

Europe / Russia

The Madrid bombings of 11 March 2004 highlighted a number of hard choices that European governments had to face if they were to secure their future in a more integrated world. It became clear that Europe could not be the model for multinational harmony that its leaders hoped it could be until it first demonstrated its own political cohesion and its own competence in protecting itself from external threats. The successful completion of EU enlargement and the negotiation of a new constitutional structure were the two chief political challenges, with the establishment of a coherent common foreign and security policy and improvement in economic performance and governance persistent subsidiary problems. Generating a collective counter-terrorism posture and a standing European military force with power-projection capabilities constituted the principal security challenges. As of April 2005, both endeavours seemed in some doubt. While enlargement was proceeding fitfully, it appeared that some key EU member states would reject the European Constitutional Treaty, which would make the once-dreaded prospect of a 'Europe à la carte' a distinct possibility. EU accomplishments in the security and defence arena were more palpable. The Madrid bombings prompted improvements in both the EU's counter-terrorism infrastructure and its performance. The European Defence Agency was created, EU-NATO relationships were institutionalised and NATO transferred operational control of security operations in Bosnia and Herzegovina to a European Union Force of 7,000. But the EU still had considerable difficulty projecting force abroad and had yet to define the parameters of its military mission.

In 2004-05, Russia continued to pull back from the West. There were several factors at work. The EU expanded to Russia's borders, increasing the latter's sense of geopolitical siege. Moscow's sensitivity manifested itself in its maladroit backing

of pro-Russian incumbent Victor Yanukovich, who ultimately lost power in Ukraine under the pressure of the popular 'Orange Revolution'. But Russia's decreasing influence with former Soviet republics appeared real throughout Eurasia, as the people of both Georgia and Kyrgyzstan ousted authoritarian rulers who enjoyed Russia's support. Russian President Vladimir Putin both explicitly and implicitly recognised Russia's evolving weakness within its putative sphere of influence, but sought to strengthen his own power within Russia. Prompted by the tragic terrorist siege in Beslan, North Ossetia, in September 2004, in which over 300 people died, and rising terrorism within Russia, he adopted increasingly hard-line security policies at home. While Russia's policy on the separatist (and to an extent Islamist terrorist) conflict in Chechnya featured attempts to tame the larger Chechen population through political and material rewards, it remained unclear, pending October 2005 parliamentary elections, whether this effort would succeed. It was also uncertain how Putin would try to ensure that kindred political figures succeeded him when he stepped down in 2008, as required by law, though his political opponents did not appear well organised. While the Russian economy continued to rely on high oil prices, Putin's increasingly autocratic and illiberal inclinations – in particular, the state's seizure of Yukos, Russia's largest oil production company – prompted both the flight of Western capital and the criticisms of Western leaders, including US President George W. Bush.

In contrast to Russia, Turkey – in many ways the bridge between Asia and Europe, East and West – moved nominally closer to Europe, as Brussels finally, in December 2004, gave Ankara a fixed date for the beginning of accession negotiations. At the same time, Turkey's ruling Justice and Development Party (JDP)'s looming confrontation with the military over JDP attempts to compromise Kemalist secularism, questions about its appreciation of the requirements of EU membership, lingering discomfort over compromising on Turkish Cypriot sovereign rights, and economic problems cast doubts on its European vocation. Furthermore, cooler post-Iraq relations with the United States and Israel, closer links with Iran and Syria, anxieties about the resurgence of the Kurdish independence movement in Turkey cued by the political ascent of Iraqi Kurds, the JDP's Islamist leanings, and a surge of insular Turkish nationalism made Turkey's strategic position less firmly aligned with the West than it had been before the Iraq war. Finally, despite its electoral success, the JDP's internal disarray (and a large number of resignations) betrayed a brittle and unsteady government. While its long-term aspirations to act as a strategic bridge and converge with Europe remained intact, for Turkey, as well as Europe and Russia, 2004–05 was marked by difficult adjustments and transitions rather than any particularly satisfying sense of arrival.

Europe: Soft Power, Hard Choices

The terrorist attacks in Madrid that took place on 11 March 2004 marked a turning point in the political development of the European continent. The changes that followed were not of the same magnitude as those experienced in the United States after the terrorist attacks of 11 September 2001; the Madrid bombings did not force Europeans to engage in a fundamental reconsideration of power and security. But the bombings did underscore a number of hard choices that European governments had to face if they were to secure their future in a more integrated world. Europe, it became clear, could not be a model for peaceful coexistence until it first put its own affairs in order. The successful completion of European Union (EU) enlargement and the negotiation of a new constitutional structure are only the two most obvious challenges to be faced. Improvement in underlying economic performance (and overlying economic governance) is important as well. Beyond such internal matters, Europe must prepare to protect its interests and project its influence with hard power as well as soft. It must secure its new borders in Eurasia, the Middle East and North Africa. And it must do all this without alienating or antagonising domestic public opinion. The speed and decisiveness with which the Spanish electorate turned against the centre-right incumbents in the March election that closely followed the bombings underscored the need to maintain political legitimacy. Perhaps even more than the threat of terrorism itself, this is a lesson that European politicians will not soon forget.

Deepening and widening

The Madrid tragedy broke the logjam in intergovernmental negotiations over the draft Treaty Establishing a Constitution for Europe (Constitutional Treaty). Almost as soon as it was clear that the Spanish Socialist Workers Party (PSOE) had triumphed over the centre-right Popular Party (PP) in the 14 March 2004 elections, incoming Prime Minister José Luís Rodríguez Zapatero made it known that he would seek to improve relations with France and Germany. In part, this declaration was a logical extension of Zapatero's pre-election commitment to withdraw Spanish troops from participation in military operations in Iraq. It also signalled that Zapatero would welcome a compromise proposal on the allocation of voting weights in the EU's Council of Ministers. Spanish withdrawal from Iraq (completed by 21 May) weakened the US-led coalition, albeit perhaps only symbolically. By contrast, the prospect of Spanish concessions gave strength to European constitution-building.

The intransigence of the preceding centre-right government of José María Aznar on the distribution of voting weights in the Council played an important role in bringing negotiation of the Constitutional Treaty to a halt at the 13 December 2003 meeting. Together with Leszek Miller's government in Poland, Aznar's government wanted to preserve the voting weights as allocated in the December 2000 Treaty of

Nice and which would come into force on 1 November 2004. These weights give Spain and Poland (with 27 votes each) almost as much influence in the Council as the four largest EU Member States (with 29 votes each). By contrast, the governments of Germany and France insisted on moving to a dual majority system that would count both the number of states and their relative shares of the total EU population. Such a dual majority voting system would strengthen the larger Member States at the expense of their middle-sized and smaller counterparts. Spain and Poland had the most to lose as a result.

Zapatero's willingness to concede to some form of dual majority voting left Miller isolated in his support for the Nice voting weights. Soon after Zapatero came to power, Miller indicated that he would give ground. Then, on 26 March, Miller announced his intention to resign as Poland's prime minister with effect from 2 May – one day after the EU's enlargement to include ten new Member States from Central and Eastern Europe and the Mediterranean. Meanwhile, the Irish presidency of the Council declared its intention to complete negotiation of the Constitutional Treaty in advance of the June 2004 Council summit. Progress thereafter was rapid, and the negotiations were completed in time for the June summit. The legal editing took place over the summer, and the document was signed by representatives of all 25 Member States on 29 October. Less than 12 months after the intergovernmental conference appeared to fail in Brussels, the Member States could begin ratification efforts.

The institutional changes brought about in the draft Constitutional Treaty are less sweeping than the term 'constitution' suggests. In legal fact, the document remains a 'treaty' and not a constitution. It is an agreement among states, not a social contract among peoples. It does succeed in bringing the existing European treaties (the Treaty on European Union and the Treaty Establishing the European Communities) within a common framework, yet it does little either to simplify or to shorten the combined text, which is still more than 250 pages long. While the Constitutional Treaty attempts to distinguish among EU, Member State and shared competencies, the distinctions remain difficult to discern with legal precision. The Constitutional Treaty nevertheless offers some improvements. As mentioned, it provides for qualified majority voting to take place on a dual majority basis – with 'majorities' requiring the support of 55% of the Member States representing 65% of the population. It creates a 'Union Minister for Foreign Affairs' who will combine powers from the Council and the European Commission in a single office responsible for the whole spectrum of foreign relations from security to trade. On 29 June, the Council of Ministers named Javier Solana the first 'Union Minister', while also announcing that he would remain for another five years as Secretary General of the Council and High Representative of the EU's Common Foreign and Security Policy. The Treaty also establishes the Council as a separate institution with a president who serves for two-and-one-half years rather than rotating among the Member

States every six months, and it incorporates the European 'Charter for Fundamental Rights' within the legal framework for the EU.

Such changes in the constitutional structure of the EU are marginal, yet important. With the expansion of the EU from 15 to 25 Member States on 1 May 2004, the range of challenges confronting the Union expanded considerably in terms of both issues and procedures. This is obvious with respect to the increasing number of Member States. But it is also relevant when looking at the dynamics at work within the accession countries. Just weeks before enlargement took place (on 6 April), the Lithuanian parliament voted to impeach President Rolandas Paksas for alleged links to organised crime. Poland's Prime Minister Miller resigned on 2 May, not only because he was forced to concede in European negotiations but, more importantly, because he lost control over his own Alliance of the Democratic Left (SLD). The problems are not limited to Central or Eastern Europe. With the failure of the referendum on 24 April, Cyprus remains divided in fact if not according to the principles upon which it was admitted to the EU. Moreover, relations between the Greek Cypriot government and Turkey continue to complicate European affairs. Hence it is not enough to strengthen EU procedures against the increase in membership; it is necessary to strengthen them in response to the potential for political instability within the new Member States as well.

Finally, the revisions made in the Constitutional Treaty are necessary to prepare the institutions for future enlargements. The June 2004 European Council 'recalled' that Bulgaria and Romania 'are part of the same inclusive and irreversible enlargement process' that 'saw ten new Member States join the Union on 1 May 2004'. In turn, the Council acknowledged that both countries remain on track to join the Union in 2007. If anything, these countries are somewhat more unstable politically than the preceding ten. In the 2001 Bulgarian parliamentary elections, a former Bulgarian monarch, Simeon II, was able to create a successful political movement within less than six weeks of the polling date. From that basis, he captured a bare majority of the seats in parliament. Soon thereafter, the internal discipline of his movement began to waver and his popularity with the voters fluctuated wildly. Simeon II must return to the polls in 2005 and is widely expected to lose. The situation in Romania is no more promising in terms of political stability. The centre-right presidential candidate, Traian Basescu, came from behind after the first round of voting in November 2004. In a second round of voting the following December, Basescu defeated his centre-left opponent, Adrian Nastase. This shift to the centre-right constitutes an important break with the recent past. During the transition period, Romanian politics was dominated by communist-successor groups. Nevertheless, it is still too early to tell whether Basescu's victory marks a lasting political stabilisation. Indeed, the Romanian electorate shows a troubling propensity toward extremism. In the first-round polling, the right-wing nationalist Vadim Tudor gained almost 13% of the vote. Subsequently, Tudor's approval ratings

climbed to more than 20%. Such support may not seem striking when compared to that garnered by right-wing extremists in either Belgium or France. Still there is reason to believe that the Romanian case is qualitatively different. The country is ethnically more diverse, it is poorer and its political parties are more fragile. When Bulgaria and Romania join the European Union in 2007, the danger is that neither country will be stable enough domestically to participate as effective negotiating partners. Without a more robust set of European institutions, the decision-making process may become moribund as a result. The Madrid tragedy broke one such logjam, but it would be unrealistic to expect similar shocks to liberate European decision-making from others that might emerge.

Money and power

The completion of enlargement and the negotiation of the Constitutional Treaty were important events. Nevertheless, they failed to capture the popular imagination – at least in the 15 pre-existing Member States of the European Union (EU-15). The new Member States held major celebrations on enlargement day, as did the Irish EU Council presidency in Dublin. However, festivities elsewhere in the EU-15 were much more subdued. This lack of enthusiasm is unsurprising. During the months leading up to enlargement day, support for an expansion of the EU to ten new Member States started to decline. In a survey taken during February and March 2004, only 42% of respondents in the EU-15 favoured enlargement while 39% were against (with 19% still undecided). Among the larger countries, proponents of enlargement outnumbered opponents only in Italy. In France, Germany and the United Kingdom, public opinion skewed strongly against enlargement.

Lack of enthusiasm for the Constitutional Treaty was more uniform across the two parts of Europe, large and small, old and new. A *Flash Eurobarometer* published in July 2004 on the basis of fieldwork undertaken in June and July revealed that only 30% of the EU population felt well informed about the Constitutional Treaty. Meanwhile, knowledge about the contents of the Constitutional Treaty was relatively low and remained unchanged from previous surveys, despite the conclusion of negotiations among the Member States. Public information campaigns between the end of negotiations in June and the signing of the Treaty in October did little to dent these statistics. A reiteration of *Eurobarometer* polling across the enlarged European Union (EU-25) in early October revealed that 11% felt they knew something about the treaty's contents, 33% were aware of its existence, and 33% knew little or nothing at all.

The problem is not so much ignorance as preoccupation. Even if Europeans were aware of enlargement and constitutional reform, the focus of their concern lay elsewhere. The contrast with the United States is striking. In the US, 11 September recast American politics around security and the war on terror. The Madrid bombings had no such effect. Despite widespread outrage about the tragedy, the bombings

failed to drive security issues – including terrorism – to the top of the popular political agenda. Instead, European electorates continued to focus on economic concerns, principally unemployment. When European voters went to elect a new European Parliament in June, 51% of respondents across the EU-25 felt that unemployment should be the major theme in campaigning, as compared to only 32% for terrorism, 30% for economic growth, 30% for crime and 29% for the future of pensions. The contrast between unemployment and terrorism is less sharp, at 47% and 35% respectively, when the sample is restricted to the EU-15, but it is much more pronounced in the new Member States, where unemployment is the major theme for 72% of respondents and terrorism is a distant fifth at only 17%. These concerns translated into abstentions at the polls. At just under 46%, participation rates in the June 2004 elections to European Parliament were the lowest since the introduction of direct elections in 1979. In Slovakia, turnout was a derisory 17%.

Such concern for economic issues can be explained by three factors: the weakness of European economic performance; the controversy surrounding the Stability and Growth Pact; and the failure of the Lisbon strategy to transform Europe into the world's most competitive and dynamic knowledge-based economy. Of the three, the weakness of macroeconomic performance is the most easily described. In 2003, real growth in GDP was only 0.5% in the EU-15 and 0.9% across the EU-25 as a whole – with unemployment averaging 8.9% of the labour force in the EU-15 and 9.1% in the EU-25. Growth accelerated moderately during the first half of 2004, but unemployment remained level. Such aggregates do obscure huge disparities in performance from one country to the next. A few of the smaller countries – the Baltic states, Ireland, Greece, Slovakia – grew at a much higher rate. However, even these countries continue to suffer from unemployment. The Baltic states and Greece have unemployment rates above the European average. Unemployment in Slovakia is more than 17%. And while Ireland's unemployment rate is much lower – 4.6% in 2003 – it is nevertheless increasing year on year and in spite of the country's relatively high growth rate.

The controversy over the stability and growth pact is a holdover from the events of 25 November 2003. At that time, the governments of France and Germany moved in the EU's Council of Economics and Finance Ministers (ECOFIN Council) to suspend the rules for fiscal performance required of all countries that participate in the euro. Both the French and German governments were running fiscal deficits in excess of 3% of GDP. Both also faced sanctions for having failed to rectify the situation. Nevertheless, neither government was willing to cut back on fiscal outlays in a manner that might trigger (or deepen) a domestic economic recession. Suspending the rules was the only way they could see to square the circle. The reactions of the smaller Member States and from the European institutions fuelled the controversy. The Dutch government decried the abuse of European procedures even though it too would be found in breach of the fiscal rules on 2

June 2004. The Commission filed a petition before the European Court of Justice (ECJ) on 27 January 2004 to annul the actions of the ECOFIN Council for abuse of procedure. The ECJ upheld the Commission's request for annulment, but maintained that control over the stability and growth pact remained within the power of the Member States.

The ECJ ruling added impetus to calls to reform the stability and growth pact in order to make the rules for fiscal behaviour more compatible with the promotion of economic growth. Nevertheless, the tension between small-country emphasis on strict adherence and large-country demands for fiscal flexibility remained acute. This division extended all the way down to public opinion, with 49% of respondents favouring strict interpretation of the rules and 43% accepting the need for greater flexibility. In autumn 2004 and winter 2005, successive Council presidencies struggled to find a formula for successful stability and growth pact reform. Ultimately the Luxembourg presidency settled on a fudge. At the March 2005 European Council Summit, the Member States agreed to retain strict rules for enforcing fiscal stability but also to enumerate ambiguous conditions under which the rules could be ignored.

The failure of the Lisbon strategy is another recurrent theme. The original goal of the Lisbon strategy as announced in March 2000 was to create the world's most competitive and dynamic knowledge-based economy. However, data indicating slow growth and high unemployment made it clear this was not in train. The Council therefore called for the appointment of a high-level group chaired by former Dutch prime minister Wim Kok to make recommendations as to how the Lisbon strategy could be improved. The findings in the Kok report, presented on 1 November 2004, were damning. According to Kok, the Lisbon strategy was overloaded with too many goals and targets. Member state activities were spread too thinly, priorities for action were unclear and progress was slow. Kok therefore argued that the Lisbon strategy should focus more narrowly on growth and employment. He conceded that the goal should be to maintain Europe's position as 'one of' the world's most competitive and dynamic knowledge-based economies, and insisted on prompt action to ensure the survival of the European social model. These findings informed the deliberations of the European Council in March 2005. As the Member States wrestled with the complicated problem of reforming the stability and growth pact, they had less difficulty accepting the need to re-consecrate their economic policies around the goal of promoting more growth and employment. The problem, however, is that the EU has little or no influence over the success of such efforts. Although the Lisbon strategy is announced at the European level, the real task of reforming inefficient market structures and overburdened welfare states remains firmly within the ambit of national governments, and national reform efforts continue to encounter significant opposition – especially from labour unions.

Security and defence

The reaction of European political elites to the Madrid bombings was to pull together a number of ideas and projects that were already emerging both in the development of a European security and defence identity writ large and in the European approach to the 'war on terror' more narrowly. In March 2004, on the first day of the European Council summit – usually reserved for economic matters – the Council presidency issued a series of documents and declarations on combating terrorism. It invoked the solidarity clause set out in Article 42 of the draft Constitutional Treaty committing the Member States to 'mobilize all the instruments at their disposal, including military resources' to prevent further terrorist atrocities. It created a revised plan of action and set specific timetables to improve the flow of information among the Schengen countries and to strengthen border controls and travel document security. Most important, perhaps, the European Council created a counter-terrorism coordinator to operate within the Secretariat of the Council of Ministers. Javier Solana, secretary-general of the Council, appointed former Dutch deputy interior minister Gijs de Vries to fill the new counter-terrorism post. Subsequently, the development of EU counter-terrorism policy became a predominant theme in Council deliberations. At the June 2004 summit, the Council enumerated the achievements made in the previous three months – particularly with respect to information flow and border controls. It called for more active work to combat terrorist financing, to facilitate information exchange between intelligence agencies, and to enhance civil protection. It also underlined 'the importance of making use of the wide-ranging instruments of the European Union in the context of all factors which contribute to terrorism'. Finally, the Council announced its intention to review progress twice a year beginning December 2004.

Counter-terrorism was again a major theme at the Council summit held in November 2004. However, the main purpose of the summit was to reinforce the development of the EU as an area of freedom, security and justice. The 'Hague Programme' is a comprehensive initiative to embed the principle 'that when preserving national security, the Member States should take full account of the security of the Union as a whole'. As such, it embraces the full range of domestic security concerns from drugs and crime to citizenship, asylum and immigration. The programme draws inspiration from aspirations set out in the Constitutional Treaty, but the legal basis for action can also be found in the existing treaties. Within the overarching framework of the Hague Programme, the European Union has already made particular progress on terrorist financing, intelligence cooperation and border security. In November, the European Council called on the Council of Ministers to develop 'a long-term strategy to address the factors which contribute to radicalization and recruitment for terrorist activities'. On 22 November, the Council also adopted 'a conceptual framework on the European Security and Defence Policy (ESDP) dimension of the fight against terror'.

European action in the area of security and defence was not limited either to counter-terrorism or domestic notions of public safety. Both the EU and the Member States made progress in bringing the December 2003 European Security Strategy (ESS) to life. The ESS stresses the importance of developing a real capability for European force projection both within and outside the context of the Atlantic alliance. Given the ongoing tension in the transatlantic relationship, Europeans on all sides of the debate were eager to make progress with this agenda. Strengthened European capabilities would not only liberate European politicians from American tutelage, but they would also increase the potential for transatlantic cooperation in foreign and security policy. Notable progress was made in three areas: the creation of a European Defence Agency; the strengthening of relations between the EU and NATO; and the elaboration of new European battle groups for future force projection.

The European Defence Agency (EDA) was first proposed during the June 2003 European Council summit as the EU Member States considered an early draft of the European Security Strategy. The purpose of the EDA is fourfold: to improve member state capabilities; to facilitate armaments cooperation between Member States; to strengthen the competitiveness of European defence industries; and to foster new research and development. Institutionally, the EDA operates under the authority of the Council and is open to participation from all Member States. A joint action plan to create the EDA was agreed shortly before the June 2004 European Council, which welcomed the EDA's establishment. Javier Solana, as secretary-general of the Council, assumed responsibility as chair of the EDA steering board. On 30 July, Solana appointed Nick Witney, a former director general for international security policy from the UK Ministry of Defence, to be the EDA's first executive director. Thereafter, the agency's activities have remained predominantly organisational. The steering board met in September and November 2004 to review progress, agree budgets and outline strategies for growth and consolidation. The work programme for 2005 leads off with the priorities of ensuring that the agency is 'properly established', of making sure that it has 'the right relations with participating Member States' and that it has 'the right relations with other key stakeholders'. Should the EDA succeed, it will go a long way to supporting the more efficient use of European defence capabilities.

Strengthening relations between NATO and the EU was a necessary complement to the enlargement of both organisations. NATO expanded to 26 Member States in March 2004, taking in a number of countries about to join the EU and two countries, Bulgaria and Romania, which will not become EU members until 2007. While the expanded membership of both organisations presented a host of new challenges and opportunities, they remained constrained by an imperfect overlap in membership and by the disagreement between the United States and some of its European allies over the conduct of the war in Iraq. Hence while the EU and NATO had finally agreed on procedures for European use of NATO assets under the Berlin Plus frame-

work in 2003, the use of this arrangement remained limited. The June 2004 NATO summit in Istanbul, however, was an important step toward institutional cooperation. To begin with, NATO leaders agreed to scale down alliance deployments in Bosnia and Herzegovina and to transfer operational control to a new European Union Force (EUFOR) that would operate under a UN mandate within the context of Berlin Plus. When it took up position in December 2004, this 7,000-strong force would be the largest-ever EU deployment. NATO leaders also agreed to participate in the training of Iraqi security forces, strengthened Euro-Atlantic cooperation in the Caucasus and Central Asia, and launched a new 'Istanbul Cooperation Initiative' for the Middle East. The summit was not the major breakthrough that some observers had hoped for, but it offered hope for progress nonetheless.

The US presidential elections and the ongoing violence in Iraq initially lowered expectations for a transatlantic rapprochement. The November 2004 European Council congratulated President Bush on his victory; however, it also issued a declaration on Iraq that not only failed to mention either the United States or the coalition forces but also emphasised that EU involvement could not take place inside Iraq until 'all security concerns' were 'appropriately addressed'. Nevertheless, progress continued on the institutional front. Soon after EUFOR took up its positions in Bosnia and Herzegovina, the European Council agreed detailed plans for the creation of permanent liaison facilities for the EU at Supreme Headquarters Allied Powers Europe and for NATO within the European Union Military Staff. During the early months of 2005, institutional accommodation between NATO and the EU prevailed over political unease or ill will. US Secretary of State Condoleezza Rice and President Bush came to Europe for their first official visits abroad during Bush's second term. Coming on the heels of fairly successful democratic elections in Iraq, these visits helped change the tone of the transatlantic relationship. More importantly, they provided an opportunity for the Bush administration to state clearly its support for the creation of a European security and defence identity and for European integration more generally. President Bush made a point of going to Brussels. In a statement of the North Atlantic Council, the heads of state and government declared that 'a stronger EU will further contribute to our common security'.

The promise of European integration – and to an extent transatlantic relations – lies in the better use of European defence capabilities. The EDA goes part of the way toward making European security policy more efficient. Strengthened relations between the EU and NATO go further still. Yet the EU has considerable difficulty projecting force abroad. The November 2004 decision to develop 13 small and readily deployable battle groups (each with about 1,500 personnel) provides one possible solution. While it does not answer demands for EU force creation, it has the virtue of furnishing relatively discrete units that can be assembled individually. These units could be used for crisis management operations worldwide. The first such group is to be set up in 2005 and the rest are to be operational by 2007.

Friends and neighbours

Whatever the success of the European battle groups, NATO–EU relations or the EDA, Europeans will continue to emphasise the role of soft power rather than hard power. European-preferred security responsibilities are almost certain to be more regional than global in nature. And European soft power is more influential when exercised more closely to home. The best example of this is the process of European enlargement. During the aftermath of the 1999 Kosovo crisis, the Cologne European Council called on the European Commission to draw up plans to make the prospect of membership real to all candidate countries in Central and Eastern Europe. The results culminated in the vast enlargement on 1 May 2004. While concern may be warranted about the political stability of some of the new Member States, it is necessary also to recognise the intrinsically stabilising influence that the process of accession to EU membership provided. But as the EU has expanded to encompass almost the whole European continent, the opportunities to apply ‘enlargement’ as an instrument of security policy have become more restricted and the potential costs – both economic and political – have become higher. The EU officially recognises only a few countries as actual or potential candidates for membership. Bulgaria and Romania will join in 2007. The European Council agreed at its December 1999 summit in Helsinki to treat Turkey as a candidate like any other, and acknowledged at the Feira summit in June 2000 that all countries in the western Balkans are potential candidates for EU membership. In practice, however, only one of the western Balkan countries, Croatia, has been allowed to submit a formal application for membership.

Bulgaria and Romania remain firmly on track to join the EU in 2007. The situation for Turkey is more complicated. Turkey has long sought to join in the process of European integration. Time and again, however, the Member States have resisted Turkish applications. The arguments against Turkey’s joining centre on the relative size and poverty of the country as well as its poor record on human rights. The decision taken at Helsinki did not ignore such concerns, but insisted that Turkey must adhere to the same criteria for membership as all other candidates. These include reference to the rule of law, respect for human rights and demonstration of the economic capacity to participate in the single European market. Since 1999, Turkey has made tremendous efforts at reform. It has brought the police under tighter control, abolished the death penalty and made headway in market liberalisation. The December 2003 European Council acknowledged this progress and called for the Commission to undertake a formal review of Turkey’s application so that the December 2004 Council could announce a starting date for negotiations. The Council of Europe also recognised the extent of Turkish reforms and in March recommended that close monitoring of Turkey could be discontinued.

Despite such positive recognition, public opinion in much of the EU remained steadfastly opposed to Turkish accession. In October, French President Jacques Chirac attempted to allay popular concerns by promising to hold a referendum

on Turkish membership at some point in the future, but this commitment only heightened concerns about the accession process. When the Commission finally released its report on Turkey, observers noted both its positive conclusion and its strong conditions. The subsequent Council decision struck a similar balance. Turkey would be allowed to begin negotiations on membership from 3 October 2005, but accession could not take place before 2014. Meanwhile Turkey would have to continue with reforms, and recognise the government of Cyprus. It could be subject to 'long transition periods', and in any case accept that 'these negotiations are an open-ended process, the outcome of which cannot be guaranteed beforehand'. Progress for Turkey since the December 2004 Council has been mixed. At the start of 2005, the introduction of a new Turkish lira (taking six zeros off the old lira) provided significant economic improvements. However, a police assault on a group of women's rights protestors in March was a setback, tarnishing Turkey's human-rights reputation. Negotiations are still set to begin on 3 October 2005, but public opinion is unlikely to become any more receptive to Turkish membership.

The situation for Croatia is at once straightforward and intractable. The June 2004 European Council accepted a Commission recommendation that Croatia be allowed to apply for EU membership. In turn it called for negotiations to begin early in 2005. The only strong condition it required is that Croatia cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY) and hand over 'the remaining indictee', the fugitive general Ante Gotovina. When the Council returned to this issue the following December, it clarified that negotiations could start on 17 March 2005 and it 'reiterated that the remaining indictee must be located and transferred to the Hague as soon as possible'. As the date for negotiations to start approached, however, the Croatian government claimed it could not find Gotovina in order to hand him over. On 16 March 2004, the European Council presidency decided to postpone negotiations until a resolution of this issue could be found.

The other countries in the western Balkans are unlikely to be ready for membership in the near future. The Former Yugoslav Republic of Macedonia is perhaps the closest, but still must struggle with the deep ethnic divisions in the country. The April 2004 presidential elections offered some reassurance that the voters were more interested in conventional economic matters than in ethnic conflict. The potential for a renewal of conflict remains a concern nonetheless. Certainly the ethnic violence witnessed across the border in Kosovo the previous March gave considerable cause for alarm. Over a two-day period, ethnic Albanian Kosovars destroyed over 700 homes and 30 orthodox churches while at the same time displacing approximately 4,500 ethnic Serbs, Ashkali and Roma residents. This outburst of violence underscored both the need to maintain a strong NATO presence in the country and the difficulty of resolving the final status of Kosovo relative to the Republic of Serbia and Montenegro. Bosnia and Herzegovina also has difficulties. Soon after EUFOR assumed operational control in the country in December 2004, the high representative, Paddy Ashdown, had a major confrontation

with the Bosnian Serb government. Ashdown accused them of failing to pursue Ratko Mladic and Radovan Karadzic, perhaps the two best known of the ICTY's outstanding indictees. When Ashdown sacked a group of police and security officers, he provoked the resignation of a number of Bosnian Serb officials and brought into crisis the functioning of the country's central government.

The readiness of the western Balkans for membership in the EU may not be the most important issue. As the European Council noted in June 1999, what matters most is that the prospect of membership is real for the countries concerned. In this sense, the problems in the western Balkans are nevertheless still best addressed within the context of eventual membership – leaving aside when that eventuality will come to pass. Signs in Bosnia advertising the transition from SFOR to EUFOR are subtitled 'from stabilisation to integration'. Even in the most troubled parts of the Balkans, this slogan rings true. This is not so for those countries outside the ambit of actual or potential membership. For them, European soft power is projected without the promise of membership attached. In March 2003, the European Commission proposed that the EU develop a new 'Neighbourhood Policy' to bring together many of the disparate instruments in use for the development of good relations with the remaining formerly Soviet republics of Belarus, Ukraine, Moldova and Russia, as well as the countries of the Caucasus, the Middle East and the South Mediterranean. In this way, the Commission could develop a common framework for encouraging reform, promoting development and structuring bilateral relations between the EU and the many diverse countries along its borders. The Commission further elaborated this new instrument in a communication published in July 2003, and came out with a full-blown strategy paper in May 2004 that was adopted by the European Council the following June.

The Neighbourhood Policy has been very successful in structuring relations between the EU and its bordering regions, particularly with those countries that never seriously entertained aspirations to full membership. However, it has been less effective in countries, like the Ukraine, that fear the Neighbourhood Policy is designed to keep them out. The controversy and aftermath of the 2004 presidential elections in the Ukraine illustrates the problems that this poses. When Victor Yanukovich defeated Victor Yushchenko in a poll held on 21 November, the EU refused to recognise the outcome. As popular protests mounted, the EU supported calls for a re-running of the contest. Moreover, the personal intervention of Polish President Aleksander Kwasniewski provided essential mediation between the opposition, the government and the courts. Ultimately, the Ukrainian Supreme Court annulled the first contest. On 8 December the Ukrainian Parliament called for fresh elections, and on 26 December, Victor Yushchenko achieved a decisive victory. Almost immediately, he began to pressure for Ukrainian membership in the EU, with strong Polish support. In a non-binding resolution, Members of the European Parliament voted 467 to 19 in favour of giving the Ukraine 'a clear

European perspective'. The European Commission is left with the awkward task of explaining why a democratic Ukraine can only expect to be a 'neighbour' and not a 'member state'. Nevertheless, the arguments against an early Ukrainian application are at least as strong as those against Turkish membership. With almost 50m people and a per capita income of only \$4,155 (adjusted for purchasing power), the Ukraine is both very large and very poor. It has unstable political institutions and it is still in need of major market reforms. President Yushchenko believes that only the promise of membership can motivate Ukrainians to stay on the reform path. President Kwasniewski insists that Ukraine be given the chance to rejoin the European fold. Yet it is an open question whether the EU actually has the soft-power resources to underwrite a successful transition of the Ukraine from stabilisation into membership. Given Brussels' difficulty in negotiating a financial framework for the period 2007–13, there is considerable reason to believe that it does not.

Democracy and solidarity

The role of public opinion in this new European dispensation remains unclear. The relative importance of the EU in contrast to the various countries of Europe remains unclear as well. It is possible to review European political developments with the EU at the centre of the analysis, but that is no guarantee as to where the real power in Europe actually lies. The Spanish electorate has signalled the danger of losing legitimacy in the eyes of the voters. The Ukrainian electorate underscores the power of popular aspirations to democracy. In both instances, the focus is on domestic and not European politics. By contrast, the low turnout in European parliamentary elections suggests either frustration or disengagement. The EU is a focal point for analysts, but not for popular political support. The weakness of popular identification with Europe reveals itself in three areas: growing opposition to multi-cultural society, tense bargaining over European financial resources, and the difficulty of ratifying the European constitutional treaty through popular referendums.

The assassination of the Dutch filmmaker Theo van Gogh on 2 November 2004 by a man believed to be a Muslim radical – van Gogh had made a movie critical of the treatment of women in Islamic culture – triggered a powerful wave of anti-Islamic sentiment across the Netherlands. In the immediate aftermath, this sentiment was expressed in attacks on mosques and Islamic schools. Over the longer term, however, it centred on support for the right-wing politician Geert Wilders – a former Liberal who left his party to start a self-named list (GroepWilders) in the style of another recent Dutch populist, the late Pim Fortuyn. Wilders, like Fortuyn before him, hopes to tap into popular concerns about the threat of immigration to Dutch cultural identity. In making this appeal, Wilders achieved strong initial success. November polling data indicated that his self-styled list could capture up to 16% of the popular vote, or 24 seats out of 150 in the second chamber of the Dutch parliament. Although that support has died down, the potential for Dutch voters to

mobilise around xenophobic platforms remains. The link between such anti-immigrant mobilisation and anti-European sentiment remains as well. Wilders is both a leading campaigner against ratification of the European constitution and an ardent supporter of regaining Dutch independence in Europe.

The rejection of multiculturalism is not limited to racism. It also extends to sincerely held beliefs within European countries. The initial failure to appoint the European Commission is a good example. The European Council announced the appointment of José Manuel Durão Barroso as president-designate of the European Commission at the same time it reappointed Javier Solana in late June 2004. Soon thereafter, Barroso began assembling his Commission team. Among the candidates on offer was the Italian philosopher and Christian Democratic politician Rocco Buttiglione. Barroso allocated Buttiglione the portfolio for 'Freedom and Security'. But during the confirmation hearings in the European Parliament it emerged that Buttiglione held very conservative Catholic beliefs about homosexuals and about the social role of women. More liberal members of the European Parliament objected strongly both to the candidate commissioner and to the portfolio which he had been allocated. Buttiglione expressed concern that he was being discriminated against on the basis of his religion. Ultimately, the Commission was reshuffled and Buttiglione agreed to be dropped.

At least part of the reason that politicians like Wilders achieve success in the Netherlands is that country's high level of net contributions to EU coffers. As a share of domestic product, the Dutch give more than any other Member State – including the UK. Such high net contributions make it easy for populist politicians to charge that the EU is a drain on national resources. In December 2003, the six largest net contributor countries wrote a letter to then European Commission president Romano Prodi arguing that the level of EU finances should be restricted to no more than 1% of gross national income (GNI). The Commission responded that a failure to fund the EU adequately would cut deeply into the resources available for essential EU projects like the Hague Programme, the EDA and the Neighbourhood Policy. The European Council accepted this argument at its December 2004 summit, and agreed 'to maintain the ceiling for the own resources [sic] at the current level of 1.24% of EU GNI'. Nevertheless, it failed to arrive a formula for distributing the burden. The British government insists on receiving its rebate, the Dutch government demands a reduction in its net contribution and the German government points to the costs it shoulders for the unification of Germany. Finding a compromise between these positions was not possible and negotiations over the financial framework at the March 2005 European Council summit offered no results.

Meanwhile, the EU Member States must move forward with the ratification of the constitutional treaty. The difficulty is twofold. Firstly, at least ten countries have chosen to consult the people through referendums. In at least three of those countries, the outcomes remain uncertain. The British public is the most Euro-sceptical

and therefore the least likely to support ratification. However, the British referendum will also be the last held, and it will take place long after the 5 May 2005 parliamentary contest. Prime Minister Tony Blair is widely expected to win a third mandate and could therefore be in a good position to wage an aggressive pro-ratification campaign. Even then, he may not have to. The French referendum on the EU Constitutional Treaty is scheduled for 29 May 2005. Opinion polls taken in March and April show a strong lead for the opposition vote. If the motion fails to pass in France, it will likely be withdrawn in Britain. The same is true for the Netherlands, whose citizens will go to the polls in an increasingly Euro-sceptical environment. Although the Netherlands is a small country, it is also a founding member of both the EU and NATO. Its failure to win a popular endorsement of the Constitutional Treaty would be a significant blow to European integration. Certainly it would be more difficult to ignore than unfavourable results recorded in previous small-country referendums in Denmark (1992) and Ireland (2001).

Although the Spanish electorate overwhelmingly endorsed the European Constitutional Treaty with 77% support in a referendum held on 20 February 2005, and the Italian parliament added its endorsement the following April, it appeared that France and the Netherlands could well vote 'no'. Generally, it is clear that Europe has shifted farther away from getting its own collective house in order in terms of allocating acceptable financial burdens, imposing realistic economic constraints and using the prospect of EU membership equitably. If the constitution is voted down by France and the Netherlands at the end of May 2005, then Europe will be in for a period of navel-gazing that would be unprecedented even against the highly introverted standards that the EU has so frequently set. Enlargement would be at risk, but so would the idea of the EU as a semi-coherent political-economic entity. The concept of a Europe à la carte would then have to be seriously debated.

Putin's Dilemmas

The second half of 2004 and first half of 2005 witnessed a number of strategic developments in Eurasia that are likely to determine the future trends in an increasingly complex region. In Russia itself, the year was dominated by the tragic events in Beslan, North Ossetia, where on 1 September 2004 a group of terrorists captured a school, taking more than 1,300 people hostage. In the chaotic events that followed, over 335 people died. To many Russians, the Beslan tragedy became Russia's 11 September. It has had a profound impact on the North Caucasus region, and has led to major political changes throughout the Russian Federation. President Vladimir Putin moved to consolidate his power through controversial political reforms. Yet the concentra-

tion of power in the hands of the president and Russia's federal centre could weaken rather than strengthen the ability of the state to deal with future crises.

In the economic sphere Russia gained from high oil prices, but suffered from capital flight as a result of the government's effective seizure and dismantlement of Yukos, Russia's largest oil production company, and the indictment of Mikhail Khodorkovsky, its chief executive officer, for fraud and tax evasion. In foreign policy, Russia struggled to consolidate its influence in the face of revolutionary regime changes in neighbouring Ukraine and Kyrgyzstan, which prompted a further increase in American and European engagement in Eurasia. Russia welcomed the re-election of US President George W. Bush in November 2004, and his second term is likely to produce a stable but increasingly limited agenda in US–Russia relations. In Asia, Russia strengthened its economic ties with China and India, granting their companies stakes in Russia's energy sector. However, Russia's quest to become an Asian power remained constrained. Relations with traditional European partners such as Germany, France, Italy and Spain provided rare examples of Russian foreign-policy successes amid growing tensions between the EU and Russia over developments in Ukraine, the South Caucasus and Russia's relations with the Baltic states.

In Eurasia, the year brought a number of profound changes. The concept of the 'former Soviet space' became history as the region moved towards a new geostrategic reality. In May, the three Baltic states become members of the EU. EU enlargement and the November 2003 'Rose Revolution' in Georgia led to the expansion of ties between Europe and all three South Caucasus states. The war in Iraq and the 'Greater Middle East' project of the Bush administration provided the strategic rationale behind increasing US engagement in the Black Sea region, fostering closer political and security ties with Georgia, Armenia and Azerbaijan. In November 2004, the 'Orange Revolution' in Ukraine consolidated the country's orientation towards the EU and closer ties with NATO. The message of European integration dominated the 6 March parliamentary elections in Moldova, which borders Romania, an EU candidate country. An unexpected and chaotic ousting of Kyrgyzstan's President Askar Akayev in March 2005 amid allegations of election fraud is likely to have a major impact on other Central Asia states.

Just as in the early 1990s, popular revolutions raised new hopes about democratisation and improvement in economic well-being among millions of people in Eurasia. The new governments, which swept to power on waves of popular discontent with old regimes, will struggle to meet their expectations. Success depends on the capacity of new elites to deliver quick political and economic change, as well as on whether Russia, Europe and the United States find a pragmatic *modus vivendi* to reconcile their diverse interests in the region. There are growing concerns that government in countries which so far have managed to contain mass popular protests could take drastic measures to safeguard their regimes and resort to repression and

violence. At the same time, if popular uprisings spread to other states in Eurasia, the region could be thrown into a period of instability with worrying consequences for neighbouring Europe and Asia. In Russia itself, the political succession process for President Putin, who is due to step down in 2008, represents a major concern. While revolutionary change of power is less likely in Russia with a strong centralised government and weak political opposition, there is little chance of a democratic transfer of power. In the meantime, nationalist political groups, who perceive the growing Western engagement in Eurasia as a threat and call for a tougher Russian policy towards its neighbours, are gaining popularity and political influence.

Putin's political challenges

After securing an easy, practically unchallenged re-election on 14 March 2004, in which he won more than 70% of the vote, Putin faces a number of formidable challenges during his second term in office. The first challenge relates to preparing the ground for political succession. It is likely to dominate many key political and economic decisions during the next four years. Under the 1993 Russian Constitution, Putin is due to step down in 2008 and his time to prepare the country and its political elite for the transition to a new leadership is shrinking. However, it appears increasingly difficult for Putin to ensure that succession will leave his allies in place to continue with his policies. In March 2005, the State Duma authorised the creation of the Public Chamber – in effect, a shadow parliament that will be composed entirely of Putin appointees, and empowered to propose constitutional changes. Some Russian political observers have construed this innovation as presaging a move by the Kremlin to amend the constitution to allow Putin to stay in office beyond 2008. The elite that has emerged under Putin's rule has incentives to keep him in office. These incentives relate primarily to their financial interests as new 'political clans' gain control through their appointment to the boards of the state-owned companies and through transfer of assets through new re-privatisation deals (as in the case of Yukos). However, members of the political elite who supported Putin not for financial but for specific political and ideological reasons are growing increasingly critical of what they perceive as his failure to reassert Russia's great power role in the face of its 'encirclement' by NATO and in the wake of revolutions in Eurasia.

Nevertheless, Putin himself still enjoys considerable popularity, and polls indicate that – notwithstanding Beslan and unpopular social reforms – the people generally approve of his strong hand. Yet Ukraine's 'Orange Revolution' (in which the Russian-backed incumbent prime minister ultimately had to relinquish his post) and a pensioners' revolt have inspired dissent and made Putin look vulnerable. Although Putin's political opposition remains divided both among liberal parties on the right, and among nationalist and communist movements on the left, the party in power, Unity, also remains nothing more than a bureaucratic coalition behind President Putin, lacking a clear platform or capacity to take independent positions on

key domestic and foreign policies. It needs vast administrative resources within the central and regional bureaucracies to keep control beyond 2008. Therefore, consolidation of power and greater control over regional political elites are among Putin's highest priorities. However, consolidation of power does not improve its efficiency. On the contrary, it focuses all responsibility for policy failures on Putin and his government. Moreover, without an effective system of checks and balances, the government is increasingly unable to prevent and handle political, socio-economic and security crises within Russia, which are set to snowball in the next few years.

The second major challenge for the Russian leadership relates to security within Russia. In 2000, Putin was elected largely on the 'security and order' platform. However, since 2003, Russia has witnessed growing insecurity both on the level of individuals and the state as a whole. A growing number of terrorist attacks exposed flawed policies in Chechnya and the inability of Russia's security forces to prevent and manage major terrorist incidents. In the quantity and scale of terrorist attacks, 2004 was the record year in Russia's post-Soviet history. Over 600 people were killed by acts of terrorism. Radical elements among Chechen separatist fighters, who were disenfranchised from the political process in Chechnya, unleashed a major wave of terrorist attacks in summer 2004. On 21–22 June, they conducted a major attack against the Interior Ministry of Ingushetia, the region neighbouring Chechnya, killing over 90 police officials and others. On 24 August two airliners went down simultaneously as a result of bombs planted by Chechen terrorists, killing all 89 people on board. A week later a suicide bomber killed ten in Moscow. Finally, in September 2004, a group of terrorists captured a school in Beslan, a small town near Vladikavkaz, the capital of North Ossetia. The terrorists held more than 1,300 people hostage. Local security services and law enforcement structures failed to react quickly and efficiently. Publicly, the authorities deliberately understated the number of hostages in the school, provoking a strong reaction among local people. There was a great deal of confusion on the ground and security services did little to prepare for possible outcomes. Moreover, talks with the terrorists did not yield productive results. According to witnesses, many officials refused to enter into dialogue when contacted by the terrorists. On 3 September, an explosion in the school gymnasium where the hostages were being held provoked chaos in which over 335 hostages died, either killed by terrorists or falling victim to a fire-fight among terrorists, Russian security forces and the local armed population.

Speculation persists as to whether the explosion was an accidental detonation of terrorists' explosives, which were placed throughout the school, or whether it was carried out as part of a covert operation by the Russian security services to allow hostages to escape. The evidence suggests that no coordinated attempt to storm the school was carried out. Russian forces were poorly prepared, and over 30 died trying to save children escaping from the school and in the fire-fight with terrorists that lasted for over 12 hours after the first explosion. The entire day of fighting was

broadcast live on Russian TV and internationally. Horrific pictures of chaos and dying children shocked people in Russia and across the world, and exposed the extreme nature of the terrorism which Russia faces.

The media broadcasts of Beslan exposed the inability of the Russian domestic security system to handle this growing terrorist threat. Beslan had a major impact on the Russian public, exacerbating doubts about the government's assurances that the Second Chechen War made Russians safer. However, as in any situation of national tragedy, people rallied around their leaders and awaited Putin's response. On 4 September, Putin addressed the nation, outlining major political reforms and the overhaul of the security system for the North Caucasus region, but signalling no change of policy in Chechnya. The political reforms increased presidential powers by introducing the *de facto* appointment of governors (who now have to be elected by local legislatures upon the presentation of a candidate by the president), a new proportional system for election in the parliament (which favoured the pro-presidential party already holding a majority in the State Duma) and establishing a Civic Chamber composed of representatives of civil-society organisations to provide some form of oversight, although its composition and powers remain unclear.

Many analysts believe that these reforms were in the making long before the tragedy in Beslan. They seem to focus more on addressing the challenge of succession, rather than strengthening the security system in order to address growing terrorist threats. Putin's reforms were widely criticised by Russian liberals and foreign critics as diverting Russia from its democratic path. The reforms have produced no real changes at the regional level. Between January and March 2005, after the law entered into force, Putin reappointed many previously elected governors, indicating that many regional leaders had accumulated enough power that Moscow might risk instability across the country in trying to remove them. Moreover, there is a severe shortage of administrative capacity in the current administration, which gives rise to powerful new professional leaders in the regions.

Following the tragedy in Beslan, some measures were implemented to address specific lessons identified by the government. Putin established a new 'Special Federal Commission for the North Caucasus' headed by Dmitry Kozak. A new crisis-management system was set up aimed at coordinating police, security and military forces' responses to potential terrorist threats. However, this system has yet to demonstrate improved results. Some regional security officials were dismissed, but no major changes were made at the top of Russia's security institutions, headed by Putin's close allies from his career in the Soviet KGB. Finally, in response to demands from relatives of the Beslan victims, a special parliamentary commission was set up, composed of representatives of the upper and lower chambers of parliament, to investigate events in Beslan. The commission is due to publish part of their report, but it is unlikely to reassure relatives who continue to demand a full report from regional and central authorities. The Russian government, and Putin himself,

have invested considerable efforts to prevent possible revenge attacks against ethnic Ingush and Chechens, who were among the terrorists in Beslan. It seems that the threat of escalation in the Ossetian–Ingush conflict, dormant since 1992, has been contained and no major incidents of ethnic violence have taken place between the Ossetian and Ingush populations.

While Moscow moved to re-establish order in the North Caucasus, instances of crime, assassination and inter-ethnic tension spread throughout the region. In October 2004, in the Karachaevo–Cherkessian Republic, a relative of the governor allegedly ordered the deliberate assassination of his business partners, sparking protests against the regional administration. In January–March 2005, Russian forces conducted a number of special operations against alleged terrorist cells in Kabardino–Balkaria and Ingushetia. Dozens of police were assassinated in Daghestan, including the deputy minister of interior, Magomed Omarov, who was killed in a broad daylight in Makhachkala, the capital, on 2 February 2005.

Instability in the North Caucasus significantly increased in 2004–05, and it is likely to grow further. Developments in the region are bound to have a major impact on Russia's domestic security, and potentially on the security of Russia's neighbours in the South Caucasus. The Russian government, however, does not seem to have a clear strategy on how to stabilise the North Caucasus. The region is among the least economically developed in Russia. The seven republics of the North Caucasus – Daghestan, Chechnya, Ingushetia, North Ossetia, Kabardino–Balkaria, Karachaevo–Cherkessia and Adygea – are ethnically diverse and have a history of inter-ethnic conflict. While the Russian government heavily subsidises their regional budgets (in 2003, for example, 80.7% of the budget in Daghestan, 84.1% in Ingushetia and 100% in Chechnya), the republics fail to generate employment and economic growth due to high levels of corruption, lack of opportunities, inadequate education and plain administrative incompetence. The new Commission for the North Caucasus was set up to address the challenge of economic development, but it has been preoccupied with the rapidly proliferating security crisis across the region and managing political tensions among regional elites and an increasingly desperate and impoverished population.

To complicate matters, most of Russia's Muslim population resides in the North Caucasus. In recent years, it has witnessed growing Islamist extremism. This phenomenon stems primarily from economic and social upheaval, high unemployment among the young population, widespread criminal violence, endemic corruption among security and law enforcement bodies, widespread human-rights violations, growing nationalism and anti-Muslim sentiments across Russia inspired by the war in Chechnya, as well as revived interest in Islam after 70 years of Soviet repression, exploited by a new generation of foreign-educated preachers, who believe in extreme interpretations of Islam. To diminish these influences, political and economic solutions are required to promote fundamental changes in govern-

ance and spur development. As of April 2005, these solutions had not materialised. In December 2004, during his visit to Germany, Putin welcomed EU involvement in the economic development of the North Caucasus. Subsequently, the EU and UN have sent a number of missions to the North Caucasus to explore possibilities for strategic development assistance. However, poor security, European reservations about Russia's policy in Chechnya, lack of access and information on the ground, and an unclear mandate from the Russian government – which seems primarily interested in European financial assistance – constitute important constraints on any prospective European involvement in a regional development programme.

The unfinished conflict in Chechnya

The Beslan tragedy highlighted another major challenge for Putin: the continuing violence in Chechnya, which has had a devastating impact on the entire North Caucasus region for over a decade and accounts for much of the insecurity that plagues Russia. While the situation across the North Caucasus continued to deteriorate, the Russian government had yet to find a comprehensive settlement of the ongoing conflict in Chechnya. Unfortunately, there are few clear options for launching a comprehensive peace and national reconciliation process. Terrorist attacks in a Moscow theatre in October 2002 and in Beslan rule out any negotiations with the most notorious Chechen warlords, including Shamil Basaev, who has influence over separatist fighter groups, including control over the training of terrorists and suicide-bombers to conduct acts of terrorism across Russia. Moderate leaders are either indirectly implicated in terrorist acts or too weak to represent the fighting groups in any formal negotiations. It is clear, however, that without some negotiating framework it is hard to imagine any lasting settlement, an end to fighting or eventual disarmament. These steps represent the key preconditions for stability and security in Chechnya and the North Caucasus region as a whole.

Chechens themselves remain divided, both between and within pro-Moscow groups and separatists opposing Russian rule. As a result, fighting now often takes place not between the Russian forces and Chechen warlords, but among different Chechen groups themselves. Moscow-backed Chechen paramilitary groups are known to be involved in major human-rights violations targeting suspected fighters and their relatives as well as the civilian population. Many are active in organised criminal groups that now operate across the North Caucasus region and other parts of Russia. It may therefore be impossible to develop a comprehensive negotiation process that would engage moderate elements of the diverse Chechen groups and produce an agreement. Moscow, therefore, by default continues to impose the political process, rather than facilitating it.

After terrorists assassinated pro-Moscow Chechen President Akhmad Kadyrov during public celebrations on 9 May 2004, a new election was quickly carried out on 29 August. Alu Alkhanov, a former interior minister, became president amid

allegations of major electoral fraud. OSCE did not observe the election, citing poor access and security concerns. Since the election of Alkhanov, a semblance of stability has emerged in Chechnya. Large-scale military operations against rebels have been confined to small mountainous regions in the south, and the numbers of military personnel and checkpoints have been reduced. However, rebel raids in Grozny in August 2004 demonstrated that Russian forces still do not fully control the territory of Chechnya even outside the traditional rebel areas. The rebels, who continue to enjoy popularity among some parts of the population and support among their family clans, are still capable of moving across the territory undetected. There are some signs of economic rehabilitation, particularly in Grozny and other larger towns. Those who lost their property during the conflict are being compensated: 300,000 rubles for lost housing and 50,000 rubles for lost property. By the beginning of 2005, 39,000 compensation claims were reported paid, with 130,000 applications pending. However, the availability of compensation led to widespread corruption, such that recipients were being forced to pay a significant percentage (sometimes over 50%) of their benefits as bribes to local officials and paramilitary groups.

In an attempt to promote a political settlement, the Russian government has drafted an agreement on divisions of power between Moscow and the Chechen Republic, offering the latter broad access to economic benefits from oil exploration in Chechnya, but anchoring Chechnya firmly within the Russian Federation without any prospect for a 'legitimate' succession. Russian military forces, in cooperation with Chechen police and paramilitary groups led by Deputy Prime Minister Ramzan Kadyrov, who oversees Chechen security structures, had some success in killing leaders of Chechen separatist fighters and terrorist groups. On 8 March 2005 they killed Aslan Maskhadov, the official leader of the Chechen separatists, who had been elected president of Chechnya in 1997, serving until the start of the Second Chechen War in August 1999. Maskhadov was considered the key moderate figure among leaders of the Chechen fighters, and many Western analysts had pinned their hopes on (ultimately unsuccessful) political negotiations between Maskhadov and the Kremlin. Russian authorities, however, considered Maskhadov a terrorist and alleged his involvement in preparing the Moscow theatre and Beslan sieges. After the Moscow theatre attack, Putin refused to acknowledge Maskhadov's legitimacy or enter into any talks with him, despite international pressure. In January 2005, Maskhadov announced a unilateral ceasefire, offering to enter into talks with Moscow. After his death, the leadership of Chechen separatist fighters is liable to be dominated by more radical elements. Maskhadov's successor as formal leader of the separatists, Abdul-Khalim Saidullaev, is known as a moderate but has little power over radicals like Basaev. If radicals have their way, terrorism is set to increase across Russia, potentially including some spectacular attacks against strategic infrastructure for which Russia is still poorly prepared. If terrorism proliferates, Putin's popularity is likely to decline.

Parliamentary elections in Chechnya tentatively set for October 2005 offer a real opportunity to begin constructing a more representative system of government and to provide a platform for reconciliation and political bargaining between and among different groups within Chechnya. If elected freely, without major fraud, the parliament will probably be empowered to undertake the meaningful supervision of political and economic policies in Chechnya. If, however, the parliamentary elections involve a level of fraud comparable to that alleged in recent elections, lasting stability would be unlikely.

Economic reforms

Another quandary for Putin's second term lies in the economic sphere. High oil prices provide a favourable environment for the government's economic policy. Budgetary revenues and gold reserves have been at an all-time high. A special stabilisation fund drawn from oil revenues now stands at \$22.97bn. Salaries have been paid on time and there is growing wealth across all major economic centres in Russia. The Russian government has been paying off its debts and is maintaining relative macroeconomic stability, although inflation was at 11.7% in 2004. At the same time, high oil prices had a negative impact on long-term economic trends by removing incentives for structural economic reforms, which were part of Putin's economic programme in 2000. As a result, there are signs of stagnation in Russia's economic growth, which stood at 6.9% in 2004 (compared to 7.3% in 2003). Plans to double GDP by 2010 look increasingly unrealistic. Moreover, the oil economy has caused the gap between rich and poor in Russia to widen. Little investment has been made in small and medium-sized businesses, so that the middle class has grown very slowly, while the number of rich people has increased significantly. Finally, the Yukos affair provoked another upsurge in capital flight, which had been on the decline in 2003 before the arrest of Khodorkovsky in October of that year. Foreign direct investment did increase to over \$9bn in 2004, mostly in the energy sector, and capital flight, on some estimates, abated slightly in 2004 from \$15bn to \$13.5bn. But there was little reason to be confident in continued net capital inflows.

The energy sector is increasingly viewed by Putin and his administration not only as an economic asset but also a strategic foreign policy instrument. In 2004 Russia produced 9.27m barrels/day (bbl/d) of oil and exported over 6.7m bbl/d. As a result, there is a strong effort to consolidate state control over the energy sector. In 2004, the Russian government announced plans for a merger between its monopoly state gas company Gazprom and state-owned oil company Rosneft, creating one of the largest energy companies in the world. Transneft, a state-owned company holding a virtual monopoly over the pipeline network from Russia, is known to be notoriously inefficient. There has been no talk about offering private companies rights to develop private pipelines for the export of oil. The shortage of pipeline capacity creates major bottlenecks for Russian exports. However, Transneft has now received a state contract

to construct a strategic Asian pipeline network, which is set to bring Russian oil to Nakhodka in the Russian Far East. In Asia, China and Japan are competing for access to Russian oil exports. However, the economics of the Asian pipeline have not yet been completely worked out, and neither Japan nor China is prepared to finance the project without securing some stake in Russia's oil production.

In 2004–05, the Russian government moved to limit foreign investment in the Russian energy sector both directly and indirectly, by initiating tax probes into activities of such major energy joint ventures as TNK-BP. In February 2005, the Russian Energy Ministry announced that foreign companies will not be allowed to bid for particular exploration contracts in such areas as Sakhalin Island, where foreign companies hold a controlling share in the Sakhalin I and Sakhalin II production-sharing agreements. However, the Russian energy sector badly needs more foreign investment to begin exploration of new oil and gas deposits; otherwise, Russia could face a major economic crisis when its current deposits start to decline. The new deposits awaiting exploration lie in eastern Siberia, where costs of exploration are particularly high and thus foreign investment is critical. The Russian government sold stakes in its oil production to Indian and Chinese companies in its search to secure investment without political preconditions, since Indian and Chinese concerns are more likely to accept greater state interference than Western companies. However, their share in the Russian energy sector remains small.

Russian gas production is already falling, and Russia now depends on gas imports from Turkmenistan to fulfil its domestic and export commitments. Russian cooperation with Turkmenistan continues to be bumpy, as the Turkmen side halted all gas exports after January 2005, protesting the low prices that Russia offers for Turkmen exports. Ukraine and the South Caucasus states are seeking to gain access to Turkmen gas resources. Growing state control over the energy sector is likely not only to decrease its efficiency, but also to drive some consumers of Russia's oil and gas in Eastern Europe and the Commonwealth of Independent States to seek alternative suppliers to diminish their dependence on state-controlled Russian exports, which could potentially be used as political instruments.

While oil generated substantial revenues for the state budget and considerable private wealth for parts of Russia's economic and political elite, Putin started to implement major social reforms that removed benefits for pensioners and other categories of citizen. While the system of benefits had to be reformed, the replacement of in-kind benefits and subsidies with small cash payments caused significant social tensions among the most vulnerable parts of the Russian population. In January 2005, more than 40,000 people took to the streets across Russia protesting Putin's reforms and putting forward political demands. These seem to have taken the government by surprise. The benefits debacle highlighted the ineffectiveness of an over-centralised system of government in which all responsibility resides at the top, and leaders are furnished with incomplete information about situations in different

regions. Moreover, regional officials who owe their loyalty to Moscow (as opposed to their electorates) are unlikely to represent the interests of their population vis-à-vis the federal centre, thus provoking more social tension. Putin was quick to blame regional leaders and government ministers for the poor implementation of reforms. Nevertheless, painful social reforms are set to continue, including the liberalisation of utilities whereby subsidies for gas and oil products would be reduced.

Political prospects

Protests over the monetisation of benefits played an important role not only as an indicator of social tension, but also as a signal for Putin's opposition that there is an internal capacity for popular protest within the so far politically passive Russian population. Opposition parties and movements inside Russia that are actively preparing for the 2008 elections are trying to capitalise on social problems. Liberal forces created 'Committee 2008' and a number of other coalitions campaigning on democratic platforms. However, these coalitions may not survive until the next elections and democratic forces remain deeply divided, often competing with each other. Democrats lack a clear leader who enjoys popularity in society at large, beyond the traditional supporters of liberal parties who received less than 5% of the vote in December 2004 parliamentary elections. In March 2005, one such political heavyweight, former prime minister Mikhail Kasyanov, declared his intention to lead a coalition of democratic forces in the next election. Kasyanov lost his job as prime minister in March 2004 after opposing the government's actions against Yukos. Kasyanov suggested that Russia needed its own Orange Revolution; however, his support among the population and his ability to consolidate and lead those who oppose the current government remain in doubt. Kasyanov's previous political alignment with Putin is viewed negatively by traditional liberal opposition parties such as Yabloko and parts of the Union of Right Forces. They are unlikely to unite around him in a coalition. (Less formidably, chess grandmaster Garry Kasparov, an outspoken human-rights activist and Kremlin critic, also declared his candidacy.) Other political leaders on the right, including Anatoly Chubais, Boris Nemtsov and Irina Khakamada, do not enjoy wide support among the Russian population, who see their legacy as economic crisis during President Boris Yeltsin's term in office.

As a result of these internal divisions, it was not liberals but nationalists who most energetically sought to gain politically from social protests. However, nationalist parties, such as Motherland – which won a surprisingly high proportion of the vote in the December 2004 parliamentary elections, prevailed in regional elections in the Sakhalin region in autumn 2004 and came second after the pro-Kremlin Unity Party in a number of other regional elections – subsequently lost much of its political clout. The party could, however, reconstitute its popular base on the wave of anti-Western hysteria in the Russian media prompted by revolutions in Ukraine and elsewhere.

Communists, who traditionally campaigned in support of social guarantees and pensioners' rights, failed to gain significant political capital from the social protests in January. Their popularity ratings have been consistently dropping since the fall of the Soviet Union, and they are unlikely to emerge as a credible challenger to the party in power by 2008. Given these systemic weaknesses in Russia's political system, combined with the strong vertical authority of the executive branch, it is hard to predict how the political succession process will develop up to 2008. There is no doubt that popular revolutions in neighbouring states, particularly Ukraine, are having a profound impact on Russia's domestic and foreign policies as well as on the Russian population and its political elite. But it remains unlikely that Georgian-style popular discontent against the current ruling elite could take hold in Russia due to Putin's overall (if diminishing) popularity, continuing economic growth and increased control by security and police forces over political movements across the country. In early 2005, the increasing visibility of Defence Minister Sergei Ivanov and parliamentary Speaker Boris Gryzlov – especially on television – led to speculation that Putin was grooming them as likely successors.

Eurasian developments and implications for Russian policy

A dramatic political change occurred in November 2003 in Georgia. Peaceful popular protests against the government's attempt to rig the election ousted President Eduard Shevardnadze and brought to power a new dynamic leader, Mikhail Saakashvili. Georgia's Rose Revolution (named for the roses carried by protesters) encouraged people in other former Soviet states to push for wholesale changes of elites in the political process. What took place in Ukraine a year later was arguably even more profound. The government of outgoing President Leonid Kuchma rigged the presidential election to bring to power his chosen successor, Prime Minister Victor Yanukovich. Yanukovich enjoyed the support of Putin, who twice visited Kiev during the pre-election period, expressing his support for the pro-government candidate. However, allegations of election fraud, later confirmed by the Supreme Court of Ukraine, sparked political protests. In sub-zero temperatures thousands of protestors took to the streets of Kiev and other cities in support of opposition candidate Victor Yushchenko, who campaigned on the platform of Ukraine's integration with Europe. Peaceful protests continued for almost a month until the election re-run on 26 December, in which Yushchenko won 51% of the vote against just over 44% for Yanukovich. Both elections demonstrated regional divisions within Ukraine, with western parts and the capital backing Yushchenko and the eastern part, which is closely linked to Russia, voting for Yanukovich. However, speculations about a potential split of the country did not prove valid. On 23 January, Yushchenko was sworn in as the president of Ukraine. He declared his commitment to seek unity within the country, implement sweeping democratic and economic reforms, and lead Ukraine into the EU.

The Ukrainian Orange Revolution (so-called because the colour orange was chosen to symbolise the opposition) has considerable strategic significance. Firstly, it shifted Ukraine's geostrategic orientation from *de facto* integration with Russia towards closer ties with the West. Ukraine's location in Europe and the size of its economy offers Ukraine a prospect, albeit remote, for integration with the EU if necessary reforms are carried out. A new coalition of Georgia and Ukraine now represents a powerful force in Eurasia, promoting closer ties with European institutions. They enjoy support among new EU member states – especially Poland and Lithuania, who together with EU foreign policy chief Javier Solana played a key role in brokering a political compromise between the two presidential candidates. The peaceful resolution of Ukraine's electoral dispute represents a major foreign policy success for the EU, which acted with one voice. It also highlighted the first major contribution from the new member states to the EU's foreign policy agenda.

Secondly, Ukraine's revolution had a major impact on Russian policy towards Eurasia and on Russia's relations with Europe. Despite Russia's political and financial backing of Yanukovich, Moscow was unable to influence the outcome of the elections. This was perceived by many in Russia as the first major political defeat in the former Soviet space, which signalled Moscow's weakening influence and poor understanding of dynamics in neighbouring states where it claims special interests. Moscow's policy fiasco in Ukraine received abundant commentary among Russian experts and the press – the predominant view being that the West orchestrated a change of regime in Ukraine in order to push Russia out of the CIS and weaken its influence. This Cold-War-generated zero-sum perception of Russia and the West's interests has been strengthened by the Orange Revolution, intensifying nationalism and resentment towards the West and prompting calls for a tougher and more proactive policy towards neighbours, which could provoke instability.

Thirdly, Russia's actions, in turn, have affected Europe's policy towards Russia. Many European states, particularly new EU member states, expressed concerns over Russia's interference in Ukraine's affairs leading up to and during the Orange Revolution. These concerns prompted calls for a reassessment of the EU's strategic partnership and closer integration with Russia. Mutual suspicions prompted yet another crisis in EU–Russian relations when the November 2004 EU–Russia summit ended in a failure to make any decisions, despite previous expectations that it should advance EU–Russia cooperation by reaching agreement on action plans for the so-called 'four common spaces'.

After the revolution, Putin and the new Ukrainian leadership moved to establish a commitment to friendly, pragmatic relations. Yushchenko travelled to Moscow a day after his inauguration to reaffirm his desire for good relations. In March, Putin visited Kiev to discuss the agenda for cooperation, including Ukraine's participation in the Single Economic Space (SES), which Russia set up in September 2003 with Belarus, Kazakhstan and Ukraine to promote economic integration. Seen as

one of Russia's foreign-policy successes, the project is under threat if Ukraine leaves to pursue integration with the EU. Russia and Ukraine share important economic interests beyond the SES, with bilateral trade exceeding \$17bn in 2004. Ukraine is the main transit country for the export of Russian oil and gas to Europe. Russian companies made large investments in Ukraine's economy, particularly in the industrial enterprises in the eastern part of the country, which supported Yanukovich. Finally, Russia and Ukraine have close cooperation between their defence industrial sectors, an inheritance from the Soviet period.

These interests virtually ensure that the two countries will try to find some common ground to secure economic benefits for both sides. But the Russian government remains concerned that the policies of the new Ukrainian leadership could be detrimental to Russia's strategic interests. In the economic sphere, Ukraine is likely to promote increased complementarity with EU norms. This is not compatible with Russia's Single Economic Space, which includes harmonisation of legislation with Russia. Also, those in the Russian business sector are worried that some privatisation deals concluded by Russian companies under the previous Ukrainian government could be reconsidered and Russian business could be replaced by increased investment from Europe and the United States. Also, Russia is keen that Ukraine's Odessa–Brody oil pipeline network transports Russian oil to Black Sea ports. Putin's government invested substantial effort to reach such an agreement with Kuchma. Under Kuchma, Ukraine and Russia established a joint consortium to operate Ukraine's pipeline network. The new Ukrainian government, however, might reconsider in light of its new foreign and economic policy priorities. The new government could return to the original idea of using the pipeline in the other direction, for transporting Caspian oil from the Black Sea terminal to Europe – an option supported by many Eastern European states, which seek ways to lessen their dependency on energy imports from Russia.

In the political and security spheres, Russia's concerns regarding the change of government in Kiev include the extension of an agreement with Ukraine on the leasing of naval infrastructure used by the Russian Black Sea Fleet in Crimea. Russian officials, particularly in the military, are concerned about expanding ties between Ukraine and NATO and the possibility of Ukraine's future membership in the alliance. Ukraine also plays a key role in the Black Sea region, where both the United States and NATO seek to increase their presence, as indicated at the NATO summit in Istanbul in June 2004. Russia wants to keep NATO out of the Black Sea, but after the last round of NATO enlargement it remains the only Black Sea state in opposition to NATO's greater role in the region. In autumn 2003, Russia and Ukraine clashed over a disputed border in the Sea of Azov. The crisis led to the deployment of the Ukrainian military to a disputed island in the Kerch Straits. The border has not yet been agreed, and new crises could emerge if Russia perceives its security interests in the Black Sea to be under threat. Finally, many analysts in Russia

view closer strategic ties between Georgia and Ukraine, which are supported by new NATO and EU members, as a form of 'encirclement'. This perception, however, runs counter to Russia's own expanding ties with NATO, the EU and the United States. Nevertheless, there is a strong belief that the revitalisation of GUUAM (a political grouping to provide an alternative to the Russian-centric CIS, created in 1997 by Georgia, Ukraine, Azerbaijan and Moldova, and joined by Uzbekistan in 1999) on the basis of new strategic relations between Ukraine and Georgia could undermine the already weakened Russia-dominated CIS and exclude Russia from integration projects in Eurasia.

While Russia has few levers with which to pressure Ukraine to accommodate its interests, it is likely to continue an active policy to promote them directly with the new Ukrainian leadership. One approach would be a dialogue seeking to influence key European states, such as France and Germany, which play an important role with regard to Ukraine's integration prospects with the EU. The issue of Russia's relations with Ukraine were discussed at an informal meeting between Putin and the leaders of Germany, France and Spain on 18 March 2005. Putin has given reassurances that Russia will not interfere in Ukrainian internal affairs or apply pressure on its neighbours. However, concerns over Russia's policy towards Ukraine and other neighbours seeking closer ties with Europe are likely to persist, particularly among new EU members who actively support Ukraine's European integration.

In addition to economic and geopolitical outcomes from the soft revolutions in Georgia and Ukraine, there are also implications for security in Eurasia. The first includes the developing military relations of these and other Eurasian states with NATO, the United States and Europe. Georgia has concluded an agreement with the United States to extend a \$64m train-and-equip programme. The new US Stability and Security Operations Program for sustaining cooperation with Georgia will run from April 2005 to April 2006 and will cost the United States another \$65m. It will involve the training of an additional 2,000 Georgian military personnel by US instructors. The outcome of first train-and-equip programme was the improvement of Georgian military capabilities and the deployment of over 600 Georgian troops in Iraq. In contrast, in March 2005 President Yushchenko signed a decree authorising the withdrawal of Ukrainian forces from Iraq. However, Ukraine is set to continue cooperation with NATO and its individual members to bring its post-Soviet military closer to NATO standards. The appointment of a new reform-minded defence minister, Anatoly Hrytsenko, is likely to further this goal. This would provide an opportunity for Ukraine to take part in future NATO operations or operations by 'coalitions of the willing'.

The Georgian and Ukrainian revolutions could also potentially affect 'frozen' conflicts in Eurasia. In Georgia, the new president declared as policy priorities restoration of Georgian territorial integrity and the resolution of long-running disputes with the breakaway republics of Abkhazia and South Ossetia. However, post-revolutionary

euphoria and success in bringing the region of Adjara under Tbilisi's control provoked the escalation of conflict in South Ossetia in summer 2004. After a cease-fire that lasted more than a decade, the new outbreak of violence in the zone of conflict undermined trust between the parties. This has complicated the resolution process.

Despite the Georgian leadership's genuine intent to pursue a political settlement with its breakaway regions, it is unlikely that a political agreement will be reached in the near future. In South Ossetia, President Saakashvili's initiatives for peaceful resolution of the conflict, presented in Strasbourg in January 2005, offer a new window of opportunity. However, any political process should be preceded by a lengthy confidence-building process. So far there is little room for a compromise, as Tbilisi demands territorial integrity and Tskhinvali insists on independence. In Abkhazia, after several months of crisis over the disputed presidential election there, the new leader Sergei Bagapsh signalled his readiness to enter into dialogue with Tbilisi on economic cooperation and limited refugee and IDP return, but the Abkhazian leadership continues to rule out any compromises on the status of Abkhazia, which seeks recognition as an independent state.

The international community, including Russia, declared support for Georgia's territorial integrity but cautioned against hasty policies which could provoke a new outbreak of violence in the zone of conflict and beyond. The US and EU have been urging Georgia to adhere to its commitment to peaceful conflict resolution. However, political deadlock, aggressive rhetoric coming from the Georgian leadership, Russia's economic and military support for the separatist regimes, and a lack of progress on demilitarisation in the conflict zone all signal that a new military confrontation cannot be ruled out in the foreseeable future. This could have a devastating impact for the population of separatist regions, for Georgia's prospects for European integration and for stability and security in the South and North Caucasus. Conflict resolution is further complicated by the deterioration in Russia-Georgia relations. Following the Rose Revolution, Moscow moved to establish closer ties with both separatist regions, which are likely to strengthen further as Georgian government battles Russia over the withdrawal of its military bases from Georgia on the basis of its 1999 OSCE Istanbul commitments. Georgia also signalled its intention to explore possibilities to replace Russian peacekeeping troops which are stationed in Abkhazia and South Ossetia by international forces, potentially some form of a coalition of the willing comprising GUUAM states. Georgia also requested the EU and its member states to provide a replacement for OSCE border-monitoring mission on the Georgia-Russia border near Chechnya, which was pulled out after Russia vetoed extension of its mandate at the OSCE summit in December. While there is no consensus within the EU about deployment of its observers on Russia's border without the latter's approval, the EU, and particularly some of its new Member States, have been actively liaising with the Georgian government to find possible alternatives to the OSCE mission. This action in itself

signals a growing EU role in the region and increasing attention to the Caucasus within ESDP following EU enlargement in May 2004.

The change of government in Ukraine created momentum for the resolution of another separatist conflict in the neighbouring republic of Moldova, which has struggled to bring its breakaway region of Transnistria, where many ethnic Ukrainians reside, under its control. Yushchenko signalled that Ukraine, which borders Transnistria, will make active efforts to resolve the conflict. The EU also signalled its interest in promoting settlement by appointing an EU special representative for Moldova, Adrian Jacobovits. After the change in Ukraine's policy, Russia remains the only external source of support for the Transnistrian leadership. Moscow continues to deploy troops in the region despite strong pressure from Moldova and the international community on Russia to fulfil its obligation to withdraw military bases from both Moldova and Georgia. The fact that Russia does not border Moldova, however, makes it increasingly difficult for Moscow to exercise control over the situation in Transnistria. If real progress is achieved on reintegrating Transnistria with Moldova under a special agreement on autonomy with international guarantees, it could have a major positive impact on the resolution of conflicts in the South Caucasus.

Another security implication of the revolutionary changes in Ukraine and Georgia relates to the possible spread of popular uprisings to other, less stable parts of Eurasia. In late March 2005, such a change of regime took place in the Central Asian Republic of Kyrgyzstan. Following alleged election fraud, which was confirmed by Organisation for Security and Cooperation in Europe (OSCE) observers, opposition forces initiated protests in the south of the country and gradually brought these to Bishkek, the capital, where a small group of young men took over government buildings and forced President Askar Akayev into exile. The unexpected ouster of the government prompted chaos, in which the capital was looted and a number of injuries were reported. Although the opposition managed to re-establish control, concerns remain about future tensions and clashes between pro-government and opposition forces. Unease has also arisen over possible inter-ethnic violence and the potential for radical Islamist forces to gain control in parts of the country. Moreover, deterioration of law and order could increase the flow of drugs from Afghanistan through Kyrgyzstan to Asia and Europe. While the new government managed to temporarily stabilise the situation, its long-term prospects offer grounds for concern.

Kyrgyzstan's strategic resonance stems from the fact that it hosts both Russian and American military bases that operate some coalition missions in Afghanistan. While the key international players – Russia, the United States, the EU and the OSCE – have largely worked together to bring order and prevent a long-term crisis in the country, their long-term interests remain different. This suggests that the balance among them is tenuous and presumptively susceptible to political instability. Indeed, the Russian government is deeply unsettled about the proliferation

of 'popular revolutions' across neighbouring states, particularly those in Central Asia, and is therefore likely to encourage governments in these states to take more drastic measures to prevent popular protests. The EU and the United States, for their part, are concerned that events in Kyrgyzstan could provoke already authoritarian regimes in Central Asia to undertake further repressions and human-rights violations. These differences between Russia and Western perspectives could, on balance, prompt Central Asian governments to seek closer ties with Russia, which supports the preservation of the current regimes in power.

Similar trends might take root in other Eurasian states, such as Azerbaijan, where there is growing opposition to the leadership of Ilkham Aliev, who in 2003 took power from his father through a 'dynastic' succession legitimised by elections in which the OSCE found many irregularities. Counting on Russia's support in an event of public discontent, the Azerbaijani government has already distanced itself from its GUUAM partners, Ukraine and Georgia, who seek to revitalise the organisation. In Belarus, Europe's last authoritarian state, President Alexander Lukashenko is under increased pressure from the now-neighbouring EU and from the United States. US Secretary of State Condoleezza Rice, in February 2005, called Belarus one of the 'outposts of tyranny', signalling an increased US commitment to advance the values of democratisation and freedom in that country. Belarus has long sought some form of union with Russia, and is likely to move closer to Moscow in search of guarantees – if not of regime survival, then of the personal safety of its leader in case of sudden political change.

Moving beyond a tenuous status quo

The Beslan tragedy and subsequent political changes in Russia have highlighted growing challenges for Russia's leadership as it begins to prepare for transition in 2008. The Orange Revolution in Ukraine transformed the geopolitical landscape in Eastern Europe, the South Caucasus and Central Asia. These two events are likely to define Russia's political and security agenda in the region, which can no longer fit the definition of the 'former Soviet space'. However, a new term may never be found beyond the loose geographic definition of 'Eurasia'. This area now includes increasingly diverse sub-regions, sets of strategic partnerships, security alliances and economic interests. Russia's domestic challenges made it a less attractive source of integration for its neighbours. Many of the extant alliances between those neighbours and Moscow are premised on their regimes' desire to protect themselves against potentially revolutionary public discontent. Those alliances are to an extent offset by other governments that have united to help one another consolidate their 'independence' from potential Russian pressure.

A new *modus vivendi* should ideally be found for developing relations between Russia and its Western partners, modelled perhaps on how Russia and China managed to find a mutually acceptable model for cooperation in Central Asia. To this

end, inspirational success stories of cooperation are badly needed. Hopeful possibilities include the resolution of the Transnistria conflict in Moldova and support for a stable political transition in Kyrgyzstan. The improvement of Georgian–Russian relations could also open new avenues for addressing security problems and promoting economic development in both the South and the North Caucasus. Finally, the development of closer cooperation in the Black Sea region, with Russia joining other regional states and European partners, could bring the entire region closer to the EU, in much the same way that Baltic Sea cooperation promoted regional cooperation regardless of whether regional states belong to the EU or NATO.

However unenlightened Russia's present approach to the region may be, without Moscow's constructive engagement, no lasting stability, security and economic prosperity can be envisioned in Eurasia. Such engagement, however, would itself be destabilising if pursued on the basis of geopolitical rivalry. The main lesson from the post-revolutionary period in Ukraine and recent events in Kyrgyzstan is that Russia could and should develop cooperation with other regional players, including Europe, the United States and their key institutions, in the interest of stability and development in what has become their 'common neighbourhood'. EU enlargement and the war on terrorism have provided a lasting strategic rationale for Western engagement in Eurasia. Russia has yet to formulate clear strategic interests in relations with neighbours on the basis of post-Cold War and post-11 September realities – that is, beyond historic legacies and fears of encirclement. Putin has substantial reasons to avoid geopolitical rivalry, which could produce instability along Russia's borders and make it difficult for his government to address pressing problems of terrorism and economic reform inside Russia. But regional provocations could force him to default to a Cold War mentality and react confrontationally. In his speech in Brussels on 21 February 2005, US President George W. Bush appeared to recognise the need for a degree of restraint vis-à-vis Moscow. He was unabashed in his belief that 'Russia's future lies within the family of Europe and the transatlantic community' as well as his view that 'the Russian government must renew a commitment to democracy and the of law'. Yet he also acknowledged that 'reform will not happen overnight'. It would be best if Russia's neighbours and major powers interpreted this message so as to refrain from opportunistic strategies that might play on tensions between Russia and the West, and instead found more conciliatory ways to promote common interests and common projects to more gently dismantle Cold-War legacies in Eurasia. Russia, for its part, could make improved cooperation, security and development in Eurasia (particularly the South Caucasus and Central Asia) a priority for its G8 presidency in 2006, which could become a vehicle for launching joint projects. That kind of initiative would be a salutary signal that Russia is prepared to share responsibility for regional stability with other G8 states, and thereby prompt improvement in EU–Russia relations as well as in Russia–US bilateral ties.

Turkey: Pyrrhic Victory In Brussels?

Hope, goes the Turkish saying, is the bread of the poor: however much is consumed, the supply can never be exhausted. In mid-December 2004, after years of riding a roller-coaster of hope and despair, the long-suffering Turkish people finally appeared to have something substantial to celebrate. A little over two years since its landslide election in November 2002, the governing Justice and Development Party (JDP) seemed not only united and stable but, suggested the opinion polls, more popular than ever. The economy had bounced back from a crippling recession in 2001 and was enjoying its third year of robust growth. Exports and prices on the Istanbul Stock Exchange had hit record highs, while interest and inflation rates had fallen to their lowest levels in a generation. Although disagreements over Washington's policy towards Iraq meant that relations with the US were cooler than they had been a few years earlier, there appeared no immediate cause for concern. The war in Iraq itself, though deeply unpopular in Turkey, had created a thriving cross-border trade and given a massive boost to the local economy in the impoverished southeast of the country. Most important of all, at its summit in Brussels on 17 December 2004, the EU had finally set 3 October 2005 for the beginning of full accession negotiations.

But throughout 2003 and 2004, nagging doubts had remained about the sustainability of the high level of economic growth, and about the long-term agenda of the JDP and its commitment to – or even understanding of – the demands of EU accession. More critically, the process of trying to secure a date from the EU had served as a catalytic and unifying force, providing the JDP with momentum, binding the party's disparate elements together and enabling it to postpone solutions to such potentially explosive issues as the role of religion in public life, over which the expectations of its constituency were incompatible with the strict interpretation of secularism espoused by the Turkish establishment – particularly the country's still-powerful military. By late March 2005, however, the energy expended on securing a set date from the EU appeared to have punctured the JDP's momentum, leaving it deflated, defensive and divided, unwilling or unable to formulate policy and apparently without a strategy for what to do next. Perhaps more worryingly, the confusion and loss of direction extended to the general public. As economic growth began to slow and with no realistic prospect of full EU membership for at least ten years, the Turkish people appeared increasingly introverted, retreating into improbable conspiracy theories and an insecure nationalism.

The EU date – an end or a beginning?

Since it took power in November 2002, the prospect of securing a date for the beginning of EU accession negotiations in December 2004 had dominated the JDP's foreign and domestic policy agenda. Although most of the party's nucleus

had radical Islamist – and anti-Western – roots, the government not only continued but accelerated the process initiated by the previous government of harmonising Turkish legislation with the body of EU law known as the *acquis communautaire*. In the 18 months between December 2002 and May 2004, the JDP passed five packages of legal and constitutional reforms whose effects ranged from reducing the political influence of the Turkish military to easing restrictions on freedom of expression and cultural diversity. But implementation lagged far behind legislation. The tendency among most foreign observers and many Turkish liberals was to attribute this discrepancy to resistance from Turkey's instinctively conservative bureaucratic establishment. More sceptical commentators claimed that the JDP was either exploiting the EU process for its own ideological goals (e.g., using the EU insistence on civilian control of the armed forces to weaken the staunchly secularist Turkish military and ultimately facilitate the introduction of a secret Islamist agenda), or that it was imitating rather than internalising and simply did not understand that promulgating legislation was not an end in itself but needed to be rooted in Turkey's genuine acceptance of basic EU values. Nevertheless, at a summit in Brussels on 17–18 June 2004, the EU indicated that Turkey had done enough, if not for full membership, at least to be given a date for the opening of official accession negotiations at its next summit in Brussels on 16–17 December 2004.

Doubts about the JDP's understanding of the implications of EU membership were reinforced in September 2004. Turkish MPs had been recalled from their summer recess to pass a reform of the Penal Code before the European Commission published its annual progress report on Turkey's candidacy at the beginning of October. At the last moment, Prime Minister Recep Tayyip Erdogan attempted to add a clause criminalising adultery. When Gunther Verheugen, the European Commission's Commissioner for Enlargement, expressed concern about criminalising what was essentially a private matter, Erdogan angrily responded that the EU had no right to interfere in Turkey's internal affairs. Nevertheless, Erdogan withdrew the adultery clause when he realised that it could jeopardise Turkey's chance of receiving a positive Commission assessment. The new Penal Code was subsequently passed by parliament, effective 1 April 2005. When the Commission's progress report was published on 6 October 2004, it recommended that Turkey be given a date for the opening of accession negotiations at the EU summit in December.

The prospect of Turkey starting official accession negotiations – which to date have invariably resulted in the candidate country's being granted eventual membership – galvanised opponents of Turkish accession within the EU, particularly in France, Germany and Austria. But when EU leaders met in Brussels in December 2004, the issue of Cyprus once again proved the greatest obstacle. After years of at best half-hearted support for – and often outright opposition to – UN proposals to reunify the divided island, in early 2004 Ankara had suddenly performed an about-face and announced that it backed a resumption of negotiations based on a

draft solution known as the Annan Plan, after UN Secretary-General Kofi Annan. Previous attempts to reach a settlement based on the Annan Plan had collapsed in March 2003 in the face of the intransigence of veteran Turkish Cypriot leader Rauf Denktash; and Turkey had declined to pressure Denktash to return to the negotiating table. Although the EU had agreed to grant full membership to the Republic of Cyprus on 1 May 2004, in practice the latter's internationally recognised government only administered the Greek Cypriot southern two-thirds of the island, while the north was run by the breakaway Turkish Republic of Northern Cyprus (TRNC), which only Turkey recognised. Ankara simply did not believe that the EU would ever admit the Republic of Cyprus as a member without a settlement to reunify the island. By late 2003, however, Turkey had finally begun to realise not only that the EU would admit the Republic of Cyprus but that Ankara's perceived refusal to support a settlement – as manifested in its backing for Denktash – could seriously damage its own prospects for accession.

In many ways, Ankara's reversal was a calculated gamble. Ever since the 1974 Turkish invasion of the island to prevent its unity with Greece, most Turks have seen the TRNC, and the continued presence of 35,000 Turkish troops in the north of the island, as a matter of national honour. Any Turkish government that agreed to a settlement would, regardless of its terms, face a severe domestic backlash. But by early 2004 the Turkish analysis – backed by intelligence reports – was that, even if the Turkish Cypriots accepted the Annan Plan, the Greek Cypriots would reject it. This would leave the Greek Cypriots, uncharacteristically, to face international opprobrium, removing an impediment to Turkey's hopes of accession and perhaps even eventually leading to international recognition of the TRNC – always Turkey's preferred outcome.

Initially, the gamble appeared to have paid off. After nearly two months of inconclusive UN-brokered negotiations, the Annan Plan was put to twin referenda in the two communities on the island on 24 April 2004. The Turkish Cypriots voted for acceptance by 64.9% to 35.1%, while the Greek Cypriots rejected the plan by 75.8% to 24.2%. One week later, on 1 May, the Republic of Cyprus officially became a member of the EU. Both EU officials and representatives of member states issued statements promising to reward the Turkish Cypriots by easing their international economic and political isolation. Turkish officials declared that they had done all that could be expected of them and that it was now up to the EU either to pressure the Greek Cypriots into accepting the Annan Plan or to allow the TRNC to function as a *de facto* independent state.

The first sign that Turkey had misjudged the situation came in October 2004. At a meeting in Istanbul on 14–16 June 2004, the Organisation of Islamic Conference (OIC) had acceded to a Turkish request to grant membership to the TRNC as the 'Turkish Cypriot State', the name assigned to it in the Annan Plan. However, a meeting between the foreign ministers of the OIC and the EU, originally scheduled

for 4–5 October 2004, was cancelled over EU objections to the participation of the ‘Turkish Cypriot State’ on the grounds that it was not an internationally recognised entity. Worse was to follow. Turkey had extended its 1963 Association Agreement with the then-European Economic Community, which still formed the legal basis of its relations with the EU, to cover nine of the ten states which had joined on 1 May 2004. But it had refused to include the Republic of Cyprus, which it did not recognise diplomatically. Far from being, as Ankara had hoped, a mere formality, the December 2004 EU summit was overshadowed by Turkey’s continuing refusal to recognise the Republic of Cyprus, and the Greek Cypriots threatening to use their veto to block Turkey receiving a date for the opening of accession negotiations. In the end, a compromise was reached, whereby the Greek Cypriots grudgingly withdrew this threat. Turkey, for its part, agreed to include the Republic of Cyprus in the Association Agreement before accession negotiations officially opened on 3 October 2005 after being assured that, as Ankara’s relations with the EU were primarily economic (the two having been in a customs union since January 1996), extending the agreement would not amount to *de jure* political recognition. To make matters worse, in a sop to those member states whose governments were wary of domestic opposition to Turkish accession, the final summit declaration included a sentence which stated that the opening of negotiations was no guarantee of eventual membership – the first time any such caveat had been issued to a potential member.

In the weeks leading up to Brussels summit, the JDP had prepared banners, bunting and posters venerating Erdogan and showing the EU and Turkish flags intertwined. When Erdogan returned to Ankara on the morning of 18 December 2004, JDP supporters dutifully turned out to welcome him and his entourage on a procession through festooned streets. But beneath the trappings of triumph, there was a palpable sense of disappointment and disillusion. Opposition parties and nationalist media were already lambasting the JDP for allegedly selling out the Turkish Cypriots.

Even before the Brussels summit, few in Turkey had expected full membership to come before 2015 at the earliest. But liberals had hoped that the securing of a date for accession negotiations would serve as a springboard for further reform. Given the huge support for EU membership amongst the Turkish public, the JDP had expected the Brussels summit to enhance the party’s prestige to such an extent as to make it unassailable at the next election, and guarantee a second strong parliamentary majority. But in the months following the December 2004 summit, the JDP appeared to lose direction. By late March 2005, not only had it failed to pass any more reforms or even name a chief negotiator to handle the preparations for the opening of accession talks, but Erdogan was still procrastinating on extending the Association Agreement to the Republic of Cyprus. The EU was also becoming increasingly frustrated by Turkey’s use of its NATO membership to block the Republic of Cyprus from participating in any EU military action involving access

to NATO capabilities, severely inhibiting the development of the EU's European Security and Defence Policy (ESDP). But it was not just Turkey's ties with the EU that were coming under strain. Turkey also appeared to be recoiling into a suspicious and defensive introversion that was exacerbating tensions in its already troubled relations with its other Western ally, the US.

From transatlantic allies to regional rivals?

In early 2004, Turkey's relations with the US appeared to have recovered from their nadir of mid-2003, when the Turkish parliament's failure on 1 March 2003 to approve the transit of 62,000 US troops to attack Iraq from the north had been compounded on 4 July 2003 by the US seizure of Turkish special forces in northern Iraq on suspicion of plotting to assassinate Iraqi Kurdish officials. Even though there was none of the emotional warmth which had characterised the months following the 11 September 2001 terrorist attacks on the US – when traditionally strong ties between the two countries' militaries had been boosted by Washington touting Turkey as a model for other Muslim states to follow – by the end of 2003 it had at least been possible to re-establish a working relationship. But the improvement proved relatively short-lived. Ironically, given that it had once promised to bring the two countries closer together, Washington's global war on terrorism – particularly the continuing instability in Iraq – became the main factor driving them apart.

Since it came to power, the JDP had taken a pragmatic approach to relations with the US – that is, it understood that it needed good relations with Washington more than it actually wanted them. But in private, most of the party's members remained almost viscerally anti-American and instinctively sympathetic to other Muslim countries in the region, and this attitude intensified whenever a Muslim country came under pressure from the US. By early 2004, Turkish relations with Israel, Washington's main ally in the region, had cooled to their lowest point in more than a decade. Even the Turkish military, which had been the primary driving force behind the rapprochement with Israel in the mid-1990s, had lost its enthusiasm for the relationship. It was infuriated by press and intelligence reports of increasingly close ties between Israel and the Iraqi Kurds – whom it feared would use the continuing turmoil in Iraq to establish an independent state, which in turn would serve as an inspiration for Turkey's still restless Kurdish minority – and exasperated by a string of problems in defence industry contracts awarded to Israeli firms. More insidiously, while leading members of the JDP were careful to pay public lip service to the merits of closer ties with Israel, in private most party members remained anti-Semitic. In general, the government pursued a policy of constructive neglect towards Israel while working to build closer ties with Turkey's Muslim neighbours.

Through 2004 and into 2005, these prejudices and perceptions of Turkish national interest converged and fed on each other. The main flashpoint remained northern Iraq, where Turkish fears of an independent Kurdish state were compounded by US

reluctance to move against an estimated 5,000 militants of Kongra-Gel, the former Kurdistan Workers' Party (PKK), who were holed up in camps in the mountains along the border between Iraq and Turkey. Ankara's protests intensified following Kongra-Gel's announcement on 1 June 2004 that it was abandoning its five-year unilateral ceasefire and resuming its violent campaign for greater rights for Turkey's Kurdish minority. During the second half of the year, Kongra-Gel killed more than 50 Turkish civilians and members of the security forces – mostly in rural areas in southeast Turkey. Although in August 2004 five people were killed in separate bomb explosions in Istanbul and the coastal resort of Antalya. The Turkish security forces put Kongra-Gel losses over the same period at 200–300 killed. Most of the Kongra-Gel militants involved in clashes seem to have been those who had gone into hiding in Turkey following the 1999 cease-fire. But Turkish intelligence reports claimed that they were being directed, and sometimes reinforced, from the camps in northern Iraq. Through 2004 and into 2005, Turkish officials raised the issue at virtually every meeting with their US counterparts but received no concrete assurance of imminent action. Privately, US officials freely admitted that the continuing insurgency in the rest of Iraq meant that the US did not have sufficient forces for any additional military operations.

Relations were further strained by Washington's reluctance to address what Turkey maintained were Iraqi Kurdish attempts to marginalise the Turkish-speaking Turkmen minority in northern Iraq and resettle Kurds in the oil-rich city of Kirkuk prior to declaring it the capital of an independent Kurdistan. Not only was the US unwilling to intervene, but by early 2005 it had also become clear that Ankara's hopes of using the Turkmen as a counter to the Iraqi Kurds had failed. Turkey had attempted to rally the Turkmen behind the Iraqi Turkmen Front (ITF), which it had provided with considerable financial and logistical support. But Ankara had consistently overestimated not only the influence of the ITF but the ethnic unity and even the size of the Iraqi Turkmen population. Unlike their co-linguists in Turkey, many of the Turkmen were Shi'ite rather than Sunni Muslims and identified more strongly with the Iraqi Shi'ites than the ITF. Although Turkey claimed that the Turkmen accounted for at least 10% of the Iraqi population, in the Iraqi elections of 30 January 2005 the ITF won just 1.1% of the total vote. In Kirkuk, which Ankara had long maintained was a predominantly Turkmen city, the ITF won only 18.4% of the vote.

Washington's failure to move against either Kongra-Gel or the Iraqi Kurds antagonised even the Turkish military, which has traditionally been the strongest advocate in Turkey of closer ties with the US. On 25 January 2005, Deputy Chief of Staff General Ilker Basbug warned that Turkey would not stand idly by if the Iraqi Kurds attempted to take control of Kirkuk or persecuted the Turkmen. On 14 March 2005, Land Forces Commander Yasar Buyukanit attacked the JDP government for both neglecting the Turkmen and failing to exert pressure on the US and the Iraqi authorities to prevent militants from the Kongra-Gel camps infiltrating

into Turkey. But Turkey's options were limited. US officials had repeatedly warned that any cross-border military action would trigger a military response from US forces in Iraq. Nor could the JDP apply economic pressure. Cross-border trade with the Iraqi Kurds and the sale of provisions to US-led occupation forces had given a massive boost to the local economy in southeastern Turkey, whose underdevelopment continued both to fuel recruitment to Kongra-Gel and other violent leftist and Islamist groups, and also to exacerbate the social problems resulting from mass migration to Turkey's already overburdened metropolitan areas. Although more than 90 Turkish truck drivers were killed by Iraqi insurgents in the 18 months through March 2005, the levels of unemployment in southeastern Turkey meant that there was never any shortage of replacements.

The continuing turmoil in Iraq gave an added impetus to already growing anti-Americanism in Turkey. In an international BBC poll conducted in late 2004, only 1% of Turks said that they approved of US President George W. Bush's foreign policy, while 91% disapproved – the highest rate of any country. Although leading members of the JDP were usually careful to avoid criticising the US too harshly in public, occasionally they were unable to control themselves. On 27 November 2004 Mehmet Elkatmis, the head of the Parliamentary Human Rights Commission, accused the US of conducting a 'genocide' during its military operations against Iraqi insurgents in Falluja and described the Bush administration as being 'worse than Hitler'. In Washington, frustration at the continuing insurgency in Iraq – which several US commentators suggested was partly the result of the 1 March 2003 refusal to allow the opening of a second front against Saddam Hussein – and Ankara's reluctance to allow its airbase at Incirlik in southern Turkey to be used to resupply US forces in Iraq had been aggravated by the JDP's failure to curb public anti-Americanism. After the tsunami in Southeast Asia on 26 December 2004, the US Embassy in Ankara was forced to issue a public statement refuting reports in the pro-JDP *Yeni Safak* daily newspaper that the quake had been caused by a US underground explosion which was designed to kill Muslims. During February and March 2005 the Turkish bestseller lists were dominated by a thriller called *Metal Firtinasi* ('Metal Storm'), in which a clash between Turkish and US forces in northern Iraq triggered a war between the two countries.

Perhaps more alarming was the appearance near the top of the bestseller lists of Adolf Hitler's *Mein Kampf*, as public anger at Israeli policies towards the Palestinians descended into often blatant anti-Semitism. Following the Israeli 'targeted killing' of Hamas leader Sheikh Ahmed Yassin on 22 March 2004 and again in May 2004, after Israeli forces had razed the houses of the families of suspected militants in the Gaza town of Rafah, Erdogan publicly accused Israel of 'state terrorism'. He declined an Israeli invitation to visit the country and in June 2004 even briefly recalled Turkey's ambassador to Israel for consultations. In contrast, Turkey continued to strengthen its ties with both Syria and Iran. When he

paid an official two-day visit to Tehran in July 2004, Erdogan defied US concerns about economic links with Iran by taking with him more than 130 businessmen, and publicly defended Iran's right to a nuclear power programme. In December 2004, Erdogan paid a two-day visit to Damascus, where he and Syrian President Bashar al-Assad signed a free-trade agreement between their countries. In March 2005, Turkish President Ahmet Necdet Sezer announced that he would be paying an official visit to Syria in April 2005 – the first ever by a serving Turkish head of state. In turn, Turkey was initially silent when the 14 February 2005 assassination of former Lebanese prime minister Rafik Hariri was followed by a chorus of international calls for Syria to withdraw from Lebanon. In an opinion poll conducted in late February 2005, 69.4% of Turks supported closer ties with Syria and 67.1% closer relations with Iran, while 59.5% had a negative view of the US and 38.9% saw it as an enemy of Turkey.

Domestic politics: honeymoon over

The period between the JDP's coming to power in November 2002 and the granting of a date for opening of EU accession negotiations in December 2004 was domestically one of the quietest and most stable periods in recent Turkish history. The JDP's electoral victory had coincided with – and was partly a product of – the discrediting and collapse of virtually every other major political party. Through 2003 and 2004, with around two thirds of the seats in the 550-seat unicameral parliament and in the absence of an effective opposition, the JDP's grip on power was unchallenged and, barring the emergence of a viable alternative, unchallengeable. After more than a decade of fractious, incompetent and corrupt coalition governments, most Turks – even many of those who harboured suspicions about the party's long-term agenda – were prepared to give the JDP a chance. Both they and the new government were aware that any domestic political turmoil could jeopardise not only Turkey's chances of receiving a date from the EU but also its recovery – based on an International Monetary Fund (IMF)-backed economic stabilisation programme – from the devastating recession of 2001. As a result, the JDP pursued policies that appeared superficially bold (e.g., the raft of democratic reforms) but were essentially cautious, driven by the expectations of the EU and the IMF rather than its own instincts. Confident that it would win a second five-year term in power, the government believed that it could afford to be patient. It therefore concentrated initially on issues for which there was a broad consensus, such as EU membership, and postponed confronting more controversial subjects, such as the role of religion in public life.

Although the JDP almost certainly has a less radical Islamist agenda than its detractors fear, there is also no doubt that most of its members favour a relaxation of aspects of the current interpretation of secularism in Turkey, including the restrictions on religious education and the ban on women wearing headscarves

in state institutions. Others would like to see the regulation of social interaction more closely modelled on Islamic moral codes, if not full sharia law. Although the government did not add any anti-secularist laws to the statute book during 2004, Islamist reflexes occasionally surfaced in statements by its members and it twice had to withdraw legislation in the face of reactions.

In the local elections on 28 March 2004, the JDP won 41.7% of the national vote, up from 34.3% in the general elections of November 2002. Apparently emboldened by its success, the government announced a draft package of educational reforms – included easing restrictions on graduates of Islamic schools – on 4 May 2004. Although the Turkish General Staff (TGS) still sees itself as the ultimate guardian of the state ideology of Kemalism – named after the republic's founder Mustafa Kemal Atatürk (1881–1938) and based on the principles of territorial integrity and secularism – since his appointment in August 2002, Chief of Staff General Hilmi Ozkok had been anxious to minimise any public confrontation with the government, not least for fear of antagonising the EU. However, on 6 May 2004 the TGS published a statement describing the draft reforms as a threat to secularism and commenting that the TGS would remain as committed to the fundamental principles of the republic as it had ever been. In a country where the military has overthrown four governments in the last 45 years, such a statement could only be construed as a thinly veiled warning that there were limits to what degree of erosion to secularism the TGS would tolerate. The draft legislation was passed by parliament on 13 May 2004. Two weeks later, on 27 May 2004, President Sezer vetoed it on the grounds that it was incompatible with the constitutional principle of secularism. Under Turkish law, the president can only veto legislation once. But the JDP declined to resubmit the law to parliament. On 3 July 2004, Erdogan ruefully admitted that 'as a government we are not ready to pay the price'.

Many in the JDP had assumed that membership of the EU would not only reduce the political influence of the TGS but also under the guise of freedom of religion, allow Islam a more prominent role in public life in Turkey. However, dismay at the French decision to ban religious symbols – including the headscarf – in schools from 15 March 2004 was compounded in September 2004 when the decisive opposition to the criminalising of adultery in the new Turkish Penal Code came not from inside the country but from the EU. Even before the 17 December 2004 summit in Brussels, although they remained committed to the goal of receiving a date for the opening of accession negotiations, many in the JDP had already become disillusioned with the EU and were privately indifferent to the prospect of eventual membership. The difficulties over Cyprus in Brussels merely deepened their disenchantment. As a result, by end-March 2005 the granting of a date on 17 December 2004 appeared increasingly not so much a stage on a long journey as the end of a prolonged and artificial calm. Bereft of the momentum of the period leading up to the Brussels summit, the JDP lost vigour and direction.

At the same time, a host of issues that had been postponed or temporarily suppressed over the previous two years began to resurface. Not only were no further reforms passed, but impatience at Erdogan's increasingly authoritarian leadership style triggered a series of resignations. Even though there was no viable alternative party to which to defect, by 7 April 2005 11 MPs had resigned from the JDP in a little over three months, compared with just two in the previous two years. Erdogan responded by spending an increasing amount of time outside the country and lashing out at any criticism. For example, he sued one of the country's leading cartoonists for libel for a playful portrayal of Erdogan as a cat entangled in a ball of wool, and accused television stations who showed footage of police beating up peaceful protestors at a 6 March 2005 rally in Istanbul ahead of International Women's Day of being 'EU agents'. The siege mentality seemed infectious. In early March 2005, the Turkish Forestry Ministry announced that it was changing some Latin names describing fauna and flora in eastern Turkey as 'Armenian' or 'Kurdish' on the grounds that they were part of a Western plot to divide the country. Later that month, tens of thousands of Turks marched and hundreds of thousands more hung flags from their apartments and workplaces to protest what they saw as a conspiracy: the unsuccessful attempt of two boys – aged 12 and 14 – to set fire to a Turkish flag during a 21 March 2005 rally to mark the southwest Asian New Year festival of Newroz.

The same sense of uncertainty and loss of direction that had permeated domestic politics could also be seen in the economy. In December 2004, the JDP agreed to the terms of a new \$10 billion standby agreement with the IMF to replace the previous agreement, which was due to expire in February 2005. But as of the beginning of April 2005, the agreement had still not been signed as the government continued to prevaricate over some of the conditions required by the IMF – most importantly, tightening tax collection and bank regulation, and reforming the country's ailing social security system. The IMF loan was important less for the actual cash inflows it would yield than for the confidence it would give to the international lending community to reduce the interest on Turkey's still considerable foreign debt. The delay in signing the agreement came amid increasing signs that the Turkish economy was cooling. In the first nine months of 2004, Turkey's Gross National Product (GNP) grew by an annual rate of 9.7%, up from 5.9% in 2003. Although the pace of growth was expected to slow during the final quarter of the year, during 2004 as a whole Turkish GNP grew by 9.9% in real terms. Within the year, however, the trend was downward. In the first quarter of 2004, Turkish GNP grew by an annual rate of 13.9%; by the final quarter of 2004, the annual rate of growth had slowed to 6.6%. Inflation seemed under control. From the year to end-March 2005, consumer prices rose by 7.9%, down from 11.8% one year earlier. The Turkish lira was stable, even overvalued. But despite the currency's strength, Turkish exports set a new record of \$62.8bn in 2004, up 32.8% on the previous year.

Growth in 2003 and 2004 had been primarily driven by an increase in domestic demand as consumers took advantage of the fall in interest rates (due to domestic political stability) to make purchases postponed in the wake of the 2001 recession. During 2004, credit-card purchases increased by 79.1% in real terms while consumer loans grew by 133.3%. Yet real incomes increased by an average of only 1.3% during 2004, and actually contracted by an annual rate of 0.5% in the final quarter of the year. By March 2005, demand appeared to have peaked and, faced with a rapid rise in credit card defaults, the government announced plans to try to rein in consumer spending. The 2004 increase in consumer spending also fuelled a rapid rise in imports to \$97.2bn, resulting in a record trade deficit of \$34.4bn. More seriously, the current account deficit widened by 93.8% to \$15.6bn, or around 5% of Turkish GNP. An adjustment in the exchange rate appeared inevitable. However, for Turkish textile producers, who account for approximately one-third of Turkey's total exports, the likelihood is that many of the gains of a cheaper Turkish lira will be wiped out by competition from China in their main markets – the US and the EU – following the lifting of all quotas from 1 January 2005.

Perhaps more worryingly for the JDP, even the boom years of 2003 and 2004 failed to create enough jobs. Official figures showed that the rate of unemployment fell from 10.5% at year-end 2003 to 10.3% at year-end 2004. But the total number of unemployed edged up by 5,000 during 2004 to 2.5 million as the total working age population grew by 994,000. Unemployment among those in the 15–24 age group, who account for 10.5% of the total workforce, stood at 19.7%, rising to 25.2% in urban areas, which in recent years have witnessed a dramatic increase in crime levels. An estimated 53% of the 21.8m Turks who had jobs were working in the unregistered black economy, up from 51.7% in 2003.

Drifting not sinking

In early April 2005, in its international relations, the JDP appeared to be paying the price for past errors and omissions in the first months of its administration. These included, in particular, its rejection of the Annan Plan while the international community still had time to apply pressure on the Greek Cypriots before the Republic of Cyprus acceded to the EU and the 1 March 2003 rejection of the US request to open a second front against Iraq. Given the nationalist paranoia that has developed in Turkey, the Cyprus problem is unlikely to be solved any time soon, and a relatively minor incident could spiral into a crisis. Yet Turkey's relations with the EU and the US are not irretrievably negative. Eventually, the government will have to extend the Ankara Agreement to include the Republic of Cyprus and hope that it could minimise the domestic damage by convincing as many Turks as possible that this did not amount to political recognition. EU accession negotiations are likely to start on 3 October 2005 or soon thereafter, though they could drag on for years with little perceptible progress.

In early April 2005, it seemed likely that Ankara would eventually agree to allow Washington to use the Incirlik airbase for logistical supplies to its forces in Iraq. Erdogan was also expected to attempt to repair some of the damage to transatlantic relations by holding talks with US officials during an informal visit to the US in late May or early June 2005. In March 2005, Erdogan's press office even announced that he would be paying an official visit to Israel on 1–3 May 2005, although it was quick to emphasise that he would be meeting both Israeli and Palestinian officials. But frictions between the US and Turkey over northern Iraq could at some stage produce a crisis. The Turkish military has been hatching plans to launch an operation to dismantle the Kongra-Gel camps; however, current projections are that such an operation would require 10,000–25,000 ground troops, backed by air support. Any Turkish action along these lines would probably prompt a US military response and would certainly outrage the EU. By Turkish standards, however, the Kurdish issue has already manifested a relatively long fuse. Although the Iraqi Kurds appear determined to gain full independence eventually, they seem to understand that any Kurdish state would not be internationally recognised unless the process of establishing a remade Iraqi state had been completely played out. In the near and perhaps medium term, they will probably be satisfied with *de facto* autonomy, towards which they are moving. Unless the Kurds do something rash – e.g., massacring Turkmen protesters – the Kurds' patience, American threats and the need to preserve the EU's good will would probably defer Turkish military action against the Kurds. In the meantime, provided the US does not use force against Syria or Iran, Turkey is likely to continue to strengthen its ties with both countries while its relations with Israel revert to arm's length.

As fraught as foreign policy may be for the JDP, domestic affairs pose even bigger problems for the party. In late March 2005, Turkey appeared to be experiencing a psychological, rather than an economic or political, crisis; however, under the combined pressure of deteriorating social conditions, the growth in irrational conspiracy theories and a rise in a frenzied nationalism, Turkey's potential vulnerability to both seemed to be increasing. At some point, the JDP will have to try to deliver on its supporters' expectations of a relaxation of the restrictions on religious education and the wearing of headscarves. Yet any attempt to amend the current interpretation of secularism would trigger a confrontation with the Turkish establishment, particularly the military. Although Erdogan has established an amicable working relationship with General Ozkok, the latter is due to step down as chief of staff in August 2006, and all of his potential successors are likely to be considerably more assertive.

In late March 2005, several of Erdogan's advisors privately admitted that they believed that popular support for the JDP had probably peaked in the March 2004 local elections and that they favoured holding early general elections in autumn 2005 before a viable alternative to the government had time to emerge. But there

was no indication of whether or when Erdogan would make a decision. Indeed, after two years in which both political and economic momentum had been primarily driven by commitments to outside forces – namely the EU and the IMF – in the aftermath of the Brussels summit Erdogan and the rest of the JDP government appeared confused and disoriented. If they were not sinking, they were certainly drifting. In his public speeches, Erdogan continued to defend the JDP's record since it took power. But it was clear that the real test – both of Erdogan's own abilities and the party's long-term agenda – was yet to come.