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From a “Ring of Friends” to a “Ring of Fire” – The Failed Dream of Middle Europe

Abstract

Officially, the European Neighbourhood Policy was born in 2004. After the eastern enlargement of the European Union, it became necessary to come up with a coherent strategy with regard to the neighbouring states of the EU. However, although the problem seems to have been caused by the fall of the Iron Curtain, the underlying issue is in fact much older. Already during the 19th century European economists wondered how Europe’s position could be ensured in a world where players like the Russian Empire and the USA made their appearance. Establishing a safe environment and international market European countries have access to has preoccupied economists for more than 160 years.

Evidently, Europe has been – and still is – an international player active in *security and peace* – just not a successful one.

Key words: European Neighbourhood Policy, European Investment Bank, International Trade, Economic History

Introduction

Since 1990, or more exactly since 2004, the European enlargement policy is in a dilemma. Theoretically, every state has a keen interest in a neighbouring country that is in peace and whose economy is thriving. Preferably, these countries should be active on different product markets. Relationships and trade with such countries are relatively uncomplicated.

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The same logic applies to the European Community. Though not a country, it is no surprise that it wants to be surrounded by countries that are in peace and profit from an economy that allows them to develop steadily and maintain healthy trade relationships. This direct engagement in the neighbourhood can also be interpreted as a mutually beneficial trade: By investing time, effort and money now, one can make sure that neighbour develops more positively in the future. That way, the European Union avoids potential future (and certainly costly) interventions.

From a strictly economic point of view, this problem is far from new. Since David Ricardo, we know that countries have good reason to participate in international trade and to specialise in the production of the good they have a relative comparative advantage for.¹ For this constellation to be profitable for everyone, there are a number of requirements that have to be met. In short, the situation must be apt to reduce the so called “border effect”.² In general, the border effect describes any effect that is able to reduce economic trade between two neighbouring regions that are divided by a border. There are obvious culprits as wars and tariffs, and also less obvious ones as different languages, cultures, laws and institutions. The American-Canadian example shows how complicated reducing the border effect can actually be. Although both countries are culturally similar, have (mostly) the same language and share a long history of successful trade, McCallum still found the border effect to be quite influential.³ There is good reason to argue that European economic integration serves to reduce the border effect.

The “Middle-Europe” Idea

Already during the 19th century, European economists were aware of the fact that their future will not be easy in the face of two states that have the potential to become superpowers. In the West, there was the USA, in the East the Russian Empire. Both countries were large and blessed with natural resources, a potentially big and growing population and – as a consequence – a big domestic market. Although Europe was the clear economic leader of the 19th century, there was good reason to fear that this

¹ W. Abelshauser, *Ricardo neu gedacht: Komparative institutionelle Vorteile von Wirtschaftskulturen (Ricardo rethought: comparative institutional advantages of economic cultures)*, in: *Kulturen der Weltwirtschaft (Cultures of the world economy)*, eds. W. Abelshauser, D. Gilgen, A. Leutzsch, Göttingen 2012, pp. 29–56.

² J. McCallum, *National Borders Matter: Canada-US Regional Trade Patterns*, “American Economic Review”, no. 3/1995, pp. 613–623.

³ *Ibidem*.

might change in the near future. With space being less abundant and also with less natural resources compared to both Russia and the United States, the Western European countries could quickly be at a disadvantage. The German economist Friedrich List was among the first who raised that issue publicly. He favoured a European customs union that did not just include the relatively densely populated Western European countries, but also the Central and Eastern European regions. The establishment of such a vast economically integrated region would allow Europe to be able to compete in the long run. A side-effect of that policy could have been that for the hundreds of thousands of Europeans who left the continent for the USA, a “Middle Europe” could have been an incentive not to leave the continent for the USA and South America.⁴ One must not underestimate the loss of people the European continent suffered during the 19th century. Germany alone lost more than four million people between 1841 and 1885.⁵ And only 360 000 people remained in Europe.

A pan-European customs-union, as List put it, would have been a strong market on par with the USA and Russia. That is not to say that every country picked this up immediately. Great Britain, for instance, never really warmed up to that idea.⁶ Its world market orientation always seemed to suffice, which is why establishing, maintaining and protecting a safe harbour in Europe never really became an issue.

List was not the only one with such ideas. The French economist Gustave de Molinari and the Hungarian deputy Guido von Bauszern launched initiatives that caught the attention of Otto von Bismarck, Chancellor of the German Empire. In 1878, de Molinari proposed the establishment of a customs union of Germany, France, Austria-Hungary, Holland, Belgium, Denmark and Switzerland. Two years later, von Bauszern had a similar proposition.⁷ Ironically, these as well as similar ideas lost their appeal once globalization hit during the 1880s. With world market orientation, securing a middle-European customs union as a safe harbour did not seem to be a top priority.⁸ This is why Georg-Henri Soutou is convinced that “on the governmental level, the subject of an economic *Middle Europe* was certainly no subject before 1914. (Le thème du *Mit-*

⁴ W. Abelshauser, “*Mitteuropa*” und die deutsche Außenwirtschaftspolitik („*Central Europe*“ and the German foreign trade policy), in: *Zerrissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge (Torn interwar period: Economic history contributions)*, ed. C. Buchheim, Baden-Baden 1994, p. 266.

⁵ *Ibidem*.

⁶ *Ibidem*, p. 268.

⁷ W. Abelshauser, *Mitteuropa...*, op.cit., p. 268.

⁸ *Ibidem*, p. 270.

teleuropa économique ne fut certainement pas un thème gouvernemental avant 1914)”.⁹

During the interwar period, the idea of a middle-European customs union lost even more of its appeal. The appearance of seven new countries (Finland, Lithuania, Latvia, Estonia, Poland, Czechoslovakia and Austria) and six profoundly changed ones (Hungary, Yugoslavia, Bulgaria, Albania, Greece, Rumania), made such an endeavour much more challenging. Moreover, most of these countries were more interested in establishing themselves as fully fledged members among the nation states. Evidently, the relationships were not stable enough to establish such a high level of cooperation. The economic crisis of 1931 destroyed any remaining hopes and ambitions. Ironically, there is good reason to argue that the economic crisis would have been less severe if such a customs union had already been in place. For obvious reasons, the Cold War put a hold on all these ideas.¹⁰

Old Wine in New Bottles?

In fact, the problem disappeared for 45 years, until it resurfaced after the events of 1989 and 1990. And it resurfaced with force. For almost fifty years, the Iron Curtain was what one might call a “natural Eastern border” of the European Community. For the Central and European States it was virtually impossible to become member of the European Community. Evidently, there was no need for the member states to agree on a neighbourhood policy.

After 1990, the situation became much more complicated. It did not take long for the European Community to decide to start a process which should lead to future membership of numerous Central and Eastern European Countries, an enlargement that added 10 new members to the European Union in 2004.¹¹

Ironically, the eastern enlargement also brought up another question: How to deal with non-member countries? After that year, the EU found itself in a situation where it not only received new members, but also new neighbouring countries. This did not just concern distant countries like Turkey or Albania, but also closer ones as Sweden and Finland.¹²

⁹ G.H. Soutou, *L'or et le sang. Les buts de guerres économiques de la première guerre mondiale (Gold and blood. Goals of economic wars during the First World War)*, Paris 1989, p. 23.

¹⁰ W. Abelshauser, *Mitteleuropa...*, op. cit., p. 273.

¹¹ A. Wirsching, *Demokratie und Globalisierung. Europa seit 1989 (Democracy and globalization. Europe since 1989)*, Munich 2015, pp. 150–152.

¹² I. Berend, *The History of European Integration. A New Perspective*, London/New York 2016, p. 175.

Especially the Finnish case showed why Europe was so important, at least from an economic point of view. Until 1990, the USSR absorbed one fifth of all Finnish exports. The Russian economic crisis that came hit Finland hard, and its economy plummeted. Suddenly, EU-membership became a matter of economic survival.¹³

Although there is currently no analysis that attempts to quantify the border effect within the European Union, it is safe to assume that the outer EU-border showed a strong effect. How the EU deals with countries beyond its borders has been up for debate for a long time. At least in theory, there are three kinds of relationships the EC/EU can maintain with its neighbouring countries. It can watch the development, and if it seems favourable, it can initiate friendly diplomatic and trade relationships. If not, they can keep their distance. The second strategy is to use the prospect of a future membership as an incentive to help the country develop its economy as well as its legal regime. Ideally, the country becomes “European” and compatible enough to be a fruitful member of the community. The downside of this approach is that it is not possible to continue this policy indefinitely. At a certain point, it will be necessary to define an outer border for the European Community.

Before 1990, these two strategies seemed to suffice. With the Atlantic in the West and the Iron Curtain in the East, there were not many countries that could even be subjected to these strategies. Trade with countries from behind the Iron Curtain was at a minimum, and with the Cold War, there was no reason to believe that would change in the near future. After 1990, all that changed profoundly. Although the option of future membership of many of the freed countries had been offered rather quickly, it also made the matter of an Eastern border for the European Union much more urgent. And the more the current Eastern border of the EU moved to the East, the more urgent it became. Leaving Eastern neighbouring countries on their own was no option, as was offering membership.

It was then that the EU had to come up with a third option. There have been numerous names for it. The German Christian Democrats called it “Privileged Partnership”, specifically while referring to Turkey. The name the EU came up with was the “European Neighbourhood Policy” (ENP).

Clearly, market access was part of the European Union’s attraction, and this motive played a vital role in the documents.¹⁴ Consequently, the old problem was once again at hand: How is it possible to integrate Cen-

¹³ Ibidem.

¹⁴ L. Beauguitte, Y. Richard, F. Guérin-Pace, *The EU and Its Neighbourhoods: A Textual Analysis on Key Documents of the European Neighbourhood Policy*, “Geopolitics”, no. 20/2015, p. 872.

tral and Eastern European countries economically? It was then that the ENP was born. Its aims are intriguing: “The European Neighbourhood Policy’s vision involves a ring of countries, sharing the EU’s fundamental values and objectives, drawn into an increasingly close relationship, going beyond co-operation to involve a significant measure of economic and political integration”.¹⁵

As Kleenmann wrote, the ENP policy framework is a toolbox the EU can make use of in order to promote “good governance” in other states. The three tools are (1) technical and non-technical assistance, (2) (positive) conditionality and (3) political dialogue.¹⁶ Evidently, all these tools demanded financial involvement. Especially “conditionality” could only work if it was possible there was a credible threat behind it. The two levers with the biggest impact were access to market and trade as well as financial support.¹⁷

Direct Financial Support – a Success?

Financial support seems to be a somewhat logical strategy to maintain contact and influence. As argued before, the European Union has a high interest in neighbouring countries that are at peace, show healthy growth and are politically stable. Obviously, access to financial capital can help to achieve higher growth rates, which in turn lead to social peace and political stability. As Romano Prodi, 1999 to 2004 President of the European Commission, expressed in 2002, it must be the European Union’s aim to be surrounded by a “ring of friends”.¹⁸

As Kleenmann shows, from the very beginning of the European Neighbourhood Policy in 2004, financial support played a major role. The agenda, however, could change profoundly. While funding for good governance related programmes made up more than 40 per cent of total funding for the specific country, it only covered 11.92 per cent in the South of Europe.¹⁹

Positive conditionality was not the only one to instrument at the EU’s disposal to pursue this policy. The European Investment Bank (EIB) is in

¹⁵ Communication from the Commission (COM), No. 373/2004 European Neighbourhood Policy (Strategy Paper), Brussels, p. 5.

¹⁶ K. Kleenmann, *The European Neighbourhood Policy – A Reality Check. How effective is the European Neighbourhood Policy in promoting good governance?*, “Romanian Journal of Political Science”, no. 2/2010, p. 124.

¹⁷ *Ibidem*, p. 125.

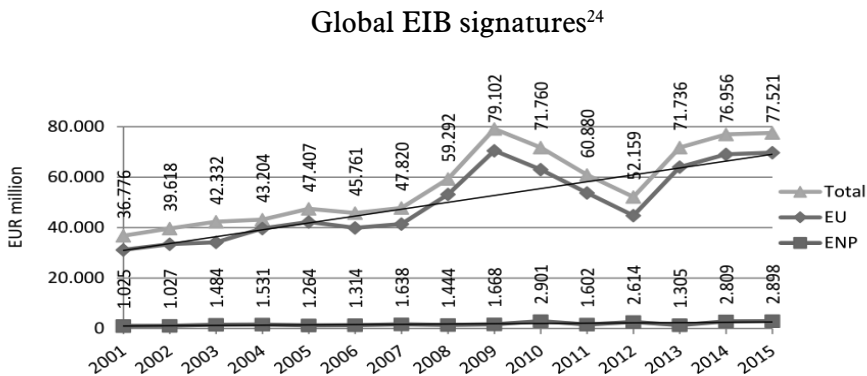
¹⁸ P. Blom et al., *Dealing with Neighbours: Fighting a Ring of Fire or Building a Ring of Friends?*, Guetersloh 2016, quoted in A. Mattmann, *Policy Countries and Turkey. Evidence from the Global Financial Crisis, the Arab Spring and the Conflict in Ukraine*, “Bruges Political Research Papers”, no. 65/2017, p. 1.

¹⁹ K. Kleenmann, *op. cit.*, p. 126.

fact the most likely candidate to put such a policy in motion. It is the world’s largest multilateral financial institution.²⁰ Although it is usually not in the centre of the public or political discussion, its influence is impressive. As a bank, it is in direct contact with both public and private actors.²¹ With operations reaching up to 2.9 billion Euros annually, it is safe to assume that it has become influential.²² Moreover, these funds were not officially linked with conditionality. The general aim of the attempts to help these countries financially was the expectation that the country as a whole would develop positively. That is why the European Investment Bank, a bank bigger than the World Bank, made several investments in these regions.

They show that the EIB made and increased investments, among others, in Eastern European countries. Clearly, investment levels grew with the political tensions, or in other words: When it was already too late. In the end, the European Union was not surrounded by a ring of friends, but by a “ring of fire”.²³

What exactly did the “multilateral development bank” do? As the graph shows, the EIB invested growing amounts of financial capital. Having started with little more than one billion Euros in 2001, it almost tripled its operations until 2015.



Graph 1: Global EIB signatures⁵⁴

²⁰ EIB, *The European Investment Bank at a Glance*, Luxembourg 2017, p. 1.

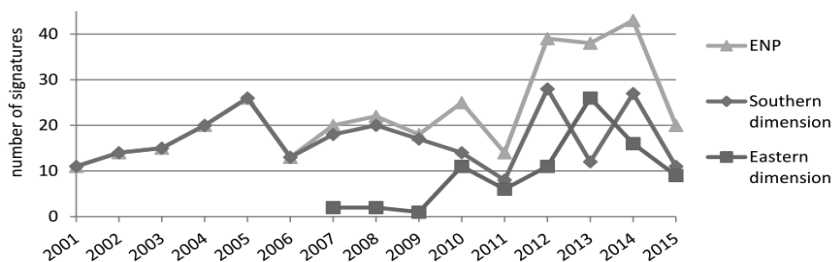
²¹ D. Dinan, *Encyclopedia of the European Union*, London 2000, p. 202.

²² The EIB starts operating 1994 in the Southern dimension and 2006 in the Eastern dimension of the future ENP; http://www.eib.org/about/key_figures/time-line/index.htm (11.07.2018).

²³ https://www.deutschlandfunk.de/debatte-um-zukunft-der-eu-wolfgang-schuessel-lobt-junckers.694.de.html?dram:article_id=380245 (11.07.2018).

²⁴ A. Mattmann, op. cit., p. 11.

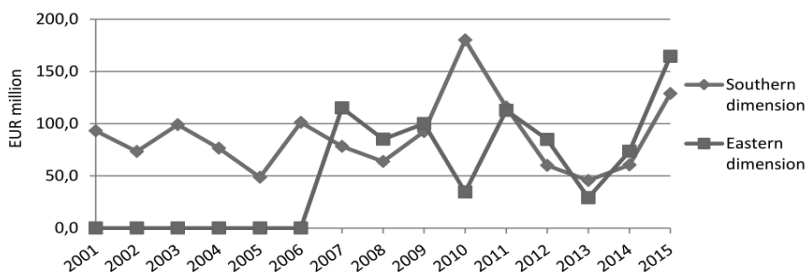
Number of signatures in the ENP dimensions²⁵



Graph 3: Number of signatures in the ENP dimensions⁵⁶

Moreover, the number of treaties signed shows a clear upward trend. The years after 2013 showed an impressive surge, followed by a decline in 2015. Additionally, “investments” among the Eastern EU-neighbours clearly led to higher financial engagements.

Average signature size²⁶



Graph 4: Average signature size⁵⁷

As often in those cases, it is hard to tell whether the millions the EIB invested are money well spent. What is obvious, though, is that EIB’s activities were a reaction to a situation when a number of deteriorating states needed support for a variety of reasons.

Conclusion

Most authors are unconvinced that the ENP has been effective since its establishment. Clearly, the expectation to “solve the problems where

²⁵ Ibidem, p. 12.

²⁶ Ibidem, p. 13.

they are made” was not fulfilled,²⁷ as it was impossible to achieve “democratization without enlargement”.²⁸ Some countries, such as Belarus, even fought the ENP.²⁹ Evidently, it is easy to blame the European Commission for a seemingly imperial economic policy on foreign soil. That might be the reason why some go so far as to say that the European Union behaves like an empire.³⁰

I would recommend seeing it otherwise. Yet whatever the true intentions of the European Union are: The paper argued that although the EU clearly is an international actor with an economic agenda, its efforts hitherto have met with limited success. To answer the question whether the EU is an “Actor in Security and Peace?” the answer is: yes, but not a successful one. Given how little positive effects have emerged out of the ENP, convincing someone that the establishment of a ring of friends around the European Union is a virtually impossible endeavour. And with Russia, Belarus, Ukraine, Serbia, Turkey, Kosovo and Albania, it is hard to argue that European Neighbourhood Policy ever had a decent chance at succeeding.

As the inclusion of 19th-century propositions as the concept of “Middle Europe” shows, the problem the European Union wanted to solve is a historically old one. Economically and politically, the challenge will not disappear, for nobody has come up with a better alternative. Unsurprisingly, the proposal of a “privileged partnership”, that was not supposed to end in full EU-membership, was only of limited appeal. Moreover, post-soviet Russia had a strong interest in a European Union that does not get too close to the Russian borders. Under these circumstances, the EU has not yet come up with a convincing strategy.

Coming up with a new strategy, however, might be worth the effort, since there is much to gain, and – given the lack of popularity of the ENP – little to lose: “The general perception among ENP partners is thus that – everything else being equal – the European Neighbourhood Policy offers them little added value”.³¹

²⁷ A. Wierich, *Solving Problems Where They Are Made? The European Neighbourhood Policy and Its Effects on the Context of Other Migration-Related Policies of the European Union*, “Perspectives on European Politics and Society”, no. 3/2011, pp. 225–241.

²⁸ D. Silander, M. Nilsson, op. cit., p. 441.

²⁹ E. Korosteleva, *The limits of EU governance: Belarus’s response to the European Neighbourhood Policy*, “Contemporary Politics”, no. 2/2009, pp. 229–245.

³⁰ B. Dimitrovova, *Imperial re-bordering of Europe: the case of the European Neighbourhood Policy*, “Cambridge Review of International Affairs”, no. 2/2012, p. 263.

³¹ E. Barbé, E. Johansson-Nogués, *The EU as a modest ‘force for good’: the European Neighbourhood Policy*, “International Affairs”, no. 1/2008, p. 96.

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