

THE DILEMMAS OF TRANSATLANTIC RELATIONS AFTER EU ENLARGEMENT AND THE IMPLICATIONS FOR LITHUANIA

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HISTORIC DATES AND MOVING TARGETS

The year 2004 will become one of the key historical dates for Lithuania and most other European countries. The enlargement of the EU (and the continuous expansion of NATO) symbolises the most important step in the unification of Europe which for half a century was divided by force. For Lithuania and other countries of the region which regained their independence at the beginning of 1990s accession into the EU (and NATO) have been the two most important policy priorities. These priorities not only directed their foreign policy towards strengthening relations with the democratic countries of transatlantic community but also played an important role in structuring and sustaining domestic transition reform efforts.

However, completion of the accession process and the official extension of membership status to Lithuania create new challenges for policy makers. Some of them are related directly with the fact that the main priorities of the transition reforms have been achieved and therefore there is a need for new goals which can be achieved by using membership in the EU and NATO. This requires a qualitatively new political thinking and abilities from the country's policy makers. What used to be the goals have become the policy instruments. Another group of challenges originates from the external environment, such as the changing nature of the EU and NATO which has taken place partly due to the accession of new members and related institutional reforms and partly due to other shifts in the international system such as new threats to international peace.

The "transatlantic rift" or the disagreements on a number of issues between the USA and European countries, in particular France and Germany, have been probably among the most debated recent trends in world politics. These disagreements on issues ranging from import duties on steel, agricultural subsidies or emission controls to intervention in Iraq and the role of international institutions have a direct bearing on Lithuanian foreign economic and security policy and create new dilemmas. Formal accession into the transatlantic and European organisations, in addition to economic and political benefits, also creates important responsibilities. In the face of disagreements between members of the transatlantic community, Lithuanian policy makers will often confront difficult choices as the case of intervention in Iraq demonstrated. To some extent these dilemmas were present even before the war in Iraq, for example, during the process of accession into the World Trade Organization when Lithuanian negotiators found themselves between the conflicting demands of U.S. and EU representatives.

Accession into the EU itself not only implies very concrete changes in economic policy such as increased import duties which create costs for American producers, but also locks in broader integration patterns which will increasingly bind the country with other EU members, in some cases distancing it from its strategic partner on the other side of the Atlantic. It is argued in this essay that Lithuania's accession into the EU and NATO formalises the asymmetric interdependence of the country with Europe and America: the high and increasing importance of trade and investment relations with the EU and high reliance (dependence) on the provision of security from a NATO dominated by the U.S. This asymmetry of interdependence originates from the characteristics of the country (its size and openness) and the international system (dominance of the U.S. in the world). However, recent events in the international system, debates on the relevance of NATO, emerging European defence policy and disagreements between America and some EU members might alter this asymmetry of dependence by making Lithuania more dependent on the provision of security by the EU.

Although this might seem like a natural development, taking into account the relative intensity of economic relations between Lithuania and the EU, it poses questions regarding the military capacities of the EU (or rather its member states regarding low spending on defence), different approaches of the U.S. and European countries towards Russia - still regarded as a potential source of instability in Lithuania and finally the historically important relations between Lithuania and the U.S., with the latter being the strongest and most consistent supporter of Lithuania's independence and its accession to NATO. These issues are discussed below.

THE DISCRIMINATORY EFFECTS OF EU ACCESSION

Every enlargement of the EU has posed questions regarding the effects of adopting common norms on the economic relations of new members with outsiders. The EU is a customs union with a common external tariff and other harmonised trade policy instruments. Moreover, common product standards and other non-tariff barriers play an increasingly important role for exporters and investors from the third countries. During the process of enlargement some of these issues are settled by using the instruments of the WTO (compensatory payments for the increase in import duties), others are a matter of bilateral talks.

Already during the process of accession into the WTO, which has taken about 6 years and has been quite closely coordinated with the European Commission, Lithuanian negotiators have had to deal with the issues which cause disagreements between the EU and the U.S. As the Deputy Director General for Trade from the European Commission noted speaking about the Baltic States' accession into the WTO, "the U.S. delayed the completion of these negotiations by many months, insisting (a) on obligations that were known to go beyond those of the EU (thus creating a potential 'debit' situation to be compensated in the future), and (b) attempting, in the specific case of the audio-visual sector, to extract concessions which would result in different obligations from those of the EU, with the same result."¹ Thus, in some cases, only because it had a perspective of future membership in the EU, Lithuania became a hostage of trade conflicts between the EU and U.S. while negotiating accession into the WTO.

Accession into the EU requires new members to align their foreign trade policy with the one of the EU. In the case of Lithuania (as well as other Baltic States, in particular Estonia, but differently from other Central European countries) this implies a slight increase in conventional (MFN) import duties for imports of industrial products from the U.S. and other members of the WTO with which the EU does not have preferential agreements². As a result of this there will be some trade diversion in Lithuania's trade with the U.S. Partly because imports from the U.S. in recent years constituted only three percent of Lithuania's imports, the trade diversion will be rather insignificant³. The majority of the country's trade has for half a decade been with the EU, accounting for 40-50 percent of Lithuania's foreign trade turnover (or over 60 percent if new member states are included).

Although the impact of the non-tariff barriers is more difficult to estimate, different product standards (such as safety and other technical standards for automobiles) are also likely to make imports from the U.S. to Lithuania more expensive. In the long term, this will create incentives for replacing products imported from the U.S. with products produced in the EU or the countries which have preferential trade agreements with the Union. Two factors might slow down or even reverse this trend – further liberalization of trade in WTO negotiations or conclusion of a long

¹ Abbott, R. EU Enlargement and Transatlantic Economic Relations, presentation at the conference "Europe's continuing enlargement: implications for transatlantic partnership", John Hopkins University, Washington D. C., 22 October -2001.

² There have been several studies conducted which provide a comparative analysis of import regimes for industrial and agricultural products of Lithuania and the EU. They can be found on the web sites of the Ministry of Foreign Affairs, Ministry of Economy and the former European Committee under the Government of Lithuania.

³ Overall U.S. trade with new member states of the EU from Central and Eastern Europe amounts to only less than 1 percent of U.S. foreign trade turnover.

debated transatlantic free trade agreement. The latter agreement might eventually be agreed on because the EU and the U.S. are each other's most important trade and investment partners. As has been recently argued, the economic relationship between the U.S. and Europe "is by a wide margin the deepest and broadest between any two continents in history – and it is growing closer"⁴. If the transatlantic economic integration is facilitated by the removal of tariffs to trade, it would compensate for the discriminatory effects of EU enlargement.

Finally, there are also some issues related to American investors' rights in Lithuania after EU accession as a result of amending the bilateral investment treaty between the U.S. and Lithuania to make it compatible with the EU internal market rules. There had been some concerns expressed by American companies in Lithuania regarding the preferences granted to them by Lithuanian authorities. However, these concerns did not create major disputes and in significance do not compare to general regulatory barriers faced by businesses in the country. Although there have been significant American investments in Lithuania, reaching 8.6 percent of total FDI as of October 2003, in recent years investments originating from the EU, in particular the Nordic countries, have reached a share of 60-70 percent of total foreign direct investments. While membership in the Single market will most likely have a positive effect on direct investment from other members of the EU, it could be that being part of a 450 million consumer market might also attract additional outside investment, including American origin, willing to take advantage of access to the Single market and comparative advantages in Lithuania. Early adoption of the euro, currently scheduled for 2006-2007, could also encourage U.S. investments in Lithuania.

THE EU - STILL AN ECONOMIC GIANT AND MILITARY DWARF?

Growing economic integration between Lithuania and the EU is a result of several factors: geographic proximity, removal of barriers to trade and movement of factors of production, patterns of specialization. The EU is not only a customs union, it is also one of very few examples of the creation of a common market and a monetary union (among twelve of its members). Most of the preparatory measures undertaken in Lithuania in order to join the EU have also been in the area of economic exchange. Only a few issues touched upon the "high politics" of foreign and security policy, including Russian transit to and from the Kaliningrad region. This relative focus on technical matters of regulatory rules while ignoring other areas (with the exception of budgetary matters in so far as they were related to sectorally - farming - and regionally - the Ignalina nuclear power plant - concentrated groups of society) seems to reflect the nature of the EU with its supranational regime in regulatory matters and intergovernmental cooperation in security and defence issues. Most reforms in the military apparatus of Lithuania and in security aspirations have been related to preparations for NATO membership. It is through the latter that regular contacts with the U.S. have been maintained. Lithuania's support for U.S. actions in Iraq should also be seen not so much as an expression of support for the military actions but rather as a sign of solidarity with the country which supported the dissident movement of the Lithuanian community during the period of Soviet occupation when most West European governments tried to appease the Soviet Union, and which insisted on accepting Lithuania and other Baltic States into NATO⁵.

However, the changing nature of both the EU and NATO might change this balance of cooperative relations among members of the transatlantic community. Since the end of the Cold War there have been many debates about the relevance of NATO⁶. Although the enlargement of

⁴ Hamilton, D., Quinlan, J. A Common Interest in Prosperity, Despite the Rhetoric, FT.com site, 17 November 2003. As they further argue, "what is perhaps most striking is that economic integration [between the U.S. and the EU] strengthened further in the present year of political disintegration".

⁵ Similar argument on Poland and other acceding EU members' support for U.S. actions in Iraq is made in Geremek, B. Some remarks on Transatlantic Convergences and Divergences, Center for Transatlantic Relations, and Sikorski, R. Losing the New Europe, Washington Post, 7 November 2003.

⁶ For one of the more recent overviews of the arguments for and against NATO's existence see Howorth, J. ESDP and NATO. Wedlock or Deadlock? in Cooperation and Conflict, vol. 38, no. 3, 2003, p. 235-254.

the Alliance and its role in Kosovo seemed to give NATO a new mission, its relevance was again questioned after the September 11 events, in particular the disagreements among its members on the need for the war in Iraq and for providing Turkey with security guarantees if it found itself threatened during the operation. Currently the Alliance is clearly searching for redefinition of its operational model, and with participation in Afghanistan ongoing, its focus might increasingly move “out-of-area”.

At the same time, there has been an intensification of debates in Europe on the common defence policy (so far rarely backed by actions). Sparked by the ethnic conflicts in the Balkans and perceived inability of the EU with its Common Foreign and Security Policy to deal with instability in its neighborhood, the European Security and Defence Policy moved onto the EU agenda in 1999. It was then decided to create the 60,000-strong rapid reaction force, which might eventually replace NATO, to deal with similar conflicts around the EU. It should be noted the decision-making rules in this area were strictly based on the intergovernmental model, with each member state having a veto right. The forthcoming enlargement of the EU strengthened the concerns about the effectiveness of decision-making in the EU. More than an increase in the number of group members the heterogeneity of interests raised additional concerns as evidenced by the reaction of J. Chirac to the support of acceding countries for U.S. actions in Iraq. It is this context which helps one to understand the debates on the EU foreign minister and structured cooperation in the area of defence foreseen in the draft EU constitution (so far not adopted).

HISTORY, SUBSIDIES AND “HIGH POLITICS”

The potential for structured (enhanced) cooperation in the area of defence (and the position of the EU foreign minister) might create difficult dilemmas for Lithuania and other new members. First, this might result in a group of large member states, potentially joined by a group of mostly federalist-minded EU countries, making the decisions without due regard to the interests of others. The experience of Lithuania’s negotiations with the EU on the Russian transit regime during accession negotiations provides some basis for the caution. Statements made by the leaders of some large EU member countries urging the respect of Russian interests during the process of enlargement could be interpreted as pressure on Lithuania to give in to the demands of Russian authorities, who formally were not even part to the accession negotiations. Eventually, despite statements to the contrary, the European Commission did agree to modify the *acquis communautaire* in order to accommodate the interests of Russian authorities by agreeing on a new type of facilitated transit regime. This experience in the context of memories going back to the times of Soviet and Tsarist occupation provides the grounds for a cautious attitude towards a structured military cooperation led by France and Germany⁷.

Second, with the current ambivalent attitude of the U.S. towards a stronger political role of the EU in world affairs, the participation of Lithuania in the potentially enhanced cooperation projects of the EU might contradict U.S. interests. Though for a long time the U.S. encouraged the EC/EU to strengthen its political role and capacities, the actual developments are now regarded with suspicion by many in the U.S. administration. Of course, the rhetoric of the EU regarding its military role is still not matched by the required funding. According to some experts, meeting the ESDP headline goals might amount to 60-100 billion euro over next 10-15 years in addition to its annual operational costs of 7-33 billion euro, or some 2.3-2.8 percent of GDP⁸. Taking into account the current budgetary difficulties of Germany and France in meeting the requirements of the Stability and Growth Pact as well as the overall public skepticism towards increasing expenditures on defence, creating credible EU capacities might prove challenging. However, the

⁷ “French-German motor” supported by Belgium and Luxembourg was behind the recently advanced idea of a structured cooperation in the defence area. With the renewed support of Great Britain, this idea was discussed during 2003 and gained more credibility though even after reassurances that it would not duplicate NATO, was still regarded with suspicion by some in the U.S.

⁸ Muller-Brandeck-Bocquet, G. The New CFSP and ESDP Decision-Making System on the European Union, in *European Foreign Affairs Review*, no. 7, 2002, p. 281.

debates on this issue and the division of tasks between the EU and NATO are going to continue and the new members will eventually have to take sides.

Many analysts predict that after EU enlargement there will be more pro-American countries such as Poland that will strengthen the Atlanticist coalition⁹. Lithuania is likely to be among those “instinctive Atlanticists” who signed the Vilnius group declaration. However, it has been extensively shown that in the EU reluctant countries are influenced through package deals and payments on the side. Therefore, it remains to be seen if the potential budgetary favors can influence economically less developed new members to support EU initiatives which might not be welcomed by the U.S., or to restrain them from supporting the U.S. in its operations either unilaterally or through international institutions. To be sure, current budgetary difficulties of the major net payers to the EU budget and the increase in the number of net recipients after enlargement will limit the potential for traditional payments on the side. However, issue linkages could still be used as negative incentive, in particular during the reform of the common agricultural policy and adoption of the new financial framework of the EU for 2007-2013. In such cases the dilemmas of Lithuania and other new members could be phrased as follows: will the demands of domestic lobbies outweigh foreign policy and security concerns? In other words, will agricultural subsidies be able to buy the support of new members in “high politics” areas?

The history of American and European relations demonstrate that under conditions of significant external threat (the Soviet Union) the transatlantic community was able to maintain stable and good relations without letting them be disturbed by disagreements on agricultural subsidies, import duties and other trade related matters. Also, as the history of the EC illustrates, cooperative efforts do not spill over so easily from the matters of economic regulation and trade to the issues of security and defence. A relatively short history of transition reforms in Lithuania seems to provide grounds for arguing that security priorities determine economic policy decisions. However, when “everyday politics” rather than historical decisions are being made, short-term domestic interests might prevail. At that time the members of a coalition of “instinctive Atlanticists” might join the coalition of “calculating protectionists”. Payments on the side and socialization of the elites from new member states into EU institutions might gradually change their pro-American preferences, particularly if the EU continues to base many of its projects on competitive comparison of itself to the U.S. (“become the most competitive economy in the world”, as the main goal of the Lisbon Strategy puts it; meaning more competitive than the U.S., making the euro a global currency, etc.). However, it is still too early to forecast that such a change in preferences might spill over from the common trade policy area to security and defence issues which are based on a different mode of decision-making.

PRELIMINARY CONCLUSIONS

Simultaneous accession into the EU and NATO and the changing nature of these organizations create new important challenges for Lithuanian policy makers. Remaining a good ally of both the U.S. and partners in the EU when their preferences diverge might sometimes be a difficult task. It is still too early to make predictions on the basis of popular surveys regarding the similarities of societal values with the ones prevalent in America and Europe, because Lithuanian society is still in the process of transition, which takes longer than the reform of economic and political institutions. On the one hand, the experience of transition reforms makes some groups of the population prone to take risks, making them similar to the Americans. On the other hand, a still very strong attachment to the paternalistic state as evidenced by popular surveys might actually be reinforced by socialising with societies from European countries with extensive welfare conditions.

⁹ See Grabbe, H. Shaken to the Core, in *Prospect*, May 2003, p. 12-13; Zaborowski, M., Longhurst, K. America's proteze in the East? The emergence of Poland as a regional leader, in *International Affairs*, vol. 79, no. 5, p. 1009-1028.

With regard to the role of international institutions, on which currently the attitudes of the U.S. administration and many EU member states diverge, Lithuania might also have difficulties choosing between unilateralists and multilateralists. The official policy of Lithuania has been in line with the multilateralist approach. This seems to be understandable taking into account the size of the country (small countries are seen as favoring and benefiting more from multilateral institutions) and the historic experience of being occupied by European powers. On the other hand, historical evidence might be interpreted differently (for example, the role of the League of Nations). Besides, if not for the strong push of the U.S., the prospects of Lithuania's accession into NATO would have been questionable. The unilateral actions of the U.S. might still be supported by Lithuania if they are directed at liberating nations from oppressive regimes, only because of the historical experiences of the country.

Finally, the search for the solutions between different policy choices most often is going to take place during the everyday politics of coalitions. In the area of economic interests a number of factors ranging from supranational decision-making procedures to easier potential for payments on the side and issue linkages would probably push the Lithuanian policy makers closer to the position of France and other protectionists, which often conflict with the U.S. In the field of security and defence matters the challenges are going to be the most complex. Although it is in Lithuania's best interest to have a well-functioning NATO and the U.S. firmly interested in European affairs and its neighborhood, the emerging EU defence structures create the potential for duplication, especially in the face of disagreements between members of the transatlantic community. Together with the new threats, this is likely to facilitate directing the attention of the U.S. to other regions of the world. It will take both imagination and skill from Lithuanian policy makers and diplomats to ensure that these changes do not leave Lithuania less secure and less integrated in the transatlantic community.