of Eurobonds or the establishment of a redemption fund for countries with excessive national debt. They favour a revision of the Fiscal Compact towards more flexibility and demand greater emphasis on measures such as the 'Youth Guarantee' scheme, the 'Compact for Growth and Jobs' and a decisive revival of the 'Europe 2020 Strategy'.

There has been increasing convergence between these two camps, based upon the recognition that growth and austerity are not mutually exclusive and that the debate concerns finding the right balance between the two. Germany's grand coalition between the Christian Democratic Union and the Social Democratic Party (in office since 2013) has softened the country's strict austerity course. Other proponents of austerity, such as Finland and Denmark, have gradually loosened their stance over time. Meanwhile, some of the southern economies, notably Italy and Spain, are now more inclined to accept the Union's budget rules on the condition that they are complemented with growth measures.

Italy, which currently holds the rotating Council Presidency, has called for greater flexibility in the interpretation of the Stability and Growth Pact in return for decisive structural reforms. While a revision of the Pact has been excluded, the European Council agreed on 26-27 June 2014 to make “best use of the flexibility that is built into the existing (...) rules”. However, the subsequent meeting of the Economic and Financial Affairs Council on 7 July 2014 demonstrated that the member states diverge in the interpretation of the phrase “best use”. Germany’s Finance Minister, Wolfgang Schäuble, and European Commission Vice-President, Siim Kallas, rebuked the proposal by Italian Prime Minister Matteo Renzi to exempt investment on digital infrastructure from the calculation of public deficits. They also stressed that structural reforms were no alternative to fiscal consolidation. The debate between austerity and growth has thus been lifted to another level. The question is not so much one of ‘either/or’ but rather concerns the direction of Europe’s growth strategy and the boundaries of flexibility in the implementation of its budget rules.

Opposing Brexit and ‘Europe à la carte’

A clear majority of EU member states opposes the UK’s possible withdrawal from the Union. Many expect a UK exit to weaken the EU’s foreign and security policy, thus diminishing its profile in international affairs. Liberal-minded politicians are wary of losing an important ally in economic affairs and pro-open market policies. Business representatives across Europe fear a UK exit, due to close trade ties with the island nation and the degree of economic uncertainty its withdrawal would create. Others, such as the Czech Republic are wary of losing an important counter-weight to Europe’s pro-integrationist core. Ireland is particularly concerned as its only land border is shared with the UK. In addition, negative repercussions on the peace process in Northern Ireland are expected. Meanwhile, a range of Central and Eastern EU member states as well as candidate countries are afraid of losing an ally in their push for continued EU enlargement. This argument is recurrent, although the UK’s politicised discourse on the immigration of Bulgarian and Romanian workers cast doubts on its pro-enlargement stance.

Only a few, often sub-national groups, express a more favourable attitude towards a possible ‘Brexit’. Among them are Eurosceptic forces, which could portray a UK withdrawal as an example for the EU’s gradual demise and disintegration. For example, representatives of the Icelandic No-Campaign would likely depict it as a triumph and encourage Britain’s re-entry in the European Free Trade Area and membership in the European Economic Area. It would also reinforce Eurosceptic tendencies in Denmark, where polls conducted after the announcement of a possible UK referendum showed that half of the Danish population was in favour of following the British example. A UK referendum would also constitute an important precedent for proposals such as that of Italy’s Five Star Movement to conduct a referendum on the country’s continued Eurozone membership. Interestingly, a second group with a more positive attitude towards a potential ‘Brexit’ is the pro-integrationist camp – for instance in Austria, Estonia, and Luxembourg – that views the UK as an obstacle to Europe’s gradual federalisation.

In the UK itself, the question of a potential exit remains open. Much will depend on the outcome of the 2015 general elections. Labour announced that it would not conduct a referendum unless forthcoming Treaty changes substantially affected the UK's national sovereignty. Meanwhile, the Conservative Party promised to renegotiate the terms of EU membership and to put the results of this process to a referendum by 2017. According to recent polls, Labour and the Conservative Party are likely to go head to head in the 2015 general elections.

The sweeping victory of the UK Independence Party (UKIP) in the 2014 European Parliament elections put additional pressure on the Conservative Party to bolster its Eurosceptic credentials. Early repercussions could be observed in the debate on the appointment of the next Commission President. Prime Minister Cameron was fiercely opposed to majority candidate Juncker, and argued that Europe needed a reform-oriented leader rather than an engrained representative of the Brussels bureaucracy. He warned that a UK exit would become likelier if Juncker was to be appointed. However, in late June 2014, Britain was outvoted by 26 member states and only backed by Hungary's Victor Orbán. To assuage the blow, the member states declared that Britain's concerns about the Union's future would be addressed, that the Treaty's principle of an "ever closer Union" allowed for differentiated integration, and that the appointment procedure for the Commission President will be reviewed.

Nevertheless, polls showed that the share of Britons favouring a withdrawal increased after Juncker's appointment. Meanwhile, only few member states are willing to accept a *Europe à la carte* to cater to British exceptionalism. At this stage it cannot be expected that a renegotiation of the UK's membership terms will substantially alter the picture. A victory for the Conservative Party in the general elections is thus likely to lead to the UK's withdrawal. The UK maintains a broad diplomatic network, is the Union's third largest economy and its biggest defence spender, and has the bloc's third largest population. Its withdrawal would not only lead to a redistribution of political power within Europe, but also to a significant decrease in Europe's collective 'soft' and 'hard' power.

'It's the economy, stupid!'

Whether the described power shifts and divisions will consolidate over time will largely depend on the extent and speed of economic recovery. The past years have shown that shared prosperity rather than the lasting pacification of the continent draws Europe's citizens together. Currently, the perspectives for economic recovery and sustainable growth are still uncertain and above all, uneven. While the northern economies seem to be back on track, the South – including France and with it Europe's second-largest economy – continues to stagnate. Unless a satisfactory balance between growth and austerity is found, the gaps between North and South as well as left and right are likely to widen. While the EU would probably survive a UK exit, a lasting North-South divide and enhanced political polarisation will be hard to digest.