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The EU's multiple cores and the CEEs: A threat or an opportunity?

Abstract

The sovereign debt crisis in the Eurozone has caused a fundamental shift in the EU's internal power balance with Germany, the strongest political and economic player, essentially determining the political response to the crisis. The establishment and implementation of more efficient mechanisms to ensure fiscal responsibility amongst the eurozone members and the aspiring ones led to the emergence of complex differentiated multiple cores of integration, i.e. the Euro-17, Euro Plus and a detached periphery. The CEE countries are represented in all three of the emerging cores. This puts them at the heart of the emerging political division of the EU, thus generating several challenges and opportunities to their broadly understood political and economic security. The objective of this chapter is to explore these issues.

Keywords: European integration, eurozone, financial crisis, Central and Eastern Europe

1. The emerging EU of multiple cores

The 2007-08 global financial crisis, which has its origins in the sub-prime mortgage turmoil in the United States, has severely affected economies across Europe and substantially altered the EU's internal power balance. By 2009 all EU-27 countries, with the exception of Poland, were in deep recession. While some recovered relatively quickly, others who already had existing problems with structural debt, were plunged into a severe sovereign debt crisis. For many countries in Europe the fragile foundations of the financial services industry, which over the years prior to the crisis had increasingly operated on a cross-border basis, turned out to be the weak spot. The crisis revealed an essential weakness in the project of monetary integration. This was the failure of Euro member states to stick to the rules they had jointly had determined for the project of monetary union. The Eurozone essentially was run by a governance light approach with no penalties for countries who had built up an excessive

deficit being implemented in practice. The result was a predictable high level of vulnerability towards external shocks such as the global financial crisis¹.

The political response to the crisis in the EU, predominantly determined by Germany, has created a new complex policy framework with multiple layers of responsibility. It essentially divides the EU membership base into multiple cores with noticeable differences in terms of the level of integration and influence. This follows a long-standing discussion in the EU about the possibility of differentiated speeds of integration in the EU which became most prominent in the early 1990s. The joint paper published by the senior German Christian Democrats Wolfgang Schäuble and Karl Lamers on the future of European politics in 1994 tried to overcome a political stalemate in the enlarging EU by advocating the flexibilisation of the integration process. The paper also proposed to allow the deepening of political integration amongst a core group of countries who would be willing towards a federal union which would be spearheaded by France and Germany². With ongoing enlargement of the EU to eventually the current 27 member states the notion that groups of member states may deepen their integration at different speed frequently emerged. Since the flexibilisation of the decision-making in the EU under the 1998 Amsterdam Treaty, which introduced the possibility for member states to opt out of policy areas, the academic debate has increasingly concentrated on an ‘insider’ vs. ‘outsider’ categorisation, based on different levels of horizontal (deepening) and vertical (widening) integration in the EU³. When considering this distinction it becomes obvious that since its creation the European project has never completely grounded to a halt. Even during periods where the vertical axis of integration (deepening) slowed down or came to a halt, the membership base still grew (widening)⁴. Since Maastricht the EU has seen an increasing level of ‘internal differentiation’ between groups of members who participate in different forms of integration, with the division into the Eurozone group, the associated countries of the European Economic Area (EEA) and the

¹ G.R. Underhill, *Paved with good intentions: Global financial integration and the eurozone's response*, “European Political Science”, 2011, Vol.10, No.3, p. 368.

² W. Schäuble and K. Lamers, *Considerations on European politics* 1994, available at <http://www.cdusu.de/upload/schaeublelamers94.PDF>, accessed 11 May 2013.

³ T.A. Börzel, *Mind the Gap! European Integration between Level and Scope*, “Journal of European Public Policy” 2005 Vol. 12, No. 2, pp. 217-236; A. Kölliker, *Flexibility and European Unification: The Logic of Differentiated Integration*, Lanham, MD: Rowman and Littlefield 2001.

⁴ D. Leuffen, B. Rittberger and F. Schimmelpfennig, *Differentiated Integration: Explaining Variation in the European Union*, Basingstoke: Palgrave MacMillan 2013, p. 21.

temporary exclusion of the CEE countries from freedom of movement in the Single Market. With economic and monetary union as the core project of the EU, the highest level of horizontal internal integration has developed inside the Euro group⁵. In response to the sovereign debt crisis member states have however initiated a much more pronounced internal differentiation of the Single Market, both in horizontal and vertical terms. The horizontal division, which used to concentrate on the Eurozone core vs. periphery dichotomy, has now been enhanced by the emergence of the additional layer of the Euro Plus group and the intergovernmental Fiscal Compact. These three cores are also significantly distinguished by their level of vertical integration:

1. The **eurozone core** is in the process of moving towards gradual political union. This process is lead by an increasingly uneven Franco-German alliance. With France's political influence waning as a result of its weakening economy⁶, Germany has moved into the position of 'reluctant hegemon' in and is consequently substantially shaping the future design of the Euro group⁷. The Eurozone has already moved beyond a loose coordinative approach by introducing automatic penalties for countries who either fail to correct their excessive deficit or display profound macro-economic imbalances⁸. The intergovernmental Fiscal Compact, which has 25 signatories (excluding the Czech Republic and the UK), also only foresees consequences for a breach of the 'golden' fiscal rule for the Euro-17 countries⁹. To support these new mechanisms the European Commission is developing into an executive regulatory body with binding direct supervisory powers over national fiscal and macroeconomic policies in the Euro group. Whatever concrete shape the plans for political union will eventually take in the Eurozone, the Commission is likely to be equipped with substantially more supervisory powers over national policies. Under the latest German plans the Commission could be transformed into a fully fledged European executive.

⁵ Ibid, p. 249.

⁶ K. Dyson, *Economic and Monetary Disunion?* in J. Hayward and R. Wurzel (eds) *European Disunion: Between Sovereignty and Solidarity*, Basingstoke: Palgrave 2012, pp. 194-195

⁷ W. Paterson, *The Reluctant Hegemon? Germany Moves Centre Stage in the European Union*. "Journal of Common Market Studies", 2011, Vol. 49 Annual Review, pp. 57-75.

⁸ European Commission *Europe 2020: Europe's Growth Strategy, growing to a sustainable and job-rich future* "The European Union Explained", Brussels: EU 2013, p. 7.

⁹ *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, Article 7, 2 March 2012.

The now German finance minister Schäuble has called for the creation of a directly elected European president who would lead a Commission with stronger regulatory powers.¹⁰ The Barroso Commission itself envisages the ‘possibility to require a revision of national budgets in line with European commitments’¹¹. The practical implementation of these plans will have a profound impact on scope for national fiscal and economic policy-making.

2. The **Euro Plus Pact group** of countries who voluntarily adhere to the Eurozone SGP criteria goes back to the 2011 initiative by Angela Merkel and the former French President Sarkozy. The purpose of the Euro Plus Pact is to ensure that the Eurozone countries and prospective members commit themselves to deeper policy coordination beyond the Europe 2020 targets. The aim of the EPP is to encourage the Eurozone-17 countries and the participating outsiders Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania to pursue national reform targets which will prepare their economies for a smooth entry into the Euro group. Member state governments initially set their own targets. These are subsequently monitored by all EPP members on the basis of annual Commission progress reports¹². The countries in this group are all relatively committed to engaging in the coordination of their policies with the Euro zone. Poland is however the only country in the EPP which has clear political reasons for engaging in this process. The Polish government under Donald Tusk considers adoption of the Euro as a means to boost their country’s influence in the EU. In contrast the other outsiders, with the exception of Lithuania, are predominantly interested in joining the Eurozone for reasons of economic stability and are less positive about the potential political benefits than Poland.

3. The third small **periphery group** of the two countries who prefer to limit themselves to the open method of coordination under the European Semester currently consists of the UK and the Czech Republic. These two were clearly alienated by the swift Franco-German drive towards the deepening of political integration in response to the sovereign debt crisis. A major factor in the decision of British Prime minister David Cameron to promise a public referendum on EU membership in 2017 is the British scepticism towards the emerging plans

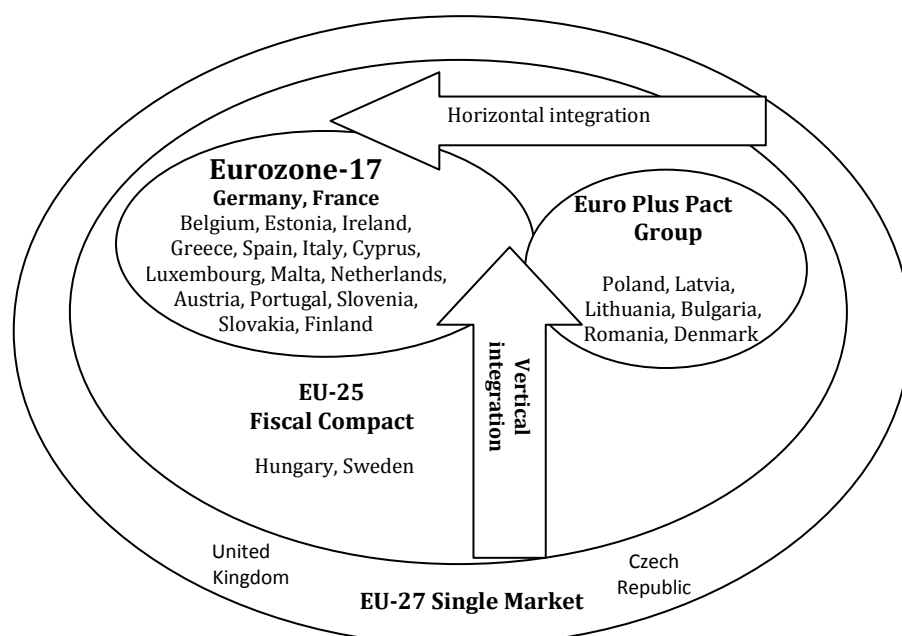
¹⁰ W. Schäuble, *Speech at the award ceremony for the 2012 Charlemagne Prize*, Aachen, Germany, 17 May 2013.

¹¹ European Commission *A blueprint for a deep and genuine economic and monetary union: Launching a European Debate*, COM (2012) 777 final/2, 30 November 2012, p. 25.

¹² *Pact for the Euro*, “Conclusions of the Heads of State of Government of the Euro Area”, 11 March 2011.

for the deepening of political integration in the EU. There is a realistic and to date unprecedented prospect that with the UK one of the leading Member states could leave the EU within the next five years. A similar sentiment can be found across the political spectrum in the Czech Republic. Although Euroscepticism in the Czech Republic is far less deep-seated than in the United Kingdom¹³, at least for now the Czechs have joined the British in positioning themselves on the outer fringes of the EU. The Czech Republic under its current leadership seems less concerned about being on the margins of an EU of multiple cores as a result of having opted out from the Fiscal Compact. This periphery group is likely to be joined by other Eurozone outsiders who remain only half-heartedly committed to policy coordination with the Euro-17. Prime examples for this are Hungary and Sweden, who are both signatories of the Fiscal Compact but decided not to participate in the Euro Plus Pact. Even some of the Euro-17 countries could join the fringe group in the future if concerns about the impact of political union on national sovereignty increase. Eurosceptic sentiments and domestic opposition against the plans for political union in the Eurozone are already growing substantially. The latest Eurobarometer results show a sharp decline in public trust in the EU across member states. 57 per cent of citizens in the EU-27 now say that they tend not to trust the EU, a sharp increase from 37 per cent in 2007¹⁴.

Figure 1: The EU's post-crisis multiple cores



¹³ According to the latest Eurobarometer results only 43 of Czechs would consider leaving the EU as an option which offers a better future for their country, while 54 per cent of British citizens see leaving the EU as a positive vision for the future (European Commission *Standard Eurobarometer 78 Autumn: Public Opinion in the European Union*, Brussels: EU 2012, p. 50).

¹⁴ Ibid, p.75.

Figure 1 illustrates the current differentiation of the EU membership into multiple groups. The vertical axis shows the gradual progression of the level of integration from the relatively loose Single Market towards the greater level of coordination under the Fiscal Compact, the Euro Plus Group. The highest level of vertical integration takes place in the Euro zone, where national governments are obliged to abide by the budgetary and macroeconomic guidance of the Commission and where the institutional setup is significantly shaped by Germany and to a lesser extent by France. This division is most likely going to be only temporary and could in the future either be replaced by a further fragmentation or by greater unity. The latter scenario is possible if the UK decides to leave the EU and the remaining nine outsiders (plus the new member Croatia) join political union in the Euro group. Given the past experience of how member states tend to guard their national sovereignty the more likely scenario is one of continuing fragmentation. The emergence of a smaller fully politically integrated Eurozone core and a larger periphery of countries who either were pushed out of the Eurozone or decide to never join in the first place is a realistic possibility if the crisis symptoms continue.

2. The CEE countries in the EU of *multiple cores*

The emerging division in the EU particularly affects the CEE region. The group of countries who were the most recent ones to join the EU in 2004 and 2007 have all been facing similar challenges in transforming their economies after the end of the Cold War. They are however far from being one uniform group and are characterised by distinct political, economic and social differences. Following accession all CEE members have made substantial efforts to meet the budgetary criteria of the EMU Stability and Growth Pact with a clear aspiration to be prepared for Euro entry. The Euro group was however reluctant to apply new applicants the same flexibility on the SGP criteria as was shown inside the club. Countries such as Poland who had a clear aspiration to join quickly, were told that they had to meet all the SGP criteria, including on the conversion of long-term interest rates. At the same time many amongst the then Eurozone-14 members broke the SGP budgetary criteria. It took until 2007 for Slovenia to become first of the CEE-8 group to join the Euro, Slovakia followed in 2009 and Estonia in 2011. The others were kept waiting in line. This included Poland which before the crisis had set itself an ambition to join by 2012. As Euro members Estonia, Slovakia and Slovenia are already participating on all levels of EU decision-making, whilst Poland, Latvia, Lithuania, Romania and Bulgaria are in the Euro Plus Group of aspiring member states with a rather limited influence over strategic decisions on the future of the Eurozone. Hungary and

the Czech Republic have chosen to remain semi-detached from the core decision-making in the EU and are positioned at the outer fringes of the Single Market.

2.1. The Eurozone insiders

In spite of being in the Euro-17 group as small countries the ability of Estonia, Slovakia and Slovenia to influence the EU's policy agenda remains limited. Moreover the three countries have been predominantly focused on their domestic affairs and shown little interest in trying to make their mark on the wider EU's internal institutional development. For these smaller countries membership of the EU is still predominantly an issue of political and economic security. From the perspective of these countries being positioned inside the EU is considered to be a crucial safeguard of national independence and adverse external influences, predominantly from former regional hegemon Russia. The three CEE Euro members have consequently been content with remaining mainly in the position of policy-takers and to present themselves as conformist member states.

Slovenia is currently struggling to maintain the latter position as it faces a profound economic crisis and is likely to join the list of sovereign debt crisis countries in due course. It faced a double-dip recession in 2012 and is predicted to stay in recession at least until 2014. Slovenia has been breaking the Maastricht criteria since the financial crisis and its budgetary position remains difficult. The country is expected to have to borrow more than five per cent of its GDP in 2013 and only slightly less in 2014. At the same time it is also on the brink of exceeding the 60 per cent limit of structural debt¹⁵. Given the difficulty of its economic circumstances it is widely expected that Slovenia will be the next Eurozone country to ask for financial support under the European Stability Mechanism. Estonia's relatively open and export-orientated economy was also hit hard by the crisis and the country plunged into deep recession in 2009. By 2010 the Estonia was however already growing again by more than three per cent, followed by a substantial boost to growth in 2011 (8.3 per cent). Since 2012 growth has slowed down again but is expected to remain between three and four per cent in 2013 and 2014. The budgetary situation of Estonia remains exemplary with the level of annual borrowing below one per cent and a structural deficit of less than 11 per cent¹⁶.

¹⁵ European Commission European Commission *Economic Forecast Winter 2013*. Brussels: EU 2013, p. 79.

¹⁶ Ibid, p. 45.

Slovakia shows an equally good level of recovery from the crisis and since 2010 has returned to GDP growth between two and four per cent since. This year Slovakian growth is expected to slow down to just above one per cent, with a further upswing expected for 2014. The Slovakian budgetary situation is less fortunate. After having exceeded the three per cent borrowing limit, the Social Democratic government led by Robert Fico will have to make some efforts to meet the SGP annual borrowing target again in 2013 and 2014. Fico emphasised that his government will make substantial consolidation efforts to set Slovakia on a course of long-term budgetary solidity and to support the EU in its effort ‘to regain the trust of markets and the trust of citizens’¹⁷. This consolidation course will be essential to prevent Slovakia from breaking the second Maastricht criteria, as its level of structural debt has risen from 35 per cent in 2009 to 52.4 in 2012¹⁸. Another big challenge for the Slovakian government is the high level of unemployment, which currently stands at 14 per cent and the significant number of 15-24 year old Slovaks who are out of work (35 per cent)¹⁹.

2.2. The Euro Plus Pact Group

Poland’s chances to join the Euro were dampened by the decline in its budgetary position when the global financial crisis hit Europe. Even outside the Eurozone Poland is the leading country amongst the CEE member states and has substantially enhanced its influence in the EU since accession in 2004 by playing a largely constructive role. The Tusk government worked closely with France and Germany in the *Weimar Triangle* and was instrumental in the development of key strategic policy areas, such as the Eastern partnership under the EU neighbourhood policy and also the 2002 Berlin Plus Agreement, which set the framework for the for future transatlantic security cooperation between NATO and the EU. Poland also has a sound record of economic transformation. Before the financial crisis hit, Poland was on course to meet the Maastricht criteria and had brought down its annual level of borrowing to 1.9 per cent in 2007. Eurozone entry in 2012 was therefore a realistic target but this ambition was shattered when the Polish annual deficit broke the three per cent limit again after 2008.

¹⁷ Fico, R. *Speech at the International Conference GLOBSEC 2013*, Bratislava, Slovakia.

¹⁸ European Commission European Commission *Economic Forecast Winter 2013*. Brussels: EU 2013, p. 81.

¹⁹ European Commission *Unemployment rate 15-24 year*, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, accessed 11 May 2013.

The Commission forecasts that Poland could just meet the three per cent SGP three per cent annual borrowing limit in 2014 while its structural level of debt is likely to remain below the 60 per cent limit.²⁰ The Polish government has clear leadership ambitions in the EU and is frank in expressing these. At the same time there is a realisation that entry into the Eurozone will be a crucial factor in ensuring that Poland will eventually be able to match the political and economic weight of France and Germany. The Polish foreign minister Sikorski considers the current crisis as an opportunity for Poland to enhance its influence, particularly in the light of the increasing isolation of the UK under David Cameron:

In light of the turmoil in the south and the insular British approach, we stand a chance of becoming part of the hard core of European decision-makers. Even though we are already a Member-State to be reckoned with, to further boost our significance we should be ready to adopt the euro²¹.

Under the conditions of the sovereign debt crisis adopting the Euro has become a controversial domestic issue in Poland. The Polish prime minister Donald Tusk highlighted this in his recent public discussions with Angela Merkel in Berlin when he spoke of the possibility of holding a public referendum before setting another date for Eurozone entry²². Poland is currently the only country amongst the CEE-10 which has started to move into the position of active policy-maker²³.

The other EPP signatories have so far remained in the position of passive policy-takers and also sent mixed signals regarding their interests in joining the Euro. Latvia has set itself January 2014 as the national target for Euro adoption while Lithuania is still in the process of determining an official target date for accession. While Lithuania officially remains committed towards Euro entry, the level of enthusiasm for joining the Eurozone under the current crisis conditions amongst Lithuanians remains low. The latest Eurobarometer on the

²⁰ European Commission *Economic Forecast Winter 2013*. Brussels: EU (2013), p.73.

²¹ R. Sikorski, *Address by the Minister of Foreign Affairs on the Goals of Polish Foreign Policy in 2013*, 20 March 2013.

²² 'Polish PM says wants to join euro but Poles worried', "Reuters" 22 April 2013.

²³ V. Dimitrov *The Central and East European Countries: From Weak Latecomers to Good Citizens of the Union*, in J. Hayward and R. Wurzel *European Disunion: Between Sovereignty and Solidarity*, Basingstoke: Palgrave MacMillan 2012, p. 308.

issue conducted in April 2012 shows that 51 per cent of citizens in Lithuania are against joining the euro. Even more are opposed in Latvia (53 per cent) and Poland (54 per cent), which reflects the overall growing public scepticism about the current state of Eurozone. In spite of this the majority of citizens in all the CEE outsiders, apart from the Czech Republic consider, the euro as having had positive effects on those countries who introduced it (47 per cent in Lithuania)²⁴. As a relatively open economy with a sluggish domestic sector Lithuania is more sceptical than its neighbours about being tied into a Eurozone framework which has essentially now become a transfer union²⁵. The political benefits of joining are less clear cut for Lithuania than they are for Poland. It is therefore likely that Lithuania will remain lukewarm about joining in the near future.

Bulgaria and Romania show the greatest level of passivity in the CEE group. The still two newest members are currently content with remaining in a position of policy-takers and to overcome any prejudices towards their ability to fully integrate the EU's *acquis*, including the Schengen area. This is the inevitable consequence of the fact that both countries remain substantially behind other CEE members when it comes to the efficiency of domestic governance and regulatory quality. There are therefore justified doubts about the implementation of the rule of law and reduction of the levels of corruption in both countries²⁶. In addition the emerging debate in the UK, Germany and other member states on the expected negative effects of the end of the transitional periods for the free movement of people from Bulgaria and Romania in 2014 illustrates that both countries are still essentially regarded as outsiders by their Western European counterparts. Romania has nevertheless submitted an official application to join the Eurozone by 2015, which is based on having met the budgetary criteria for entry in 2012 with especially low levels of public debt (38 per cent in relation to the GDP)²⁷. Bulgaria has similar sound budgetary figures with extremely low

²⁴ European Commission *Introduction of the Euro in the more recently acceded member states* "Flash Eurobarometer 349 July", Brussels: EU 2012, p. 72.

²⁵ G. Kazėnas *Lithuania and the eurozone crisis*, in A. Visvizi and T. Stepniewski (eds.) *The Eurozone Crisis: Implications for Central and Eastern Europe*. "Yearbook of the Institute of East-Central Europe" Vol. 10, No.5 2012, p.74

²⁶ A.B. Spendzharova and M.A. Vachudova *Catching Up? Consolidating Liberal Democracy in Bulgaria and Romania after EU Accession*, "West European Politics" 2011, Vol. 35, No. 1, pp. 39-58.

²⁷ Ibid, p. 77.

structural debt of around 18 per cent²⁸. Both countries still face profound challenges when it comes to their social cohesion. They have the largest number of citizens in the EU-27 who are considered to be at risk of poverty. In Romania currently 40 per cent of all citizens are considered to be at risk of poverty or social exclusion, in Bulgaria the figure even stands at almost 50 per cent (against the EU-27 average of around 24 per cent)²⁹. This is the background to the increasing concerns amongst some of the EU-15 countries that they may be facing substantial levels of poverty migration when the transitional restrictions on the free movement of Bulgarians and Romanians end in 2014³⁰.

2.3. The periphery group

The Czech Republic and Hungary have clearly chosen to remain on the sidelines when it comes to strategic decision-making in the EU and are concentrating on their domestic affairs. In the case of Hungary this is the result of persistent economic weakness with low levels of growth, high unemployment and consequently difficulties in consolidating the country's budget. Hungary's structural level of debt has slightly decreased from the peak of over 80 per cent in relation to its GDP in 2010 and 2011 but is forecast to remain in the high 70s until 2014. Hungary was in recession in 2012 and is likely to remain in it until 2014 when the Commission forecasts slight growth of 1.3 per cent. Unemployment has risen to over 10 per cent in 2012 and is likely to grow beyond 11 per cent until 2014, which is higher than the EU-27 average³¹. Hungary fares particularly badly when it comes to youth unemployment amongst 15 to 24 year olds, which currently stands at 29 per cent³². The European Working Conditions Observatory estimates that between 2004 and 2010 approximately 27,000 Hungarians have left the country each year to work abroad and in 2011 the number of

²⁸ Ibid, p. 37.

²⁹ European Commission *People at risk of poverty or social exclusion*. "Eurostat" data. Available at http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&pcode=t2020_50&language=en, accessed 11 May 2013.

³⁰ T. Vogel *Fears of mass migration call EU's freedoms into question*, "European Voice" 1 May 2013.

³¹ European Commission *Economic Forecast Winter 2013*. Brussels: EU (2013), p.65.

³² European Commission *Unemployment rate 15-24 years*. "Eurostat" data 2 April 2013, available at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=teilm021&plugin=1>, accessed 1 May 2013.

Hungarians emigrating to work abroad rose to 85,000³³. The government of prime minister Victor Orban has made economic and budgetary consolidation a priority of its domestic agenda and imposed a strict austerity course. Orban has also implemented a controversial programme of domestic constitutional reforms which has been widely criticised by the EU and other member state governments. The response from the Hungarian government has been one of playing towards Eurosceptic and even nationalist sentiments at home. Orban is not afraid to compare the EU with the Soviet Union under Stalin and to promote an isolationist stance in the domestic political debate:

We are building a country in which people don't work for the profit of foreigners. A country in which we will not be told how to live our lives, what can be in our Constitution and when we can increase wages, by bankers and foreign bureaucrats. A country in which no-one can force the interests of others upon the Hungarian people.³⁴

This inward-looking stance, which is accompanied by a tax levy on foreign companies, is likely to isolate Hungary politically in the long run. It also threatens to deter foreign companies from investing in the country and to undermine the country's foundations for economic recovery. Given its current focus on domestic issues, the Hungarian government is unlikely to pursue Eurozone entry in the foreseeable future. Even if Hungary should eventually meet the SGP criteria, the Orban government is likely to remain sceptical of the emerging political architecture in the Eurozone. Hungarian concerns regarding Euro membership are likely to focus on the potential impact on the country's budgetary sovereignty and general political autonomy³⁵.

The Czech Republic is in much better economic shape but has nevertheless chosen to opt out of the Euro Plus Pact and the Fiscal Compact. The Czechs also have become very sceptical about the benefits of joining the euro. This is the result of a domestic political debate which

³³ M. Komiljovics, *Impact of migrating young workers*. "European Working Conditions Observatory" 17 December Brussels: Eurofound 2012.

³⁴ V. Orban *State of the Nation Speech*, 25 February 2013.

³⁵ L. Csaba, *Hungary and the eurozone crisis: a comedy of errors?*, in A. Visvizi and T. Stepniewski (eds.) *The Eurozone crisis: Implications for Central and Eastern Europe* "Yearbook of the Institute of East-Central Europe", 2012, Vol. 10, No. 5, p. 43.

was strongly influenced by the former Czech president Václav Klaus, who is an ardent Eurosceptic. The Czech Republic was in recession in 2012 and is forecast to have zero growth this year. The country nonetheless has relatively low levels of unemployment (between 6.7 and 7 per cent in 2011-12) when compared with the EU-27 average of over 10 per cent. It is forecast to meet the SGP annual borrowing limit of three per cent again in 2014 and has structural debt below 50 per cent³⁶. The Czech government continues to adopt a cautious approach and avoids to make an official commitment to Eurozone entry. Prime ministers Nečas's decision to join the UK in opting out of the Fiscal Compact has domestic predominantly domestic reasons and could be reversed after the 2014 general election. Nečas justified the Czech position by pointing out that his government would not want to act as hurdle towards deeper integration in the EU. At the same time he emphasised that his government would resist pressures to sign up to the greater harmonisation in policy areas other than the liberalisation of the Single Market³⁷. A crucial factor in determining the future Czech stance towards Eurozone membership and political union will be the role of the new Czech president Miloš Zeman, who seems to have a far more constructive attitude towards the EU than his predecessor.

3. Risks and opportunities for the CEEs

The currently emerging division poses risks and opportunities for the CEEs. One major risk is that it may drive them further apart and undermine any efforts to make a concerted effort to influence the EU policy agenda. The profound effect the Eurozone crisis had on the region shows how closely interlinked all CEE economies have become with the rest of the Single Market. Even those countries who currently are outside the Eurozone continue to be profoundly affected by the crisis as a result of their dependence on exports to the Euro-17 countries³⁸. For reasons of their own economic security the CEE Eurozone outsiders therefore have a substantial interests in ensuring that the Eurozone recovers from its current economic woes. At the same time, under the EU's emerging multi-tier system of members, the CEE

³⁶ European Commission *Economic Forecast Winter 2013*. Brussels: EU (2013), p.39.

³⁷ Lecture by Czech Prime Minister Petr Nečas on the occasion of his joint appearance with Federal Chancellor Angela Merkel at the Law Faculty of Charles University, 3 April 2012.

³⁸ A. Visvizi, *The eurozone crisis in perspective: Causes and implications*, in A. Visvizi and T. Stepniowski (eds.) *The Eurozone crisis: Implications for Central and Eastern Europe* "Yearbook of the Institute of East-Central Europe" 2012, Vol. 10, No. 5, p. 26.

outsiders (even those in the Euro Plus group) have only very limited influence over the emerging architecture of political union in the Eurozone. Given the declining level of public support for adoption of the Euro in all CEE outsiders, with the exception of Bulgaria, Romania and Hungary³⁹, the emergence of multiple cores hence may establish an insider-outsider dichotomy in the CEE group with those countries outside the Euro group increasingly losing interest in joining and consequently becoming more detached from the political process in the Eurozone core.

There are however also reasons to be more optimistic about the future scenario. All CEE countries maintain high levels of public support for the deepening of political cooperation in response to the financial and economic crisis. Between 88 and 92 per cent of the population in all CEE-10 countries totally agree that EU member states should work together more to tackle the crisis. A majority of citizens in Poland (53 per cent), Slovakia (52 per cent), Latvia (46 per cent), and surprisingly even in the Czech Republic (55 per cent), even support moves towards developing the EU into a federation. None of the CEE countries show the levels of Euroscepticism which can be found in the UK, where a clear and growing majority of the population opposes a federal union for the EU (54 per cent).⁴⁰

The level of influence from Central and Eastern Europe will to a large extent depend on Poland's willingness to continue working closely with the other CEE countries in finding common positions on major EU policy issues. In this respect deeper and sustained cooperation amongst the Visegrád 4 countries (Poland, the Czech Republic, Slovakia and Hungary) will be crucial for raising the profile of the region in the current EU debate. The V4 countries are in the process of deepening their cooperation and have just announced their intention to create a joint battlegroup of 2,5000 soldiers in an effort to boost the EU's military capabilities and to 'instil a habit of permanent cooperation'⁴¹ in this area. It seems that the Tusk government in Warsaw is willing to achieve a leading role in the EU as part of the V4 cooperation rather than to go it alone. Poland is currently the only CEE country who has

³⁹ European Commission *Introduction of the Euro in the more recently acceded member states* "Flash Eurobarometer 349 July", Brussels: EU 2012, p. 72.

⁴⁰ European Commission *Standard Eurobarometer 78 Autumn 2012: Public Opinion in the European Union Autumn*. Brussels: EU 2012, p. 33 and p. 93.

⁴¹ M. Suplanta, *The Visegrád battlegroup: Building new capabilities for the region*. Bratislava: Central European Policy Institute 2013.

already to a certain extent contributed to shaping the EU policy process, particularly when it held the presidency of the EU at the peak of the crisis in the second half of 2011. The Tusk government has made efforts to move the current narrow EU agenda beyond the management of the Eurozone crisis and emphasised the need to refocus on neglected policy areas, such as defence and security⁴². The Polish government also called on Germany to adopt a more active role in shaping the future of the EU beyond the sovereign debt crisis. Polish foreign minister Sikorski emphasised that he would be more concerned by German inactivity than by Germany essentially taking the lead in shaping the future of the EU⁴³. The presidency yet also showed that as an outsider the Polish government remains a marginal player when it comes to determining the new institutional architecture for the core Euro group⁴⁴.

As a unified group led by Poland the V4 would potentially have huge potential to make their voices heard in Brussels. All four countries have close economic and political ties with Germany and are therefore more relaxed about Germany leading the EU than some of their EU-15 counterparts (including France and the UK)⁴⁵. The current split of the V4 group into one member in the core Euro-17 group (Slovakia), one aspiring member in the Euro Plus group (Poland) and two relative outsiders (Hungary and the Czech Republic) will however make it harder for these countries to coordinate their strategic interests in the EU. Moreover in the EU the V4 cooperation has no formal status and therefore currently receives little attention⁴⁶. It will therefore be crucial for the V4 countries to raise the profile of their cooperation by presenting common positions on major European strategic issues and to institutionalise their cooperation further.

⁴² C.M. O'Donnell, *Poland's U-turn on European defence: A missed opportunity?*, London: Centre for European Reform Policy Brief 2012.

⁴³ R. Sikorski, *Poland and the future of the European Union*. Speech delivered in Berlin, 28 November 2011.

⁴⁴ K. Pomorska and S. Vanhoonacker, *Poland in the Driving Seat: A Mature Presidency in Turbulent Times*, "Journal of Common Market Studies", 2012, Vol. 50 Annual Review, p. 78

⁴⁵ The Slovak foreign minister Miroslav Lajcak even went so far as to publicly state at the 2013 Bratislava Security Forum that his country would have no problem with becoming part of a 'greater Germany' K. Mikulova, *Central Europe's Pivot to Germany: What does the U.S. stand to gain* "Huffington Post" 1 May 2013.

⁴⁶ R. Kavický, *Is V4 Cooperation a Safe Haven in Turbulent Times?* in A. Gostynska, and R. Parkes (eds) *Towards a V4 Position on the Future of Europe*, Warsaw: Polish Institute of International Affairs 2012, p. 12.

In the absence of a visionary approach and a lack of engagement on the part of the 'old' EU-15 countries the CEE countries have a much needed contribution to make to ensure that the EU recovers not just economically but also politically from the crisis. They could help the EU to achieve a broad and lasting political consensus on the future design of Single Market, other strategic EU policy areas such as defence and external relations and to a certain extent even the shape of the Eurozone. In this context the joint proposals the V4 prime ministers made in June 2012, which included demands to make EU cohesion funds available more flexibly in order to assist member-states with their domestic challenges and to develop new innovative instruments to stimulate growth⁴⁷, show that at least some of the CEE countries are strong advocates of maintaining cohesion and solidarity in the EU under crisis conditions.

While the risk of the present setup for the CEEs are obvious, the volatility of the situation could also be an opportunity for these countries to help the EU from drifting further apart. The varying levels of enthusiasm amongst the CEE countries and especially within the V4 group for the German ambition to create deeper political union in Eurozone and ultimately for the whole of the EU is a micro reflection of the bigger EU-27 picture⁴⁸. The Polish and Slovak support for deeper political union is likely to be counterbalanced by other CEE countries, especially the Czech Republic and Hungary, who are adamant to safeguard their sovereignty after decades of external political domination by the Soviet Union. This could be the foundation for a healthy balance between deepening integration and maintaining national diversity. Such a new vision for the future of the EU in times of crisis and would help to regain the purpose of the European project and to reconnect it with its citizens. In the long run the countries who were once petitioners for accession into the EU club may still turn out to be its saviours.

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⁴⁷ Letter of the Prime Ministers of the Visegrád Group Countries, Prague, 22 June 2012.

⁴⁸ D. Král, *Are we there yet? The road to a political union through the eyes of the V4 members*, in A. Gostynska, and R. Parkes (eds.) *Towards a V4 Position on the Future of Europe*. Warsaw: Polish Institute of International Affairs 2012, p. 19.

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