Michael Dauderstädt

Exporting Stability to a Wider Europe: From a Flawed Union to Failing States

Oktober 2004

Inhalt

Eine **Zusammenfassung** finden Sie auf der Heftrück-
seite

ISBN 3-89892-

Internationale Politikanalyse
Abt. Internationaler Dialog
Friedrich Ebert Stiftung
D – 53170 Bonn

Internet: www.fes.de/indexipa.html
E-Mail: info.ipa@fes.de

FRIEDRICH EBERT STIFTUNG

Internationale Politikanalyse
Europäische Politik, Oktober 2004

Michael Dauderstädt

Exporting Stability to a Wider Europe: From a Flawed Union to Failing States

The European Union (EU) is today in the process of digesting its "big-bang" enlargement, a period of slow growth after the introduction of the euro, and the cumbersome process of obtaining agreement on a Constitution that still faces a number of crucial obstacles, including referenda in several rather Eurosceptical member states. On top of all that, the enlarged Union must redefine its relations with the world after the end of the Cold War and after September 11. In this connection, it has agreed upon its first official security strategy (EU 2003a; Flechtner and Lerch 2004). The EU's intention is to be a source of stability in a world full of – partially – new threats (terrorism, failing states, diseases, crime, drugs). In particular, it wants to export stability to its neighborhood, the "Wider Europe" (EU 2003b).

This paper analyses first the supply side of stability export: What are the resources and interests of the enlarged EU? On the demand side, we look at the political economy of the neighboring countries and try to identify the causes of their instability and the origins of the threats emanating from these often failing states. In the final section, we evaluate the instruments and policies at the EU's disposal in light of the problems they have to solve. To summarize our central finding: The present policies of the EU are barely appropriate to accomplish the chosen mission of stability export. In many cases, strong interests on the EU side prevent the implementation of helpful policies and, in some cases, even lead to harmful ones.

The supply side: the flawed Union

If a body wishes to export stability it had better have a supply of it on which to draw. But how stable and, perhaps more to the point, how powerful is the European Union after enlargement? Even before enlargement, a number of general indicators of EU power looked impressive. The Union had 383 million inhabitants, many of them rich in international comparison. With an average income per capita of 25,000 Euro, the EU's total gross domestic product (GDP) was 9.5 billion Euro in 2001, almost as much as the US economy. How do these vast resources translate into power that can be projected abroad? Its member states spend, on average, 1.9% of GDP on defense and 0.3% on aid. Compared to the USA, which spends 3.1% on defense and 0.1% on aid, Europe is militarily weak but relatively generous (albeit far from the 0.7% target it has agreed on). More impressive is the economic role of Europe in the world, and in particular in Wider Europe. Europe is the world's biggest exporter and investor and a major host region to foreigners (migrant workers, refugees). The size of its foreign economic relations is probably the EU's biggest power asset, particularly vis-à-vis its neighborhood whose economies strongly depend on European markets and investment, and remittances from migrants working in the EU.

Enlargement changes that picture less than one would expect, given the number of new countries joining the EU, ten, representing an increase of 66% and bringing total membership from 15 to 25. The new EU-25 represents a growth in population of about 20%, but in terms of economic output (GDP) of only around 5% because of the low per-capita income of the new member states. That small increase adds even less to the size of the EU's foreign economic relations as the new member states do most of their trade with the old EU and invest little abroad. Their defense spending as a share of GDP corresponds more or less to the EU average. The EU's total expenditure on defense thus increases by only 5%, so adding less than the equivalent of 15% of Germany's defense budget. The poor new members are even thriftier donors of development assistance, spending on average 0.03% of GDP, that is, less than one tenth of the old EU's average share of 0.33%. In fact, enlargement adds a lot more voice than muscle to the EU's power profile.

The enlarged EU-25 still lacks a coherent foreign and security policy. Although the new members subscribe to the basic outline of the Common Foreign and Security Policy (CFSP) of the EU as part of the *acquis communautaire*, and, as opinion polls show, their populations share most of the foreign-policy views and priorities of those of the old member states, their governments have occasionally adopted different policies (Dauderstädt 2004b). The regional focus of their aid efforts is Eastern and South Eastern Europe rather than the traditional Third World. During the Iraq crisis of 2002/2003, the governments of the then accession countries took the US position, contrary to some old member states (France, Germany). It remains to be seen how much consensus the enlarged EU can muster when it has to deal with a new crisis in its neighborhood.

Generally, the EU's capacity to form a consensus and take decisions will diminish with enlargement. There will be a growing tendency to seek to preserve the status quo and increasing difficulties in agreeing on reforms or new policies as the diversity of interests and priorities increases (Dobbins, Drüner, and Schneider 2004). Particularly with regard to the CFSP, the willingness of member states to support a strong supranational role for the EU seems to depend on the strength of the European component of national identity and the structure of domestic regional governance (Koenig-Archibugi 2004). While the identities of the new members are not substantially less European than those of the old ones, their domestic governance is usually highly centralized. Thus we might expect only weak support for a more supranational EU foreign policy on their part.

These difficulties in reaching a consensus will be compounded by a growing number of economic and social conflicts concerning distribution of income and wealth within the EU-25 (Boix 2004; Dauderstädt 2004a). Deepening integration due to the Single Market and Monetary Union has led to competitive pressures, particularly on the continental welfare states that make up the old core of the EU. These welfare states in any case had to deal with massive demographic changes, de-industrialization, and the unintended side-effects (moral hazard, free-riding, "tragedy of the commons" scenarios as a consequence of the welfare state – for example, free health and education) of their own favorable characteristics. Contrary to the goals and expectations of the Lisbon Strategy, the EU is far from becoming "the most competitive knowledge-based economy" (Sapir 2004). Growth has been sluggish, unemployment remains high, and public finances are shaky. Liberalization ("negative integration") has fostered productivity growth which has not been translated into output growth because of the stability bias of the ECB's monetary policy and the Stability and Growth Pact. The shadow economy is growing rapidly, ameliorating the situation of those excluded from the formal economy, but at the same time undermining the tax base and the social security system.

The major positive effect of Monetary Union has been the more rapid growth of the periphery (Greece, Spain, Portugal, and Ireland) thanks to falls in interest rates, which have boosted consumption and investment. While the official regional and cohesion policy of the EU has not reduced the income disparities between the richest and the poorest EU regions (Funck and Pizzati 2003; Tarschys 2003), economic and monetary union has at least reduced those between rich and poor member states. EMU, with its uniform nominal interest rate set by the ECB, continues to do this as the faster-growing periphery countries have higher inflation rates and thus lower real interest rates which spur on growth and inflation, while the slow-growing center faces high real interest rates which dampen growth and prices (Bofinger 2003). The star performer has been Ireland which is now the second richest EU member state measured in terms of GDP per capita.

The kind of predatory growth characteristic of poor countries, based on cheap labor, low tax rates, and public goods financed by EU funds, will face increasing opposition from the richer countries which financed those EU policies in the first place and are losing jobs and tax revenue to these competitors. Inequality increases and unemployment might be reduced only by lowering wages as public sector employment becomes too expensive. In the end, domestic demand will remain sluggish as people save even more to replace declining social protection. Foreign competition and European integration will be blamed, fueling political apathy and populist movements. Europe may no longer remain a model of social justice and peace. Economic weakness undermines not only hard power (defense spending), but also its soft power in terms of market opportunities, foreign direct investment, and aid. Europe still attracts people and states from Wider Europe who want to live here or become member states, respectively. However, this attraction is and has always been based to a large extent on an unrealistic image of Europe as a place where the poor (people as well as countries) can get rich easily.

The demand side: a neighborhood of failing states

If you exclude Switzerland, Norway, and Iceland, the enlarged EU is surrounded by states that are to some degree failing. They remain unable to perform one or more of the three core state functions satisfactorily: welfare, security, and representation (Milliken 2002).

Even the new member states are still poor young democracies. Beyond the borders of the enlarged EU, poverty, as a rule, increases in proportion to distance from Brussels (see Table 1). Current candidates for EU membership Bulgaria and Romania could not join the EU in 2004 because they were late reformers whose transition process started slowly. The western Balkans still has to overcome the consequences of war and ethnic strife. In the former Soviet Union, segments of the old communist nomenclature have managed to relabel and redesign their rule: behind the façade of democracy and a market economy political and economic power remains highly concentrated. On the eastern/southern rim of the Mediterranean, Israel is the only rich democracy, but even the Jewish state is torn by ethnic-religious conflicts and in a permanent state of war, due to its policy of occupation and annexation. The Arab world is poor – except where oil revenues flow abundantly – and oppressed by authoritarian regimes. Sub-Saharan Africa – the backyard of Europe and its post-colonial heritage – is the poorest and most wretched part of the planet, rife with civil war, dictatorship, and disease.

Table 1: *The pyramid of poverty below the EU (in $)*

Region/country	Per capita income at exchange rate parity	Compared to the EU	Per capita income at PPP	Compared to the EU	ERDI*
EU 15	21 000	100	24 000	100	1.0
8 new member states**	4 590	22	10 900	46	2.3
Bulgaria + Romania	1 730	8	6 130	25	3.5
Turkey	2 530	10	5 830	24	2.3
Western Balkans	1 770	8	6 770	27	2.0
Ukraine, Belarus, Moldova	787	3	4 700	20	6.0
Russia	1 744	8	6 862	29	3.9
Caucasus	623	3	2 760	12	4.4
Central Asia	741	3	3 480	14	4.7
Israel	16 750	70	19 630	79	1.2
Maghreb	1 580	6	4 260	17	2.7
Mashriq	1 680	7	3 550	15	1.9
Middle East***	3 152	12	6 830	28	2.2
Sub-Saharan Africa	460	2	1 750	7	3.8

Source: World Bank, World Development Indicators 2003; for EU-15 the value given for EMU has been adjusted.

Notes: * ERDI = Exchange Rate Deviation Index; ** without Cyprus and Malta (no data); *** Iran, Kuwait, Saudi Arabia, Yemen (others no data).

The size of the income gap between the EU-15 and its neighbors is enormous and increases in proportion to geographical distance – with the exception of Israel and some oil exporters with small populations. Measured in exchange rates, the disparities range from 22% of the EU average for the new member states to 2% for Africa. Based on purchasing power parities, the gap diminishes substantially ranging from 46% to 7%. The difference between exchange rate parity and purchasing power parity which is expressed by the Exchange Rate Deviation Index (ERDI) in the last column of Table 1 has important implications for relations between the EU and its neighbors. The higher the deviation, the more attractive Europe becomes for migrant workers, in particular commuting ones because they can live even on low European wages several times as long in their home country, while European investors can pay low wages there which still allow the employees to live decently because of the multiplied purchasing power. Aid spent on local inputs also goes a long way due to that deviation. Elites in poor countries able to get their hands on revenue from rich countries – be it aid, export revenues, or loans – will be even more tempted to monopolize these (rent) incomes because of their enormous real value in domestic markets (see below). Catching up thus implies closing that gap by means of a real appreciation of the local currency, which can occur through higher inflation and/or revaluation. Historically, growth in the external value of the local currency has been responsible for a large proportion of overall catch-up (Artner and Inotai 1997).

However, most countries in Wider Europe are not only relatively poor, but often also not full-fledged democracies and involved in conflicts. These factors form a triple set of state failures which are interlinked and mutually reinforcing, as Table 2 shows.

Table 2: *Interdependence of the three state functions of security, welfare, and representation/democracy*

Impact on / **Condition**	**Security**	**Welfare**	**Representation/democracy**
Security	–	Security (peace, monopoly of force, secure property rights) is a necessary condition for welfare (Collier 1998).	Security (peace, monopoly of force) is a necessary condition for democratic representation.
Welfare	Welfare reduces conflicts and provides the necessary resources to produce security.	–	Welfare increases the capacity and propensity to political participation (Lipset 1959; 1960; Putnam 1993; Inglehart 1997; Diamond 1999) and prolongs the life expectancy of democracies (Przerworski 2000).
Representation/ democracy	Democracies do not go to war against each other (Spanger and Wolff 2004) Domestically, they allow the non-violent resolution of conflicts (Hegre 2001; Spanger and Wolff 2004), in particular regarding redistribution (Boix 2003).	Democracies promote (or at least do not prevent) growth (Barro 1997: 49–87; Przerworski 2000) and social justice (Merkel and Krück 2003). They attract more foreign direct investment (Jensen 2003) and make aid more effective (Kosack 2003).	–

The syndrome of interdependent and mutually reinforcing state failures is the consequence of various historical influences, including communism (in Central and Eastern Europe) and colonialism (in the Middle East and Africa). It is perpetuated by the actions of powerful societal groups which benefit from these structures. Although the specificities vary substantially from society to society in Wider Europe, a basic pattern emerges which can be described as an "authoritarian rent economy," Societies of that type are dominated by a particular political economy in which the state and the ruling elites rely on revenues from rents rather than work, innovation, or income and corporate taxes. Poor taxation weakens representation. Legitimacy is not secured by rules but by patronage. Such societies tend to produce instability (although it is often artificially concealed by oppression). The monopoly of violence and the provision of security as a public good are often the major state functions, absorbing most state revenue, and the power base of the ruling elite. Contentious competition for that power and the resources that go with it is the central political game in many poor countries. Their lack of welfare, freedom, and security causes the threats feared by the relatively prosperous and democratic Europe: migration, organized crime (trade in people and drugs, prostitution, money laundering), terrorism (Kitschelt 2004), and disease. Table 3 presents some stylized characteristics of such regimes by comparing them with democratic market economies.

Of course, these stylized facts paint a black-and-white picture. In fact, many advanced democracies – for example, Italy – show (increasingly?) signs of clientism, patronage, corruption, tax avoidance, a shadow economy, and so on, behind a façade of media democracy, preventing efficient and transparent governance. There are also "legitimate" forms of rent-seeking in advanced economies: for example, patents or intellectual property rights. All advanced democracies substantially regulate their economies in a way that benefits certain segments of society, thus creating "rents" by comparison with incomes derived from an unregulated, ideal-type market economy. Still, they are much closer to the ideal-type democratic market economy described in the second column of Table 3 than most of the societies in the EU's neighborhood. Within Wider Europe, the degree to which societies fit the "ideal-type" authoritarian rent economy described in column 3 varies substantially, too. Politically, they range from dictatorships like Syria, Libya, Saudi Arabia or some Central Asian republics to semi-authoritarian regimes such as Algeria, Jordan, Egypt, Belarus, and more or less defective democracies (Merkel 1999) like Albania, Russia, Ukraine, the Caucasian republics or Turkey. Economically, post-communist societies tend to be more industrialized and tax-based with relatively open economies and a regulation-based public administration. Less developed countries in Central Asia, the Middle East, and Africa depend much more on revenues from commodity exports and aid which in turn feed their patronage systems. Since 1990, both political and economic liberalization have advanced, albeit more in the former communist countries than in the South. Table 4 presents an overview of the progress of transition towards a democratic market economy within Wider Europe.

Table 3: *A comparison of two ideal-type political economies*

	Democratic market economy	**Authoritarian rent economy**
Government	Elected, accountable	Self-appointed elites, without accountability or responsibility
Status of citizens	Citizens with rights, in particular to vote	Subjects and victims of violence
Change of government	Competitive, free, fair elections	Heritage, putsch, revolution, regime change
Opposition	Legal parties and civil society, decentralized power	Illegal resistance movements, (regional) warlords
Media	Pluralistic, critical	Censored, *gleichgeschaltet* [forced into line]
State revenue	Taxes	Rents (customs duties, commodities)
Beneficiaries of state activities	More or less everybody: (changing) majorities, protection of minorities	Patronage networks based on families, ethnicity, religion or region (nepotism)
Public administration	Rational bureaucracy; occasional corruption	Part of the patronage network, endemic corruption
Major source of income	Labor and entrepreneurship	Access to rents, jobs in the state sector, politically protected and controlled market niches
Shadow economy	Increasing, but still below 20% of GDP	Informal economy is a major pillar of population survival strategies
Foreign economic relations	Open, liberalized	Politically controlled, important source of rents

Any attempt to stabilize these societies has to take into account the political economies on which they are based. Although they differ in size, there is always a modern sector that largely follows the rules of the formal global economy. However, it often consists of foreign investments, mostly in the raw materials sector and to a lesser extent in manufacturing and services. Besides the modern formal sector, there is a huge informal sector, including subsistence agriculture. The output of the informal sector allows many people to survive on extremely low wages. The public sector follows formal rules, but since they are often ambiguous and not adequate or enforceable, they barely conceal the endemic corruption and clientism which represent the true access paths to public goods. As this paper will argue, most policies of rich democracies assume markets and administrative and political structures that work rationally and follow the rules; as a result, they are bound to fail or to produce unintended consequences.

Table 4: *Transformation Index (Bertelsmann)*

Region/country	Political transformation	Transformation to a market economy	Status Index	Management performance
8 new member states*	4.9	4.6	9.5	8.6
Bulgaria + Rumania	4.0	3.5	7.5	7.0
Turkey	3.4	3.3	6.7	7.0
Western Balkans **	3.4	3.1	6.5	6.1
Russia	3.0	3.0	6.0	5.6
Ukraine, Belarus, Moldova	2.3	3.0	4.6	3.8
Caucasus***	2.2	2.5	4.7	3.8
Central Asia****	2.0	2.3	4.2	3.2
North Africa*****	1.8	2.6	4.4	3.5
Middle East******	1.5	2.3	3.8	2.6

Source: Calculations by Franziska Riegelmann, based on http://www.bertelsmann-transformation-index.de/11.0.html

Notes:
* without Cyprus and Malta (no data).
** Bosnia-Herzegovina, Albania, Croatia, Macedonia, Serbia and Montenegro.
*** Georgia, Azerbaijan, Armenia.
**** Afghanistan, Bangladesh, Nepal, Pakistan, Uzbekistan, Turkmenistan, Kyrgyz Republic, Tajikistan, Kazakhstan.
***** Morocco, Algeria, Tunisia, Libya, Egypt.
****** Lebanon, Iraq, Iran, Saudi-Arabia, Yemen, Syria.

Exporting stability – some history and basic philosophy

Oppression and inequality are particularly likely to lead to civil war and terrorism. Traditionally, the rich countries of the EU (or, more generally, of the OECD) have cared little about state failure in its three dimensions (security, welfare, representation). First, there was less state failure in the past (before 1990) as the superpowers tended to stabilize their clients during the Cold War. Conflicts tended to be between proxies, with one bloc supporting the government it was allied with and the other the opposition/liberation/resistance movement. Second, the threat most feared was communism, that is, the risk of a failing state turning into a communist regime allied with the Soviet Union (or China). Subsequently, efforts to stabilize allied regimes focused first on security, second on welfare, and only as a distant third on democracy. Military aid and intervention were used to achieve the first goal. As an additional policy, development assistance evolved out of the American effort to stabilize the front-line countries of Western Europe and South East Asia. In the case of Europe, development cooperation mostly continued policies from colonial times (public investment, preferential trade arrangements, state determined prices for exports). Democracy promotion was used as a pretext to undermine communist dictatorships rather than as a universal rule, though it gained momentum in the 1980s with, among other things, the establishment of the National Endowment for Democracy by the US government and the activities of German political foundations in Portugal and Spain.

After the collapse of communism, the policies of Western countries – and of the EU in particular – changed as the neighboring countries started their ambitious reforms. The end of the Cold War reduced international support for many authoritarian regimes in the developing world and opened up new opportunities for democratization. At the "end of history," democracy and the market economy have been presented as panaceas to all the problems of the world. Given the interdependence of democracy and prosperity (see Table 2), turning all neighboring countries into democratic market economies has seemed the optimal way of producing stability. The post-communist transition countries formed the avant-garde of that supposedly global process.

Far from ending, history resumed its disorderly course on September 11, 2001. At least for the USA, a new global confrontation had begun that led to a new containment strategy, best expressed in the National Security Strategy of September 2002 (White House 2002). Although still advocating the double approach of democratization and free markets, the war against terrorism weakened the commitment to democracy and human rights in both the rich democracies – in the name of "homeland security" – and those countries whose authoritarian regimes were valuable allies (for example, Pakistan and Egypt). It also became clear that in many countries development was not following an orderly transition to democracy. In many cases, societies remained stuck in constellations characterized as "feckless pluralism" or "dominant-power politics" (Carothers 2002) or, even worse, collapsed into violent conflict and civil war.

The latter added a new dimension to stability export: military intervention for humanitarian reasons and to change regimes. The forced removal of dictators or elites blocking conflict resolution, development, and democratization complemented the traditional toolset of non-violent democracy promotion and economic cooperation. It led to the establishment of protectorates in which rich democracies not only provided assistance to correct the two core state functions of welfare and representation (for example, by financial cooperation or election monitoring), but also to assure the third function of security, thus severely limiting the sovereignty of the occupied countries and returning to a form of, albeit liberal, imperialism. However, with the exception of France and Britain Europe has been a reluctant interventionist. Its strength and influence rely more on economic than on military power.

Which actors and policies are used to export stability by ensuring welfare, democracy, and security in the poor partner countries? While democracy and security are promoted largely by government policies, possibly complemented by some activities undertaken by civil society organizations and institutions, welfare is fostered by a much larger range of interactions between rich and poor countries. Public policies include multilateral policies (by the UN, World Bank, IMF, WTO, and so on) that provide not only financial and technical assistance, but create a regulatory international environment that interferes substantially and deeply with domestic economic policy. Those multilateral activities are complemented by bilateral public policies that co-shape the economic development of the partner countries. The regulatory and policy framework created by multilateral and bilateral cooperation is filled by the activities of private enterprises (banks, investors, traders, and so on). Most public policies are designed to promote specific behavior on the part of the private sector, above all trade and investment. In fact, some private sector activities might rather harm than increase the welfare of the partner countries. In any case, most transnational activities, be they private or public, affect different groups and segments of the partner societies and economies differently, and will, in particular, redistribute wealth and income not only between but also within countries. Those effects usually lead to political conflicts that need further political management at the national or international level.

International cooperation has been dominated in recent decades by a set of mostly liberal economic ideas, the so-called "Washington Consensus." It has called for fiscal and monetary discipline, a competitive exchange rate (usually involving a devaluation of the local currency), liberalization of trade and capital flows – in particular foreign direct investment (FDI) – tax reform, restructuring public expenditure (from consumption to investment in infrastructure, health care, and education), deregulation, and privatization. After the Asian crisis of the late 1990s and the disappointing performance of Latin America the Washington Consensus has been modified by adding and stressing institutional and social measures.

Traditionally, the EU has used several instruments to promote stability, economic development, and democracy: aid, trade policy, and political dialogue. These tools made up the backbone of the big cooperation schemes such as the Lomé Convention and its successor programs (Cotonou) directed towards the ACP countries, the Barcelona process directed towards the Mediterranean, the Europe agreements, and the trade and cooperation agreements with the ex-communist countries of Central and Eastern Europe.

- Aid has been given in various ways, as technical assistance or as financial cooperation (grants and credits). It can help partner countries to perform all state functions better by helping with improved economic and social policies or promoting democracy. In some cases, the arms-length approach of these traditional instruments seemed insufficient when it became clear that local power structures prevented sustainable successes.

- Trade preferences have been offered, though often excluding agriculture and other sensitive industries.
- Political dialogue has been employed in an attempt to change policies and political conditions in order to make aid more effective. Donor coordination is supposed to give that approach more leverage. In some severe conflict and post-conflict situations, the EU has gone even further and committed military forces to protect endangered people and allow other aid efforts to work. For a few European countries (first Greece, Portugal, and Spain, later the ex-communist countries of Central and Eastern Europe), the offer of EU membership has been the major instrument to promote the transition towards democracy and the market economy.

More recent policy papers (Rasmussen 2003) do not go far beyond the scope of these traditional policies and approaches. The recent Strategy Paper of the Commission on the European Neighbourhood Policy (ENP) introduces Action Plans as a new framework for cooperation. These Plans should be based on common values and goals and set out programs to achieve them that will be supported by the EU and monitored by joint bodies (for example, Association Councils). However, the concrete policy content of the ENP chiefly boils down to trade liberalization (up to extending the internal market) and aid, both embedded in political dialogue (EU 2004).

The EU's inadequate toolbox for stability export

The state of the EU's neighborhood hardly testifies to great EU success in exporting stability. Why have its tools been so ineffective? This section looks at the seven most important instruments: (i) trade liberalization, (ii) foreign direct investment, (iii) migration, (iv) aid, (v) political dialogue, (vi) enlargement, and (vii) protectorates. The order is not coincidental: it reflects increasing depth of involvement with a partner country's economic and political development. To some extent, the use of the stronger tools originated from the donor's frustration with the ineffectiveness of weaker instruments.

1. Trade liberalization

Free trade and trade liberalization allowing free trade have been presented as a panacea by the liberal mainstream of development economics and politics. They are the cornerstone of most grand schemes offered to poor countries, from the Lomé Convention of the 1970s and the General System of Preferences, to the Barcelona process and all agreements between the EU and the ex-communist countries of Central and Eastern Europe. It is central to the new US Security Strategy and figures high on the agenda of the American Greater Middle East initiative. Its theoretical basis is Ricardo's classical theory of international trade (trade between Portugal and England with the former specializing in wine and the latter in textiles), subsequently refined. When making reference to that classical theory, policy-makers, the media, and so on, usually neglect crucial conditions and consequences, such as the possibility of specialization (for example, to revert to Ricardo's original example, extending wine production), the failure to translate productivity growth into output growth, with subsequent unemployment, and distributive conflicts between and within countries. Unskilled workers in rich countries should oppose liberalization; those in poor countries favor it (Reuveny and Li 2003: 579). Capital owners should react in the opposite way.

Current trade policy proves that policy-makers and vested interests do not trust their own ideology. Most rich countries are protectionist and seldom offer market access without reciprocity, although trade theory recommends it. Virtually all successful development processes – for example, Western Europe, Japan, Korea, and Taiwan – have relied on selective protectionism and export promotion rather than free trade. The quest for free trade has almost always been the policy of the most advanced rich hegemonic economies, such as the UK before 1930, the US after 1945, or the EU since the 1970s. Among the few exceptions have been some transition countries in Central and Eastern Europe, notably Estonia, that have abolished trade barriers unilaterally.

Trade policy as a tool for exporting stability has two components: 1. offering (preferential) market access to partner countries which are to be stabilized. 2. requiring that the partner countries dismantle their own trade barriers. A variant of the second policy is to propose trade liberalization among several partner countries. The latter seems less self-serving as it offers more market opportunities to other poor, less competitive countries rather than to the advanced economy. Let us consider both policies more closely.

1. Giving market access is certainly a potentially good policy. It might be useless – and particularly painless for the donor – if it is limited to products a poor partner country is unable to supply (for example, abolishing custom tariffs on airplanes from Africa).

Clearly, it helps in the short term only if competitive production in the partner country already exists that can be expanded to meet the additional demand created by the lowering of the EU's trade barriers. In the long term, it might provide an incentive to start production of the particular goods and services because of the better market access. Again, the viability of that investment depends to a large extent on a wide range of other factors. If these conditions of "systemic competitiveness" (Esser et al. 1992) are not in place, more market opportunities will be of little value. Lowering tariffs in any case offers only diminishing returns because overall protection has fallen to very low levels during recent rounds of global trade negotiation. Other measures could reduce the prices of the poor countries' exports in a much simpler way, for example, devaluation of its national currency (on the other hand, appreciation of the national currency, possibly as a consequence of increased exports, might reverse the impact of lower tariffs on the price within rich markets).

2. Trade liberalization on the part of poor partner countries offers advantages to producers in the rich countries of the EU and to consumers in the poor countries. By the way, export subsidies like the notorious Common Agricultural Policy, which liberals love to hate, have the same effect. The justification for trade liberalization lies, however, in the presumed increase in productivity and competitiveness. That desired outcome is expected to result from competitive pressures on the now exposed domestic producers and the lower costs of imported inputs. Both effects might be mitigated or reversed when higher imports lead to a decline in the external value of the local currency (that is, devaluation). However, there is no substantial evidence of trade liberalization leading to higher growth (Rodrik 2001a). Another side effect is the reduction of government revenue from customs duties. Import duties make up a relatively high share of total tax revenue in many poor countries, particularly in the Arab world. Tighter budgets could lead to a decline in public spending and of the supply of public goods and services, which in turn could damage the competitiveness of local producers that rely on those inputs. In many cases trade liberalization has led to higher budget deficits and increasing debt (Khattry 2003). More generally, getting the state out of regulating trade might weaken its overall capacity to manage economic and social development (Rodrik 2001a).
   Because levies on trade are also a source of rents (for example, by granting exemptions from import duties to special interests) and often feed corruption, it is also expected that liberalization will reduce those opportunities and lead to leaner and cleaner governance. However, tariff duties are less prone to bureaucratic and autocratic meddling than import quotes or licensing. The more democratic regimes are, the less they tend to use licensing and the more liberal their trade policy tends to be (Martin 2004) because in poor countries the abundant production factor of unskilled labor – who should also make up the majority of the voters – should benefit from freer trade (Reuveny and Li 2003). With declining inequality in the wake of trade liberalization, the chances of democratization should increase (Boix 2003: 142–143). There is also evidence that increased international integration reduces corruption in more open and integrated countries (Sandholtz and Gray 2003).

In the end, the weak effects of trade liberalization can hardly be surprising. The overall welfare effects of free trade are largely exaggerated, and in any case not equally distributed (Weisbrot and Baker 2002). The EU has been rather protectionist, and where market access has been offered, poor countries could seldom exploit the opportunity. The biggest beneficiaries have probably been foreign investors able to take advantage of suitable locations and their trade preferences as intra-company trade makes up a large and growing share of international trade.

2. Foreign direct investment

Foreign direct investment (FDI) thus seems to provide a way out of the impasse of underdevelopment when market access cannot be used because of the lack of competitive domestic suppliers. Foreign investors bring not only capital – which local entrepreneurs could also have borrowed – but know-how regarding production techniques, quality, marketing, and management in general. A number of international success stories are based on attracting lots of foreign investment: Hong Kong, Singapore, and more recently and closer to home, Ireland, Hungary and other countries of Central and Eastern Europe. Although a high level of FDI seems to be a sufficient condition of rapid growth, it is by no means a necessary one. The effects of FDI on successful development are often overestimated, particularly in poor countries (Kosack and Tobin 2003; Nunnenkamp 2004). Japan, South Korea, and Taiwan, for instance, largely forwent foreign investment during their catch-up development.

And perhaps wisely so. FDI carries a hefty price tag that might well be higher than borrowing on the international financial markets, though less risky should an investment project fail to generate profits. Ireland proves this point, having relied on massive inflows of FDI which it attracted by offering low corporate tax rates, a cheap and educated (English-speaking) workforce, decent infrastructure, and a range of other business-friendly policies. Part of that attraction has been achieved by using EU regional aid cleverly. When these investments started to produce at full capacity, Ireland within a few years was transformed from one of the poorhouses of the EU into its second richest economy, measured in GDP per capita. However, an increasing share of value added in Ireland – that is, its gross *domestic* product – went to the foreign investors, reducing the share of wages to the unusually low level of 58% (the, also declining, EU average is about 78%) and putting its gross *national* product – that is, the income of Irish citizens – about 20% below its GDP. Ireland's success thus remains above all the success of the tax-avoiding foreign investors at the expense of other countries' and Ireland's tax revenues and Irelands' workers (Dauderstädt and Witte 2001). Nevertheless, this strategy might be the best way out of poverty. However, it will be difficult to replicate for large countries without an English-speaking workforce and governance structures that learn even more slowly than the Irish, who needed almost 20 years after EU accession to start their economic miracle. In Africa, for instance, investment has little impact on growth, with more capital leading to lower returns (Devarajan, Easterly, and Pack 2003).

3. Migration

As some development economists have pointed out, migration could be a substitute for trade and capital flows which would boost global growth more than any other measure (Rodrik 2001b). Migrant workers in developed countries tend to have a higher income than in their countries of origin, though usually lower than the average income in their host countries. That income reflects a productivity which is much higher than the one they could achieve in their country of origin. Most migrant workers transfer part of their income to their home countries as remittances which sometimes make up a substantial share of the foreign exchange earnings of these countries. However, the countries of origin lose valuable, often relatively qualified and motivated human resources through migration. In some cases, this brain drain can hamper development.

Migration has ambiguous effects on the host country, too. Immigrant workers compete to some extent with unskilled, often unemployed workers in the EU, though they often accept work European workers refuse to take on. Their contributions to social security systems and taxes usually outweigh their demand for public goods and entitlements. Some economists, however, fear an overstretch of European social systems due to migration motivated solely by a desire to benefit from the welfare state (Sinn 2000). Migration is often expected to alleviate the pressures on pension systems in Europe. As long as there are unemployed Europeans that policy remains doubtful. In any case, a more liberal immigration policy seems highly unlikely given the political opposition in most EU countries.

Migration has also a political dimension when people leave their home country because of general insecurity or political oppression. On the one hand, dissidents and members of the opposition who flee their country make life easier for the ruling elite; on the other hand, they can continue to fight for reforms and regime change abroad. To some extent, they bring the internal conflicts of their countries of origin to Europe. Europe could also use these refugees to prepare and promote change in the countries of origin, for example, employing them in radio stations or agencies that monitor the political situation or promote change there. Policies of that type will be constrained by diplomatic concerns when intergovernmental relations turn sour because of European support for the opposition in exile.

4. Aid

The EU is the biggest donor of official development assistance (ODA), if one includes both the bilateral aid of member states and the aid managed by the EU as a supranational body. Given the different priorities of bilateral aid and the lack of coordination, the image of the world's biggest donor is exaggerated, however. The true priorities of EU spending are better illustrated by the fact that the EU spends 918 USD per head on European cows and only 8 USD per person on human beings in Africa (Wolf 2004). The assistance provided by the EU proper has been heavily criticized. Former British secretary of state for international development Clare Short called the Commission "the worst development agency in the world" (Santiso 2003: 4–5). Certainly, the abysmal record of the major recipients of both bilateral and multilateral European ODA, notably Africa, supports the negative assumption that aid will not bring about development.

That assessment is by no means new, going back to liberal critics (Bauer 1981), and is corroborated by large-scale studies by major donor agencies (World Bank 1998; 2001). The poorer countries are and the lower their Human Development Index is, the less they benefit from aid (Kosack and Tobin 2003). In fact, aid might often do more harm than good. It also might benefit certain special interests in the donor countries which provide the goods and services the aid is spent on more than the recipients. If it is financial aid in the form of loans, it also increases the debt burden. Aid is also an additional source of rent income that feeds patronage systems. In the end, the productive use of aid depends largely on the cultural–political environment on the recipients' side. It has a positive impact when the recipient government is truly committed to development and has adopted appropriate policies (good governance) which it can make work not only within its immediate reach but throughout the country.

The international and European aid communities have basically accepted these criticisms and refocused their assistance on good governance, democracy promotion, and human rights. It has introduced conditionality in order to force or provide incentives to partner governments to adopt development-oriented policies, fight corruption, and start or continue processes of democratization. Unfortunately, the EU has been particularly unsuccessful although it has increased its commitment to democracy assistance substantially (Santiso 2003).

5. Policy dialogue

Trade, private investment, and aid will accelerate the development of partner countries only if their national governance is good. Donors have tried to improve governance by means of a variety of instruments under different labels, such as conditionality, policy dialogue, and democracy promotion. The international financial institutions – notably the International Monetary Fund (IMF) and the World Bank – have led this approach by insisting on a policy mix known as the "Washington Consensus." The EU has followed this lead rather than developing its own agenda. Lack of coordination has undermined its leverage (Santiso 2003) although the end of the Cold War increased donor coordination (Boyce 2002).

Policy dialogue has never been the technocratic exercise it was supposed to be. Since all policies reflect different values and interests and usually affect the distribution of income and wealth, there is no single good policy. The choice of policies is a deeply political one that may determine the survival of governments and social peace in a partner country. When donors are interested in the fate of specific governments or political forces within partner countries, they have to take these effects into account. Thus, donors will be reluctant to force upon partners who are important for geopolitical or economic reasons policies that will undermine their power (Dauderstädt 1988). Often the policies suggested by donors have unintended and unforeseen consequences. The technocratic economic models used by the IMF and the World Bank in particular often do not address the full and complex cultural, political, and social reality of the partner countries (Thirkell-White 2003).

As Fukuyama pointed out in a recent article (Fukuyama 2004), donor conditionality in the spirit of the Washington Consensus has often reduced state capacity in a detrimental way. Instead of limiting the scope of state functions they have led to a reduction in the strength of state institutions. Trade liberalization has often accelerated that process by squeezing public budgets. The true challenge lies in the transfer of institutions, making public services and the judiciary work, and committing elites to self-sustaining development.

Democracy assistance is often seen as complementing a policy dialogue that is supposed to lead to good governance. Democracy is expected to provide a more stable environment for economic policy and guarantee important rights. There are, however, potential conflicts between liberal values (minority rights, property rights) and democracy (will of the majority). In societies with deep cleavages (be they ethnic or economic), majoritarian rule will probably lead to oppression or massive redistribution. Corresponding fears on the part of minorities will induce them to resist democratisation or to try to change the democratic regime (Boix 2003; Lijphart 2004).

Most of the countries of Wider Europe are deeply divided. Ruling elites (sometimes ethnically defined) control most of the wealth. Policy dialogue has to tread carefully in such a minefield: on the one hand, if it cannot obtain or hang on to elite support for its proposed reforms, it is bound to fail; on the other hand, elites will be unlikely to support measures that undermine the sources of their power and wealth.

6. Enlargement

Compared to the weak record of the above discussed instruments and policies, EU enlargement has been relatively successful. In the 1980s, it stabilised the young democracies of Greece, Portugal, and Spain; in the 1990s, it induced eight Central European transition countries – and seems to be having a similar effect on the remaining ex-communist Balkan countries (certainly Bulgaria, Romania, Croatia, Macedonia, probably Albania and possibly Bosnia and Serbia, too) and Turkey – to adopt wide-ranging reforms that have turned (or will shortly turn) them into democratic market economies. The process is surprising from both standpoints. Originally, in 1989/1990, the EU was little inclined to accept the ex-communist countries as member states. It pursued enlargement reluctantly in the face of a lack of popular support and driven by elite interests and precipitate promises made by its politicians who lacked alternative options to offer the transition countries (Lippert 2000). On the side of the candidate countries, there was an enormous lack of knowledge regarding the true nature of the EU, its institutions and policies. In the rush of the "return to Europe," hardly anybody questioned the wisdom of the accession strategy. Only hard-core liberals (Achten 1996; Jamieson and Szamuely 1998; Belke and Hebler 2002) and some cautious supporters of active developmental strategies (Amsden 1994; Eatwell 1997; Dauderstädt 1998) openly warned the ex-communist countries: the former from joining a sclerotic and overregulated EU, the latter from too quickly surrendering important policy options that had proved effective in other countries which had succeeded in catching up, like the East Asian tiger economies.

The dynamic interaction of domestic transition and European integration has produced mixed results. Democracies became or remained relatively stable in spite of fragile party systems, widespread disgruntlement with the way democracy worked, and, as a consequence, frequent changes of government (virtually no governing party or coalition has been re-elected in Central and Eastern Europe since 1990). Market economies were established, although the variety of capitalism chosen had to be compatible with the EU's *acquis communautaire* which was less liberal than, for example, Estonia's first choice, but possibly more liberal than the preferences of many East Europeans suffering from rising unemployment and inequality. Generally, growth has been underwhelming and unsteady, not least because of several debt and exchange crises (for example, in the Czech Republic and Hungary in the mid-1990s). The (relative) income level of 1989 was regained very slowly – indeed, in some transition countries this has still not occurred. In many regards, though more pronounced in those transition countries that have not yet joined the EU, transition has led to peripherisation (Müller 2002), that is, the transformation of the ex-communist countries into locations of low-income production dependent on transnational production networks dominated by rich countries and their multinational enterprises.

Nonetheless, the attraction of EU membership, however ill-conceived, has been sufficient to make the candidate countries accept the reforms required by the EU and partially to give up hard-won democratic sovereignty in favour of a partial voice in the less democratic EU system of multi-level governance (Böröcz 2000). Motivations – beyond the fog of historical rhetoric – have been less clear. Economic integration was already well advanced under the association regime. Access to EU funds has been one incentive, although not a very convincing one given their low effectiveness in other peripheral regions of the EU. Participation in EU decision-making which affects neighbouring countries strongly is also a good reason. Another reason often given is that preparing for accession requires policies that are desirable in any case but easier to sell to the public as part of the *acquis*. It remains to be seen how electorates will react when some of the expected advantages do not materialise and the losers become more vocal (for example, in Poland).

On the EU side, the scepticism of the early years has to some extent returned. In the mid-1990s, after granting all associated ex-communist countries the right to accession, the EU stopped to conclude further association agreements. By 2000, the EU had offered new opportunities to the western Balkan countries and Turkey, albeit with many reservations. After the big-bang enlargement, enthusiasm in favour of further enlargements is even more muted. The losers (net contributors, finance ministries angry about tax competition, and workers in declining industries) are complaining more and more. A more rational enlargement policy in the first place might have been more credible. Instead of discussing cultural or geographic "final" borders, criteria could have been adopted that reflected more directly the true problems of the EU, such as minimum level of per capita income (say, 75% of the EU average) and/or unemployment. Applying these criteria would have delayed the present enlargement but offered incentives to all neighbours not only to reform their polities and economies, but to push for growth and employment.

Enlargement benefited from the – possibly irrational – preference for accession among the elites who ruled the neighbouring countries. In other countries that powerful leverage was not in place. It is debatable whether a more generous and earlier offer of membership to the Balkan countries and/or to republics of the former Soviet Union might have prevented the conflicts and problems that have emerged there. Possibly, some of the more authoritarian and nationalistic elites would not have been tempted under any circumstances. Beyond Europe, accession was not an option.

Table 5: *The inadequate toolbox*

Instrument	Impact on state functions			EU attitude
	Security	Democracy	Prosperity	
Trade liberalisation	0	(+)	(+)	+ others/– own
FDI	0	(+) liberal rights	+	+
Aid	0	+ formal/– material	0	(+)
Migration	0	0	+	–
Policy dialogue	0	+ formal/– material	0	+
Enlargement	+	+ domestic/– EU	+ ?	–
Protectorate	+	–	–	–

Note: 0 means neutral, + positive, – negative

7. Protectorates

In some conflict zones, where even genocide was to be feared, the EU (in cooperation with NATO and/or the UN) intervened and used force in order to protect human lives and rights, to impose democracy, and to promote reconstruction and development. The ensuing protectorates in Bosnia, Kosovo, Afghanistan, and – partially and temporarily – in Albania, Macedonia, and some African countries had mixed results.

Politically, the intervening powers remained the rulers of last resort, cancelling laws made and decisions taken by democratically elected domestic bodies if they opposed their goals and principles. The resulting regime has been called liberal imperialism or absolutism by some observers (Knaus and Martin 2003; Schwarz 2002). Maintaining a state apparatus composed of expatriates from rich countries has proved enormously expensive and cumbersome (Dauderstädt 2003). At the same time, returning power, even on a low administrative level, to the purportedly less criminal, rather technocratic segments of the old elites regarded as mainly responsible for the conflicts, oppression, and human rights violations has been hardly acceptable, but often ultimately unavoidable.

Economically, the protectorates produced artificial economies dependent on aid and the spending power of the occupation forces and administration. A rent-seeking economy of a special sort emerged (Ehrke 2003). The prices of goods and services required by the occupiers rose dramatically, together with the incomes of those locals who could supply them (owners of decent housing, English speakers, taxi drivers, bodyguards, and so on). Locals on local incomes lost purchasing power and became relatively poorer. Usage of labor and capital switched to serve the occupiers' needs. A shift back to export-oriented and self-sustaining development seems more and more illusive. The local currency became over-valued due to continuous inflows of capital and inflationary pressures stemming from the occupiers' demand overhang. The economy sucked in imports and had no competitive exports to offer.

In security terms, peace could largely be maintained. However, the EU is hard pressed to keep its occupation forces in place, let alone to build up capacities to intervene in more distant countries, possibly against local resistance. The Iraq experience has discouraged further experiments with imposing democracy by military means.

Table 5 is an attempt to summarize the findings: the instruments available in the EU's toolbox are not very effective. Some of the more efficient ones (migration, enlargement), the EU will hardly be ready politically to use on a larger scale (see last column). Regarding democracy, many instruments have mixed effects. They might formally strengthen domestic institutions, rules, and/or rights, but shift material power to foreign actors. In the best case, these actors are multilateral agencies – notably the EU itself – which, however, exhibit the usual democratic deficits of all institutions of global governance: they are barely subject to judicial or parliamentary scrutiny, the executive power is correspondingly unaccountable and not transparent, and voting weights reflect state power rather than people power (are not proportionate to population size).

Options of a reluctant and helpless hegemon

How can that record be improved? What other instruments and policies might be more apt to bring stability to the EU's neighborhood? And are these other means likely to find the political will and necessary resources within the EU?

One should start with a note of caution. Stabilizing other countries from abroad is never easy. In many neighboring countries, the EU is facing a conundrum of mutually reinforcing problems that have grown over a long history and will not change easily in the short term. Interfering with local developments can do as much harm as good. In any case, the EU will exert a strong influence on the development of its neighborhood not only by deliberate policies but by the interaction of markets and societies. To shape these relations in a way that reduces risk and increases the chances of stability would be an important first step.

The EU is looking for policies to stabilize authoritarian rent economies and to transform them into peaceful democratic market economies. In the short term, there might be a dilemma as that transition implies a certain amount of destabilization. Regime changes seldom occur without disruption. The post-communist transition was exceptional in this regard, but only in some Central European countries. Nation-building within the collapsed federations of the former Soviet Union and Yugoslavia was already troublesome and conflict-prone. In the Arab world and, to a lesser extent, in Africa, societies suffer from enormous tensions that threaten to explode if they are released in an uncontrolled way. Change should occur as rapidly as possible because it is driven by the emergence of threats, but also as slow as necessary. State failures have to be corrected without creating new and worse ones. Pragmatism should prevail over an ideology-driven insistence on ideal-type reforms such as elections and free markets without adequate institutional and societal foundations.

Security

Europe does not have to fear conventional threats to its territorial integrity. What threats there are come from either lack of government control over hostile groups within partner countries or deliberate encouragement of such groups by governments (for example, state-sponsored terrorism). In the latter case, Europe can and should use both its hard and soft power to discourage and deter those governments from continuing that policy. In the more widespread former

tinuing that policy. In the more widespread former case, Europe should strengthen the security apparatus of the partner governments but at the same time insist on respect for human rights. Except in extreme cases of genocide or already violent conflicts and civil war, Europe should not intervene militarily and not give military assistance to one of the sides in a domestic conflict. European policies aiming at strengthening the security of and within partner countries should focus on human security. A study group headed by Mary Kaldor has developed a number of criteria and objectives, and assessed the capacities needed to achieve these goals (Glasius and Kaldor 2004). If military means are used they must be closely coordinated with civilian measures to stabilize the situation.

The monopoly of force is *the* defining core function of the state. Since for the management of many threats there are few alternatives available to states, that function has to be maintained and protected except in the above mentioned extreme cases. In particular, there is little chance that democracy or prosperity will evolve without security (see Table 2). Thus, security (or peace) should be the immediate priority, even at the – transitional – expense of democracy or a market economy. However, Europe should insist on and assist in the liberal exercise of this state function. European diplomacy should require that governments have civilian control over the military, and proper judicial and parliamentary control over all security forces. Human rights should be part and parcel of the rule of law. European aid can help to train state employees at all levels (from generals and ombudsmen to police officers) to adopt the appropriate measures.

Democracy

Democratization should be a long-term goal rather than an immediate concern of European stability export. There are many ways to consolidate young democracies and to support the improvement of defective democracies, ranging from diplomatic measures to democracy assistance (Carothers 1999; Burnell 2000; Diamond 1999; Youngs 2002). The institutions of more or less democratic states and those segments of civil society that support democratization can be strengthened through advice, support in kind or money, and links to like-minded partners elsewhere in the world. Appropriate auxiliary activities include promotion of the rule of law (cooperation with judiciaries and law enforcement agencies), and support for political parties, election monitoring, independent media, local and regional government, and so on. All these approaches are feasible and currently part of the EU's approach where partner countries are at least slowly opening up or already open.

The promotion of democracy becomes more difficult the less a given regime is open and the more slowly it introduces liberal reforms. In the present global political climate, most regimes at least start off with some reforms, often in the field of economic policy. Foreign actors should use low-profile approaches such as non-governmental organizations, local partners, and indirect funding, and avoid premature insistence on human rights and elections in order to promote more openness (Dalpino 2000). Approaches must be carefully adapted to the specific relationship between authoritarian regimes and their societies, which might not always be ready for democracy (Burnell 2004). Economic sanctions are ambiguous. Insofar as they lead to less growth, they undermine the long-term prospects of democracy and in the shorter term they are likely to harm the innocent majority; however, they also reduce the economic resources at the disposal of ruling elites, in particular drying up the international sources of rent income from aid or commodities. But Europe will forgo the supply of commodities only in the rare instances they can be easily substituted, as in the case of "blood diamonds" from Africa. Boycotting Saudi Arabian oil is hardly a realistic option for promoting democracy there. A less radical measure could be to collect data on the international revenues (like aid and royalties from commodities) of ruling elites and make them publicly accessible, above all to the citizens of the partner countries. Informed citizens will probably demand a less selfish use of these revenues.

Elections are rarely the beginning but rather the endpoint of democratization. They should usually start at the local and regional levels where a structured public sphere exists, and issues and candidates are familiar. At the national level, they need more preparation: in the case of divided societies, credible constitutional safeguards against the oppression of minorities have to be established; political parties have to be created, with clear programmatic profiles and a sufficiently qualified cadre of politicians and experts to offer a realistic choice; the media should cover the campaign in a way that allows voters to develop their views and take an informed decision. The administrative process of voter and candidate (party) registration and election management and supervision must be transparent and accountable. A doubtful election undermines the legitimacy of parliaments and governments elected in this way.

However, the chances of democracies developing and surviving are small if the basic societal and economic conditions are missing. The probability of democratization and/or the life expectancy of democracies rises when distributional tensions are low because either income and wealth are not extremely unequally distributed or the assets are unspecific, that is, not easily expropriated or highly taxed. Societies with a very unequal distribution of very specific assets like land or commodities are unlikely to become stable democracies (Boix 2002). Furthermore, legitimacy results not only from due process but also from favorable outcomes. Good governance, providing growth and social justice, is the best way to stabilize democracies (Przerworski 2000). In the long run, rapid growth will lead to modernization, urbanization, more education and information, and eventually more participation, as the East Asian countries (for example, Korea and Taiwan) have shown.

Prosperity

Economic development is obviously a cornerstone of stability. Promoting it should be a central goal of all policies aiming at exporting stability. Europe, however, seems hardly to be in a position to offer a model. Its own growth is weak, with the possible exception of Ireland. A strongly growing European economy would probably be the best help Europe could offer to its neighborhood: convergence within Europe was strongest when Western Europe grew rapidly in the 1950s and 1960s, with countries like Greece, Portugal, and even Poland catching up faster than during the 1980s (Dauderstädt and Witte 2001). A booming EU economy would offer markets for goods, services, and labor. Resistance to the adjustments required by the development of its poor neighbors would be much weaker. Europe would be more ready and willing to use the most effective policies, such as more open markets, a liberal immigration policy, and further enlargement.

Since the mid-1970s, globalization and the economic development of poor countries have destroyed millions of jobs in agriculture and manufacturing in the developed world, mostly in the USA, but also in Europe. The losses have been concentrated in industries using lots of unskilled labor (for example, textiles, apparel, leather goods) and those targeted by developing countries' strategic industrial policies (for example, cars, electronics), but have occurred to some extent in all industries because of lack of demand from poor countries in the wake of the debt crisis (Kucera and

Milberg 2003). Above all in the USA, these losses have been compensated for by new jobs, mostly in services. Europe has been slower. The difference is probably due to a less expansionist macroeconomic policy that has failed to translate productivity into output growth.

Better macroeconomic management to ensure growth at home and to prevent debt crises in partner countries (as in the Czech Republic and Hungary in the mid-1990s) is a key policy with which to achieve prosperity. Such a policy should include the control of speculative capital flows and overshooting exchange rates, which should be easier thanks to the euro. More general, unfettered competition on deregulated global currency markets undermines national accumulation processes and forces peripheral countries to adopt higher interest rates as their citizens hold large shares of their assets in foreign currencies (Herr 2004). Although politically rather unrealistic, Europe could provide a more growth-inducing environment for its neighborhood if it recreated a regional Bretton-Woods-type system anchored by the euro. Europe should not avoid having trade deficits with neighboring countries and should tolerate a slight real undervaluation of their currencies. Commodity exporters will have difficulty in achieving this without using a mix of import duties and export subsidies to correct the impact of the so-called "Dutch disease."

The partner countries also have to improve the meso-economic and structural conditions for growth. It is not simply "free markets" that produce competitive companies but a socio-political environment which reduces risks and transaction and information costs, and fosters trust. Aid can try to assist in developing institutional structures and building capacities but it has to contend with local power structures and mentalities that are often deep rooted. Financial aid should primarily support investment in education and health care. It should aim at raising the productivity of the poor by improving their access to capital and land. Informal property titles should be formalized so they can be used as collateral (De Soto 2001). Agricultural land should be redistributed to reduce inequality, which in turn makes democratization easier (Boix 2003).

Europe could accelerate the slowly emerging legalization, liberalization, and re-regulation of its markets for drugs and prostitution. This would create new markets and jobs for suppliers from poor countries in the formal economy (as opposed to the shadow economy), reduce opportunities for organized crime, increase tax revenues, and free police forces to deal with really dangerous threats.

Conclusion: the failing hegemon

Europe itself is a failing state, albeit one that has never really worked in the first place. It continues to suffer from a democratic deficit, although it has strengthened the role of the European Parliament in recent decades. It is fairly unlikely that the enlarged EU will achieve more effective democratic governance, let alone get a federal government accountable to its citizens (Siedentop 2000; Boix 2004). Economically, it has generally performed worse than benchmarks like the EFTA countries (until they joined the EU in 1994) or the USA or Japan. This overall moderate performance hides a great diversity of different national performances which the EU has not really been able to use to spread best practices. Its best achievements are in security. The EU has prevented wars within Europe since 1945, with the exception of a few civil wars. However, the EU's contribution to internal security has traditionally been weak as home affairs have remained a prerogative of the member states.

These failures leave Europe ill placed to export stability to its wider neighborhood. With regard to public policies, it lacks the resources and the political will to pool its weak powers in order to achieve more leverage. With regard to markets, it clearly dominates the regional economies of Wider Europe. But it relies strongly on the protection of traditional structures and producers. It neither easily gives up old industries that are no longer competitive nor is very dynamic in developing new industries. Jobs lost to migration, import competition, or relocation are too extensively replaced by paid leisure (early retirement, unemployment benefits) or jobs in the shadow economy rather than by new employment. While perhaps preventing social unrest this trend further undermines state finances and capacities.

In the end, it leaves few options for stability export. The most powerful strategies – such as enlargement and opening up Europe's markets (particularly its labor market) – will be neither politically acceptable nor economically beneficial under current circumstances. The creation of a growth-oriented regional currency system along Bretton-Woods lines to reduce competitive pressures on weak currencies is politically unlikely. That leaves the possibility that actors in neighboring countries will produce stability on their own, supported by soft European incentives. However, why should those in power be less conservative than the voting majorities in the EU? In the short to medium term, they might benefit from a lack of reform rather than from a transition to a democratic market economy (Hellman 1998; Walder 2003). Actively undermining their power will be diplomatically difficult and could produce even more instability, at least in the short term. The weak hegemon will be limited to its weak, soft powers of persuasion, dialogue, and small carrots and even smaller sticks. The resulting slow and gradual change might not partake in the glory of the revolutions Americans prefer, but might be sufficient as long as bigger threats do not enforce a radical reordering of priorities.

Bibliography

Achten, Peter (1996) *Die Osterweiterung der Europäischen Union. Beitritts- und Erweiterungshindernisse im Spiegel ökonomischer Kritik*, Lohmar

Amsden, Alice, et al. (1994) *The Market Meets its Match. Restructuring the Economies of Eastern Europe*, Cambridge/ London

Artner, Annamária, and András Inotai (1997) Chances of Closing the Development Gap. A Statistical Approach, Institute for World Economics Working Papers Nr. 80, Budapest

Barro, Robert J. (1997) *Determinants of Economic Growth. A Cross-Country Empirical Study*, Cambridge–London

Bauer, Peter T. (1981) *Equality, the Third World and Economic Delusion*, London

Belke, Ansgar, and Martin Hebler (2002) *EU-Osterweiterung, Euro und Arbeitsmärkte*, München-Wien

Bertelsmann-Stiftung (2004) Bertelsmann Transformationsindex 2003, http://www.bertelsmann-transformation-index.de/11.0.html

Bofinger, Peter (2003) The Stability and Growth Pact Neglects the Policy Mix between Fiscal and Monetary Policy, *Intereconomics Review of European Economic Policy* 1 (2003): 4–7.

Boix, Charles (2003) *Democracy and Redistribution*, Cambridge

Boix, Charles, and Susan Carol Stokes (2003) Endogenous Democratisation, *World Politics* 55 (4): 517–549

Boix, Charles (2004) *The Institutional Accommodation of an Enlarged Europe*, Bonn: FES

Böröcz, József (2000) The Fox and the Raven: The European Union and Hungary Renegotiate the Margins of "Europe," *Comparative Studies in Society and History* 42: 847–875, Cambridge

Boyce, James K. (2002) Aid Conditionality as a Tool for Peacebuilding: Opportunities and Constraints, in Jennifer Milliken (ed.), 1025–1048

Burnell, Peter (ed.) (2000) *Democracy Assistance – International Co-operation for Democratization*, London

Burnell, Peter (ed.) (2003) *Democratization through the Looking-Glass*, Manchester

Burnell, Peter (2004) How (Not) to Promote Democracy, *Internationale Politik und Gesellschaft* 3

Carothers Thomas (1999) *Aiding Democracy Abroad: The Learning Curve*, Washington (CEIP)

Carothers, Thomas (2002) The End of the Transition Paradigm, *Journal of Democracy* 13 (1): 5–21

Collier, Paul (1998) On the Economic Consequences of Civil War, http://www.worldbank.org/research/conflict/papers/cw-consq.pdf

Dalpino, Catharin E. (2000) *Deferring Democracy. Promoting Openness in Authoritarian Regimes*, Washington.

Dauderstädt, Michael (1988) Policy Dialogue: The Unknowing Talk to the Unwilling, *Law and State* 37, 107–117

Dauderstädt, Michael (1998) EU-Osterweiterung: Wirkungen, Erwartungen und Interessen in den Beitrittsländern, *integration* 21 (3): 149–167

Dauderstädt, Michael, and Lothar Witte (eds) (2001) *Cohesive Growth in the Enlarging Euroland*, Bonn: Friedrich Ebert Stiftung

Dauderstädt, Michael, and Lothar Witte (eds) (2002) *Work and Welfare in the Enlarging Euroland*, Bonn: Friedrich Ebert Stiftung

Dauderstädt, Michael (2003) Wenn Sicherheit unbezahlbar wird. Die schwierige Stabilisierung der ungleichen Welt, *Internationale Politik und Gesellschaft* (4): 11–38

Dauderstädt, Michael (2004a) *Conflicting Distributive Interests in a Deepening and Widening Europe: A Challenge to the Emerging Europolity*, Bonn, FES

Dauderstädt, Michael (2004b) Das erweiterte Europa in einer bedrohlichen Welt, *integration* (1), 28–43

DeSoto, Hernando (2001) *The Mystery of Capital*, London

Devarajan, Shantayanan, William R. Easterly, and Howard Pack (2003) Low Investment Is Not the Constraint on African Development, *Economic Development and Cultural Change* 51 (3): 547–571

Diamond, Larry (1999) *Developing Democracy toward Consolidation*, Baltimore/London

Diamond, Larry (2003) *Can the Whole World become Democratic? Democracy, Development and Multilateral Policies*, Irvine

Dobbins, Michael, Dietrich Drüner, and Gerald Schneider (2004) Kopenhagener Konsequenzen: Gesetzgebung in der EU vor und nach der Erweiterung, in: *Zeitschrift für Parlamentsfragen* 35 (1): 51–68

Eatwell, John et al. (1997) *Not "Just Another Accession." The Political Economy of EU Enlargement to the East*, London

Ehrke Michael (2003) Von der Raubökonomie zur Rentenökonomie. Mafia, Bürokratie und internationales Mandat in Bosnien, in: *Internationale Politik und Gesellschaft* 2: 123–154

Esser, Klaus et al. (1992) *Systemische Wettbewerbsfähigkeit: Internationale Wettbewerbsfähigkeit der Unternehmen und Anforderungen an die Politik*, Berlin: DIE

EU (2003a) Europäische Sicherheitsstrategie: "Ein sicheres Europa in einer besseren Welt". Brussels. December, http://www.auswaertiges-amt.de/www/de/infoservice/download/pdf/-friedenspolitik/ess.pdf

EU (2003b) Commission of the EC "Wider Europe – Neighbourhood: A New Framework for Relations with our

Eastern and Southern Neighbours", COM(2003) 104 final, Brussels, 11.3.2003.

EU (2004) Commission of the EC "European Neighbourhood Policy: Strategy Paper" COM(2004) 373 final, Brussels 12.5.2004.

Flechtner, Stephanie, and Marika Lerch (2004) *Mit Sicherheit in eine bessere Welt? Europas Strategiedebatte*, FES Bonn

Fukuyama, Francis (2004) The Imperative of State-Building, in: *Journal of Democracy* 14 (2 April): 17–31

Funck Bernard, and Lodovici Pizzati (eds) (2003) *European Integration, Regional Policy, and Growth*, Washington (World Bank)

Glasius, Marlies, and Mary Kaldor (2004) European Security Policy: Visions or Concepts, http://www.lse.ac.uk/Depts/global/StudyGroup/Vision.htm

Hellman, Joel S. (1998) Winners Take All. The Politics of Partial Reform in Postcommunist Transitions, in: *World Politics* 50 (January): 203–234

Hegre, Havard, Tanja Ellingsen, Scott Gates, and Nils Petter Gleditsch (2001), Toward a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816–1992, in: *American Political Science Review* 95 (1) (March 2001): 33–48

Herr, Hansjörg (2004) Deregulierung, Globalisierung und Deflation, in: *prokla* 134 (1): 15–40

Inglehart, Ronald (1997) *Modernization and Postmodernization. Cultural, Economic, and Political Change in 43 Societies*, Princeton

Jamieson, Bill, and Helen Szamuely (1998) *Coming Home or Poisoned Chalice*, London

Jensen, Nathan M. (2003) Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment, in: *International Organization* 57 (3): 587–616

Lijphart, Arend (2004) Constitutional Design for Divided Societies, in: *Journal of Democracy* 14 (2) (April): 96–109

Lippert, Barbara (2000) EU-Osterweiterung als doppelte Reifeprüfung, in: Barbara Lippert (ed.) *Osterweiterung der Europäischen Union – die doppelte Reifeprüfung*, Bonn

Lipset, Seymour Martin (1959) Social Requisites of Democracy: Economic Development and Political Legitimacy, in: *American Political Science Review* 53: 69–105

Lipset, Seymour Martin (1960) *Political Man*, New York

Khattry, Barsha (2003) Trade Liberalization and the Fiscal Squeeze: Implications for Public Investment, in *Development and Change* 34 (3): 401–424

Kitschelt, Herbert (2004) Origins of International Terrorism in the Middle East, in: *Internationale Politik und Gesellschaft* 1: 159–188

Knaus, Gerald, and Felix Martin (2003) Travails of the European Raj, in: *Journal of D*emocracy 14 (3) (July): 60–74

Koenig-Archibugi, Mathias (2004) Explaining Government Preferences for Institutional Change in EU Foreign and Security Policy, in: *International Organization* 58 (1): 137–174

Kosack, Stephen (2003) Effective Aid: How Democracy Allows Development Aid to Improve Quality of Life, in: *World Development* (January): 1–22

Kosack, Stephen, and Jennifer Tobin (2003) Funding Self-Sustaining Development: The Role of Aid, FDI and Government in Economic Success, Paper for presentation at the Leitner Political-Economy Seminar, December 8, 2003 (http://www.yale.edu/leitner/kosack_tobin.pdf)

Kucera, David, and William Milberg (2003) Deindustrialization and Changes in Manufacturing Trade: Factor Content Calculations for 1978–1995, in: *Review of World Economics* 139 (4): 601–624

Martin, Christian W (2004) Demokratie, Autokratie und die regulative Gestaltung der Aussenwirtschaftsbeziehungen in einem Entwicklungsland; in: *Politische Vierteljahresschrift* 45 (1): 32–54

Merkel, Wolfgang (1999) Defekte Demokratien, in: Wolfgang Merkel and Andreas Busch (ed.) *Demokratie in Ost und West. Für Klaus von Beyme*, Frankfurt

Merkel, Wolfgang, and Mirko Krück (2003) *Soziale Gerechtigkeit und Demokratie: Auf der Suche nach dem Zusammenhang*, Bonn/FES

Milliken, Jennifer (ed.) (2002) State Failure, Collapse and Reconstruction, in: *Development und Change* 33 (5) (November)

Müller, Katharina (2002) Transformation als Peripherisierung in: *Berliner Debatte Initial* 13 (3): 17–26

Nunnenkamp, Peter (2004) Wachstumseffekte von Direktinvestitionen in Entwicklungsländern: Warum hohe Erwartungen häufig enttäuscht werden, in: *Die Weltwirtschaft* (1): 99–118

Ottaway, Marina, Thomas Carothers (eds) (2000) *Funding Virtue: Civil Society Aid and Democracy Promotion*, Washington (CEIP)

Przerworski, Adam et al.. (2000) *Democracy and Development. Political Institutions and Well-Being in the World, 1950–1990*, Cambridge

Putnam, Robert et al., (1993) *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton

Rasmussen, Poul Nyrup (2003) "Europe and a New Global Order. Bridging the Global Divides", PES Mai, www.pes.org/upload/Publications/ 74ENPES%20Rasmussen_28_05_2003.pdf

Reuveny, Rafael, and Quang Li (2003) Economic Openness, Democracy, and Income Inequality. An Empirical Analysis, in: *Comparative Political Studies* 36 (5) (June): 575–601

Rodrik, Dani (2001a) *The Global Governance of Trade As If Development Really Mattered*, New York: UNDP

Rodrik, Dani (2001b) Comments at the Conference on "Immigration Policy and the Welfare State," Trieste, June 23, http://ksghome.harvard.edu/~.drodrik.academic.ksg/Comments%20on%20Immigration%20Conference.doc

Sandholtz, Wayne, and Mark M. Gray (2003) International Integration and National Corruption, in: *International Organization* 57 (Fall): 761–800

Santiso, Carlos (2003) Sisyphus in the Castle: Improving European Union Strategies for Democracy Promotion and Governance Conditionality, in *The European Journal of Development Research* 15 (1) (June): 1–28

Sapir, André (2004) *An Agenda for a Growing Europe – The Sapir Report*, Oxford

Schwarz, Axel (2002) Rückkehr zum Absolutismus – Machtstrukturen in UNMIK's Kosovo, in: *Südosteuropa – Zeitschrift für Gegenwartsforschung* 51 (10–12): 527–542

Siedentop, Larry (2000) *Democracy in Europe*, London

Sinn, Hans-Werner (2000): *EU Enlargement and the Future of the Welfare State*, München: Center for Economic Studies

Spanger, Hans-Joachim, and Jonas Wolff (2004) Why Promote Democratisation? Reflections on the Instrumental Value of Democracy, Paper presented to the Conference "A European Profile in Democracy Assistance", July 5–6, 2004, The Hague

Tarschys, Daniel (2003) *Reinventing Cohesion. The Future of European Structural Policy*, Stockholm: SIEPS

Thirkell-White, Ben (2003) The IMF, Good Governance and Middle-Income Countries, in: *The European Journal of Development Research* 15 (1) (June): 99–125

Walder, Andrew G. (2003) Elite Opportunity in Transitional Economies, in: *American Sociological Review* 68 (December): 899–916

Weisbrot, Mark, and Dean Baker (2002) The Relative Impact of Trade Liberalization on Developing Countries, Center for Economic Policy Research, Washington, June 12, 2002, http://www.cepr.net/relative_impact_of_trade_liberal.htm

The White House (2002) The National Security Strategy of the United States of America, Washington DC (http://www.whitehouse.gov/nsc/nss.html),

Wolf, Martin (2004) We Cannot Ignore Failing States, in *Financial Times* (June 8)

World Bank (1998) *Assessing Aid. What Works, What Doesn't, and Why*, Washington DC

World Bank (2001) *Aid and Reform in Africa*, Washington DC

Youngs, Richard (2002) The European Union and the Promotion of Democracy. Europe's Mediterranean and Asian Policies, Oxford

Michael Dauderstädt

Exporting Stability to a Wider Europe: From a Flawed Union to Failing States

The European Union (EU) is today in the process of digesting its "big-bang" enlargement, a period of slow growth after the introduction of the euro, and the cumbersome process of obtaining agreement on a Constitution that still faces a number of crucial obstacles, including referenda in several rather Eurosceptical member states. On top of all that, the enlarged Union must redefine its relations with the world after the end of the Cold War and after September 11. In this connection, it has agreed upon its first official security strategy The EU's intention is to be a source of stability in a world full of – partially – new threats (terrorism, failing states, diseases, crime, drugs). In particular, it wants to export stability to its neighborhood, the "Wider Europe".

This paper analyses first the supply side of stability export: What are the resources and interests of the enlarged EU? On the demand side, we look at the political economy of the neighboring countries and try to identify the causes of their instability and the origins of the threats emanating from these often failing states. In the final section, we evaluate the instruments and policies at the EU's disposal in light of the problems they have to solve. To summarize our central finding: The present policies of the EU are barely appropriate to accomplish the chosen mission of stability export. In many cases, strong interests on the EU side prevent the implementation of helpful policies and, in some cases, even lead to harmful ones.