# The Geopolitical Implications of the Eurozone Crisis: The Case of the Common Security and Defence Policy

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## Introduction

This paper is concerned with the European Union's (EU) ability to overcome geographical constraints in light of the eurozone crisis. The paper's starting hypothesis is that the eurozone crisis has indeed impacted on the EU's internal relations and on its foreign dimension, especially with partners such as the United States (US) and China. Taking policy dimensions such as defence and security as important political and material mechanisms for overcoming the constraints of geography, and keeping in mind the manner in which the eurozone crisis is putting pressure on sovereign budgets, the task is to see to what extent the EU is still able to "tame" geopolitical forces. This is a timely endeavour not simply for an analytical perspective of the ongoing eurozone crisis, but because if one assumes that the eurozone and the EU are currently in the throes of the "messy rebuilding of Europe" (Pisani-Ferry, Sapir & Wolff, 2012), then perspectives on geography could (and perhaps should) be "hard-wired" into this process of recovery and reform. Such an endeavour remains relevant despite the fact that any geopolitical fall-out from the eurozone crisis is likely to be felt over the longer-term, and even if it is not necessary to rush to any definitive conclusion about the geopolitical impacts (Baru, 2009).

The "eurozone crisis" is an abstract term which fails to adequately describe the various factors that have hit the eurozone members and the EU. The crisis can be explained through at least six major, and mutually reinforcing, factors (one can call it "a vicious circle"): financial speculation, public debt, fiscal consolidation, structural imbalances, global economic crisis and a lack of governance. One should note that the eurozone crisis has not affected all EU members in a similar fashion. Eurozone members such as Greece have long been affected by underlying factors that would give rise to debt problems, and a property bubble had been inflating in Ireland and Spain over a sizeable period preceding the crisis. What transformed these factors into systemic problems, what tipped the scale in the end, was the "perfect storm" created by credit risk in the US banking sector through the foreclosure crisis in 2007, which first engulfed the US banking system and then steadily the global financial system (Eichengreen *et al*, 2009).

The US-originated global financial crisis and the resulting slump in global growth impacted on the eurozone in a specific way. Eurozone countries such as Greece embarked on fiscal expansion in order to fight the crisis and return to growth, but they did so - in certain cases - with high levels of public debt and low tax revenues. By supporting financial institutions such as banks with public money the result was an even further expansion of government debt (Coeuré, 2012). This in turn immediately called into question the ability of these governments to re-pay loans and to sustain economic growth (by the end of 2010 the euro area was experiencing -4% real GDP growth (European Central Bank, 2012, p. 70)). Here financial speculators and credit rating agencies played a critical role. High borrowing costs for sovereign bonds, a market reflection of sovereign credibility, not only dented governments' ability to pay

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back interest but benefitted financial institutions over the short-term through the accrual of high interest re-payments. The eurozone crisis is the focus of part one of this paper.

The eurozone crisis is still ongoing and it remains a threat not only to the existence of the eurozone but also to European unity. The crisis has led to and aggravated a number of political and socio-economic issues including growing populism, mercantilist rhetoric, unemployment (especially among the youth (Spain is experiencing 50% youth unemployment)), poverty and inequalities. The EU has witnessed the fall of the Berlusconi (Italy), Brown (United Kingdom), Cowen (Ireland), Kiviniemi (Finland), Pahor (Slovenia), Papandreou (Greece), Radicova (Slovakia), Rutte (the Netherlands), Sarkozy (France) and Socrates (Portugal) governments. There has also been a noticeable rise and electoral success of extremist and populist parties from the Right and Left, which have succeeded on the basis of growing nationalism and a re-assertion of protectionist sentiments.

But what does the eurozone crisis have to do with geography? How does the ongoing problem of solvency and liquidity relate to geographical constraints? One opinion is that the 'upheaval spawned by the ongoing economic crisis is increasing the relevance of geography even further, by weakening social orders and other creations of humankind, leaving the natural frontiers of the globe as the only restraint' (Kaplan, 2009). Another idea is that capitalism, the political and economic organisation underlying the eurozone project, itself poses geopolitical challenges (Harvey, 2006, pp. 107-109). One other idea is that the crisis has compromised the political and economic clout of powers such as the EU, allowing emerging economies such as China to make full use of geographical advantages (e.g. resources) without having to pay too much mind to the interests of the EU and by extension the US; thus, so the idea goes, fragmenting the global order and making collective action harder (Burrows and Harris, 2009, p. 30). Part two of the paper discusses the political meaning and implications of geography.

In essence, this paper is interested in uncovering whether the eurozone crisis will lead to the erosion of factors which the EU uses to overcome the constraints and challenges of geography. Yet before this one would do well to realise that the eurozone crisis is not the root of all of the EU's problems, but it has laid bare and aggravated structural problems which have afflicted the EU over a longer period of time. For some the decline of Europe started back in the 1980s with the continent's exposure to energy price shocks and volatility, its decreasing industrial competiveness, its fragmented fiscal systems and its questionable credit-worthiness (Kennedy, 1988, p. 473 & p. 475). Others have proclaimed that Europe's ability to overcome geography would be undermined because, unlike the US or China, it as yet has no 'centrally controlled political and military means of enforcing [its] power' (Schmidt, 1989, p. 375). Military power is an essential way to better manage geopolitical dynamics. Indeed, those unable to deal with geographical pressures, those 'weak elements in the political and economic organism of the world', will be shattered (Mackinder, 1904, p. 422). Looking at the EU's Common Security and Defence Policy (CSDP) and the national policies of Member States, the third section of the paper asks whether the eurozone crisis has affected the EU's defence capabilities and thus its ability to "tame" geopolitics.

## What is the Eurozone Crisis?

The eurozone crisis cannot be explained through one single factor; a collusion of myriad elements ensured the spiralling from a small crisis in Greece to one engulfing the whole of the eurozone and the EU. As stated in the introduction, there are at least six factors that explain the crisis, beginning of course with the 2008 global economic crisis. The impact on the EU, to cite just two indicators, was extreme: i) real GDP growth in the EU as a whole went from 3% in 2007 to 0.5% in 2008 and to -4.2% in 2009; and ii) unemployment in the EU grew from 7.2% in 2007 to 9.7% in 2010 (OECD, 2012a). The problem of a lack of growth and unemployment still dog the EU. These two specific issues make the issue of sovereign debt crucial. The global economic crisis that began in the late 2000s eventually gave rise to the debt crisis, first with Dubai and then Greece. In most cases, private debt translated into public debt in order to keep markets and moral hazard in the banking and financial sectors at bay (de Grauwe, 2010).

Portugal, Ireland, Greece and Spain (the crudely labelled "PIGS") are all suffering from sovereign indebtedness, albeit for different reasons.[1] Years of inflated public spending and tax evasion meant that Greece was easily seized on by markets. National debt subsequently soared from 105.4% of GDP in 2007 to 157.7% in 2011 (Lojsch, Rodriguez-Vives and Slavik, 2011, p. 17).[2] Greece's ability to borrow before and after its €240 billion bailouts from the EU, the European Central Bank (ECB) and International Monetary Fund (IMF) Troika became increasingly difficult; June to December 2011 saw interest rates on 10-year Greek bonds jump 4.45% (European Central Bank, 2012a). Speculation on Portugal's credibility to re-pay debt saw the country require a €78 billion bail-out in May 2011, although the reasons for Portugal's woes remain unclear. As Krugman has pointed-out 'the Portuguese macro story is harder to tell than those of Greece, Spain, and Ireland. Greece was excessive government borrowing; Ireland and Spain, housing bubbles'. 'Portugal', he continues, '[was not] all that bad fiscally - debt/GDP [ratio] on the eve of the crisis [was] roughly comparable to Germany. But it also [did not] have surging house prices. There was a lot of private-sector borrowing, but [it is] not that easy to explain exactly why' (2011).

Spain's burst property bubble weakened private banks, forced the government to step-in to recapitalise banks with public money and triggered a €100 billion bank bail-out from the European Financial Stability Facility (EFSF). The ongoing sovereign debt crisis in Spain may yet require a full-scale government bailout as bonds scrape the unsustainable 7% threshold (*ibid.*). Ireland's initial problem was not government debt but a mass of unsustainable loans lent by banks to property developers, which, when the bubble burst, required a €100 billion loan. Italy's problem was neither a property bubble nor government debt, but instead maintaining credibility (i.e. 10-year bonds hit 7.06% in November 2011 (*ibid.*)) because of years of sterile growth. Since 2003 Italy's real GDP growth rate has not exceeded 2.2% and in 2009 it stooped to -5.5% (Eurostat, 2012). It is for this reason that the Monti government, buoyed by international institutions such as the IMF, have embarked on a reform and liberalisation process (International Monetary Fund, 2012).

In each case the respective governments found it difficult to borrow money on international markets. Furthermore, with private debt quickly becoming government debt and the impact of budgetary austerity on public sector spending – agreed under duress in exchange for bail-out money – has resulted in less consumer demand, less wages, low growth, decreasing tax revenues and more social and political unrest; the very factors which impact on a government's ability to pay down sovereign debt. Fiscal consolidation over the longer-term is one of the ways to cool down market pressure, but doing it too fast may starve the very factors required to reduce debt. While the choice over the degree and timing of fiscal consolidation is political and

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[1] One should recall that Hungary was also exposed to the glare of markets.

[2] The figures are applied within the European fiscal framework of the Excessive Deficit Procedure ("EDP debt"). See: Table 4 in Lojsch, Rodriguez-Vives and Slavik.

ideological, perhaps the more pragmatic approach over the longer-term will be to temper the degree of consolidation relative to growth levels. As a recent OECD report argues: 'the pace of consolidation needs to balance consolidation requirements with the effects of fiscal retrenchment on aggregate demand'. This pace, the reports adds, should be dependent on growth, the state of public finances and monetary policies that can cushion the fiscal tightening (Sutherland, Hoeller and Merola, 2012, p. 13).

Sovereign credibility is largely determined by a combination of financial speculation and the role of credit rating agencies. The debt of eurozone and EU countries is mainly owed to global investors located outside of Europe; if a country risks defaulting on its sovereign debt the strategy has been to re-pay these loans by borrowing more money. The catch is, of course, that when countries such as Greece borrow more they will do so at even higher interest rates. It is not too hard to see why financial institutions would be comfortable with such a situation regardless as to whether they are motivated by fear or greed (Véron, 2011), especially if countries such as Greece can eventually re-pay loans via bail-outs in the short-term. Of course, over the longer-term if debts cannot eventually be repaid then investors may lose out through debt write-downs or cancellation; as indeed happened when investors took an approximate 56% write-down on debts during the bail-out negotiations for Greece.

That said, the eurozone's underlying structural imbalances have and continue to play a paramount role in the debt crisis (de Grauwe, 2010). The major problem is that while the eurozone has its own single currency and central bank[3], it still lacks a central fiscal authority in charge of common taxation and re-distribution and one which can intervene as a lender of last resort to address macroeconomic imbalances. Unlike the federal systems in the US and China, the eurozone is not an optimum currency area. Furthermore, the liquidity crisis in many countries is not being helped by the crash in cross-border bank lending within the eurozone. With no central authority there is little to compel banks to lend across borders (Pisani-Ferry *et al*, 2012, p. 2). The other structural imbalance relates to the lack of convergence between eurozone members. There is little convergence in productivity and labour does not move, as it does in the American and Chinese federal systems, in order to pickup labour shortfalls in productive countries. There are also gaps in terms of competitiveness; significant trade imbalances between North and South; there has been de-industrialisation in Southern Europe (Aglietta, 2012, p. 4); and there are difficulties in managing the different business cycles and individual specialisations of each eurozone member.

Finally, the other significant factor is the difficulty of political governance within the eurozone. True, no matter how timidly the EU leaders have approached solutions to the crisis there have, for better or worse, been responses: the €1 trillion endowed EFSF-cum-European Stability Mechanism, the Fiscal Compact, the ECB's ever expanding role and proposals for a fiscal and banking union. At its heart, however, the eurozone crisis is marked by political deadlock. One important element of the problem are the German fears that fiscal integration would imply debt mutualisation or the introduction of a mutualised bond market through Eurobonds, which would in turn imply surplus countries such as Germany having to pay for deficit countries on a permanent basis; a hard sell to the German public and offensive to German sensibilities. The difficulties of political governance and cohesion of the eurozone, plus the economic and financial factors listed above, are key factors in analysing the EU's ability to continue to manage geographical forces.

[3] The ECB, like other central banks, has powers to print money and to control interest rates with a view to keeping inflation under control (catering to a very specific German fear), but it lacks the fiscal powers and responsibilities endowed with the US Federal Reserve, the Bank of England or the People's Bank of China.

## Geography and Politics

Many use the word “geopolitics” without clearly defining what they mean by it. In the US, where the term is overused, it has become synonymous with “influence” but it is a “popular” term with broad application (O’Tuathail, 1996). As a simple explanation “geopolitics” should be regarded as the influence of geography on foreign policy, or rather the constraints which geography imposes upon policy-makers and the tools they use to overcome constraints such as the particular configuration of land, seas and oceans. Geographical constraints, however, also relate to the global distribution of natural resources and the methods employed to secure them. So, for example, those countries in need of importing raw materials over oceans and seas may have to consider security of supply which could necessitate the building and maintenance of a navy. Furthermore, while it takes millions of years for continental shelves to re-draw the global map, meteorological impacts such as the thawing of the arctic may assist in altering the geographical dynamic.

“Geopolitics” is therefore the interaction between geography and politics, and it is for this reason that the term has raised controversy ever since it was coined by Rudolf Kjellén (1916). Indeed, geographical constraints have all too often led to assumptions about a shortage of geographical space and by extension little room for manoeuvre in political terms. The dark consequences which followed the ideas of individuals such as Thomas Malthus, Karl Haushofer and Rudolf Hess hardly need elaboration (Coker, 1910). This being said, in light of global power shifts and the global economic crisis the dynamic between geography and politics remains important. Even if critical geopolitics has convincingly undermined the classical tendency to view geopolitics as a pseudo-science, there is still a need for policy-makers to not take the material realities of the world for granted (Guzzini, 2011). From energy security to global “land grabs”, in a more multipolar world geography retains its importance in international relations.

In theoretical terms there are two main ways that geography can impact political decisions. One school of thought states that geographical factors directly *determine* the conduct of foreign policy. The “determinists” are convinced that technology’s ability to condition geography is overstated, as technology can actually open-up access to new terrain: did the invention of the train not make it easier to reach land frontiers, and does rocketry not make outer space more accessible the determinists will ask. Technology may alter the political dynamic and speed, but it cannot itself change the ‘most stable factor upon which the power of a nation depends’ (Morgenthau, 1978, p. 117). Under this view, countries surrounded by a wall of water such as the US or the United Kingdom (UK) were geographically predisposed to global dominance - the so-called "hand of God" (*ibid*., p. 40) - whereas countries connected to land masses and without a water buffer, such as Germany, were less so. Determinists might even claim that Spain’s recent housing bubble, and the consequent banking and sovereign debt crises, may never have happened without the tempting sun-drenched Mediterranean coastline of its Southern border.

The other strain of thought considers geography to *condition* foreign policy decisions. Those who believe that geography conditions rather than determines the conduct of foreign policy emphasise the role of military science and technology in overcoming geographical constraints. Just as the German barbarians used the horse shoe to overcome the onslaught from Roman legions, for example, so to do drones make the task of finding suspected terrorists in places such as Pakistan and/or Afghanistan easier. Some may state that the digital age has gone even further in overcoming geography. Indeed, as finance moves freely through fully digitalised markets it can be argued that land and sea do not exactly pose unconquerable barriers to the flow of capital, even if commodity markets generally react to resource rich parts of the globe. Cyber space can also be cited as an advance – but not without its problems – in humanity's grip over geography; here the terrain is the digital world, with its gigabytes and fibre optics, rather than the natural one, with its rivers and mountains.

The difference between the two positions may appear slight, but it says something central about the agency of those conducting foreign policy. If geography dictates policy decisions, then each country's fate is sealed; if geography merely conditions such decisions then the role of science and technology in controlling the land, seas and oceans is crucial. For the purposes of this analysis the paper will subscribe to the view that geography *conditions* rather than *determines* foreign policy. It takes this view largely because if the determinists are correct, then regions such as Europe would have already succumbed to their geopolitical "fate" – would the EU not already be and remain a Eurasian backwater if the dictates of geography are absolute? The fact remains that despite all of the serious geographical concerns facing the EU, the bloc is able to manage or "tame" geopolitical forces with advances in military science and technology. However, should an absence in such advances occur then geography may become a more prominent feature in EU foreign policy. As Mackinder put it 'the actual balance of power at any given time is, of course, the product, on the one hand, of geographical conditions, both economic and strategic, and, on the other hand, of the relative number, virility, equipment, and organisation of the competing peoples' (1904, p. 437).

In this respect, Europe's geography offers both hope and concern in strategic terms. Europe's mountains separate the continent from Asia; the Mediterranean Sea separates Europe from Africa; it has a temperate climate beneficial to agriculture and for alternative energy usage; ample forest coverage; Europe has a lot of arable and pastoral land; cultivation is conducted on an almost continental-wide basis (European Soil Bureau Network, 2005); the coastline measures approximately 37,000 KMs with numerous natural harbours and offshore islands such as Malta, Gibraltar and Cyprus. Furthermore, the EU has stocks of aluminium, bauxite, chrome, cooper, hydro-electric power, iron ore, lead, manganese, natural gas, oil, potash, tin, uranium and zinc. However, the EU is dependent on a number of natural resources from countries such as China and continents such as Africa. Given environmental considerations and its proximity to unstable or failed states, the EU is subject to a number of hotspots which pose challenges to its security.

What then are the consequences of the EU not being able to "tame" geography in its immediate region and/or farther afield? One such implication relates to natural resources. For example, eastern countries such as Albania, Armenia, Georgia, Kyrgyzstan and Tajikistan are particularly vulnerable to reduced water supplies, strained agricultural productivity and increased health concerns (ENVSEC and Zoi, 2011). The wider Central Asian region is likely to become affected by rising temperatures and variable weather conditions. Kazakhstan and Uzbekistan, as co-owners of the Aral Sea and the tributary Syr-Daria and Amu-Daria rivers, have seen a deterioration in human health, a loss of biodiversity and migratory pressures (UNEP, UNDP and OSCE, 2003). The Southern Caucasus, with all its extant political instability, is also likely to become drier. Countries such as Ukraine, majorly important for regional agricultural production, are likely to see increased flooding and forest fires (ENVSEC and Zoi, 2012).

To its southern flank the EU still faces pressure from North and sub-Saharan Africa. Slower economic growth in the EU is feeding back to many countries in Africa, with an impact on the ability of African economies to export to the EU because of lower demand. A number of African countries are net importers of resources such as crude oil, and so increased prices feed into domestic energy and food prices (Kganyago, 2012). Higher and more volatile food prices, as Brown explains, play a key role in political instability in a number of developing countries. As he warned on the back of the political crisis and uprisings in North Africa, 'get ready, farmers and foreign ministers alike, for a new era in which world food scarcity increasingly shapes global politics' (2011). Indeed, food crises along with political problems in regions such as the Sahel and the Horn of Africa may increasingly embroil the EU.

Dealing with the fall-out from such potential problems will demand that the EU has the material resources (political, economic and military) in place. Economic crises have long challenged states' abilities to maintain such resources, as, even if one must be rather careful about comparing the EU to other actors, numerous historical precedents delineate. For example, the Ottoman Empire's (1299-1922) eventual decline was aided by, among other factors, the inability of military commanders to apprehend modern warfare and the sheer costs involved in maintaining such a large military force over such sizeable geographical terrain (Darling, 1996, pp. 8-11). The Ming dynasty (1368-1644) once put to sea the world's largest navy, but by circa 1433 China withdrew from the seas and oceans under threat from internal economic implosion and external pressure from the Mongols, with China becoming ever weaker and hemmed-in (Fairbank, 1969, pp. 455-456). As these two very brief examples show, severe consequences derive from poor political decision-making, weak military capabilities, economic constraints and geographical pressures. It is to the shape and strength of the EU's defence policy which the paper now turns.

## CSDP, the Eurozone Crisis and Geopolitics

It should be made clear that geography was not directly responsible for the eurozone sovereign debt crisis, but the crisis may impact on the EU's ability to manage geography. This section is interested in the impact of the eurozone crisis on the EU's and member states' defence policies, and how this in turn challenges the Union's ability to "tame" geopolitics. Military capabilities are still the primary way to overcome geographical constraints. Of course, defence is not the only area which is impacted on by the eurozone crisis – demographic trends, economic factors and tensions arising from the demand for resources, etc are as important. Yet defence is an important area of focus for a very crucial reason: the global economic crisis has called time on the US' debts, forcing the superpower to make defence budget cuts and refocus its strategic posture. The US' "necessity" of increased engagement in the Asia-Pacific region (Panetta, 2012) calls into question Washington's security commitment to Europe and the EU's ability to deal with geopolitical forces on its own. This task is in turn made difficult because of budgetary pressures in the EU member states, which potentially impacts on the member states' long-term commitment to CSDP and NATO.

The US shift from Europe to the Pacific presents a challenge to the internal balance of power between the EU member states. In the economic sphere there is currently talk of a "two-track" EU developing, with eurozone members integrating further along federal lines than non-eurozone members such as the UK. But a "two-track" EU looks less likely in the sphere of defence. The British are still central in this regard (Simón, 2011). It is true that the British have not seized on the opportunity to play a leading role in the CSDP, especially given that they are increasingly being side-lined in economic governance, yet the UK remains a key player in defence. Not only does the UK consistently spend more than 2% of GDP on defence, but it has a sizeable industrial capacity for defence production. That being said, the traditional British "see-saw" style of geostrategy (Simón and Rogers, 2011, p. 56) – oscillating between Europe and the US with a mind to maintaining "splendid isolation" – must surely stop given American reposturing, the federal steps in economic and financial governance being taken in the eurozone and fiscal consolidation.

Yet one must be careful not to think that defence budget cuts in the EU member states are a bad thing in themselves, even if, as expected given that they are in a developmental stage, emerging economies such as China, India and Brazil are spending more on defence. The EU is equally never going to match the US' spending on defence for the foreseeable future, even if in some member states defence expenditure has increased since the eurozone crisis began. Perhaps buoyed by the amount the US was spending on defence, many EU member states' defence budget cuts were being made long before the crisis in the hope that economic growth might be encouraged (Liberti, 2011, p. 15). As Dunne and Nikolaidou have concluded, 'there is a negative association between growth and military burden, so, countries with high military burdens have low growth' (2011, p. 5). Thus in spite of the security concerns posed by Turkey, Greece and Cyprus' respective 3.4% of GDP spending on defence in 2001 was unlikely to last – hence the reduction to 2.3% in Greece and 2.1% in Cyprus in 2010 (SIPRI, 2011). This shows that in defence policy a number of EU member states are reacting to longer-term macroeconomic and structural forces rather than just the eurozone crisis.

While it is therefore true that many member states are decreasing defence spending and cutting force sizes – the EU average share of GDP spent on defence went from 1.7% in 2001 to 1.4% in 2010 (*ibid.*), thus below the 2% minimum required of NATO members – the more important point is what remaining budgets are spent on and how spending cuts are organised on a European basis. Incoherence in spending, such as investing in aircraft carriers without the requisite jet fighters, is of more concern than how much is actually being spent. Defence budget rationalisation offers an opportunity to rationalise the state of play of land, naval and air forces and can lead to an overdue modernisation of military forces. Yet, as Maulny correctly surmises, when such rationalisation is conducted on a purely national basis, defence restructuring can overlook opportunities to rationalise the EU's defence force catalogue and market competitiveness (Maulny, 2010). One needs to ask how much national spending cuts will achieve compared to European-level initiatives (e.g. the EU Commission's "Defence Package" (O'Donnell, 2012)) aimed at reducing costs, boosting growth and ensuring overall military strength.

The state of defence forces in Europe, still divided on national lines, and now put under more pressure by the eurozone crisis, makes for interesting reading. In terms of capacities the EU-27's combined military units have decreased over a ten year period from 1999 to 2009 – the total combined land units have decreased by 14,129 units and combined air units (including helicopters) by 4,800 - with the exception of combined naval units which have increased by 408 vessels (Keohane and Blommestijn, 2009). Furthermore, there have been decreases in personnel numbers and deployed forces in line with the €10 billion dip in the average EU-27 defence expenditure over 2007 to 2010. This three-year period has witnessed a combined EU-27 decrease of 216,533 in military personnel and 63,201 in civilian personnel. The total combined number of sustainable land forces decreased by 17,283 from 2007 to 2010, and the total combined number of troops deployed decreased by 5,550 (European Defence Agency, 2008 and 2012). Even with these decreases the trend does not amount to a drastic demilitarisation (Whitney, 2011) over the short to medium-term. The decreases in expenditure and forces do not at present call into question the EU's ability to manage geographical constraints.

However, if member states do not rationalise force capacities and what defence budgets are spent on over the longer-term through an ambitious political, commercial and industrial strategy then the outlook will change. If the eurozone crisis has highlighted one important geographical dynamic it is that between the central core of European states and the weaker periphery of the South the destinies of the member states are more intertwined than ever before. Just as economic weakness in Greece poses a major concern to states such as Germany, so too will military weakness in certain member states eventually affect all. To introduce a controversial open-ended question: just as indebted member states are losing sovereignty to more federalised bodies in the economic sphere, why should the EU put up with a collection of smaller member states duplicating efforts in defence?

Indeed, for the time-being member states are still well-endowed with military force but, with the possible exception of the aerospace sector, there are not enough European-level collaborative projects, there is low R&D intensity in defence and the defence sector in Europe is not efficient (Ecorys *et al*, 2010, pp. 38-40). The eurozone crisis has not spurred on the member states to invest in military capacities such as Unmanned Aerial Vehicles (UAVs) which will give them, even when bearing in mind the moral considerations of their usage (Fiott, 2010), a global edge in hard power terms. The member states are certainly less ambitious when it comes to defence investment projects; for example, while the US are investing approximately US$6 billion a year on UAVs the EU, while aware of the value of this technology (European Commission, 2007a and European Defence Agency, 2007), does not invest to the same degree. Member states still insist on theological posturing through the Lisbon treaty's protocol on Permanent Structured Cooperation (PESCO) rather than concrete initiatives (Mölling and Brune, 2011, p. 55). While it is true that the eurozone crisis has given rise to British and French collaboration on defence through the Lancaster treaties, this is but a small gesture when one considers the full extent of factors facing EU defence: resource constraints, the globalisation of Europe's defence supply chains, low levels of military service numbers and the fact that the defence sector is as much a commercial venture as it is one of military action. The commercial and industrial side of the CSDP is indeed of growing importance.

The nascent European Defence Technological Industrial Base (EDTIB) is crucial in this regard. As is the European Commission's "EU Defence Package" which, through two Directives, has since 2009 attempted to ease the development of a European defence equipment market and to facilitate a European defence and security procurement market. Indeed, the "Package" should help make the European defence market more competitive even if 'the underlying barriers are likely to remain due largely to market forces and demands of customers' including intra-EU industrial strategic rivalry, the costs of human skilled labour, a lack of access to capital, access to knowledge and national spending (Ecorys *et al*, 2010, p. 47). Indeed, with the emphasis now on economic growth in the eurozone there may continue to be a normative shift in the basis of the CSDP, with the policy no longer just centred on military and civilian operations but also on economic growth. For want of political leadership, integration would once again come from the market (Liberti, 2011, p. 45).

There are, of course, critical questions to be asked about having the market play a more influential role in the CSDP (Fiott, 2011). For example, the restructuring of national defence industries in favour of a European-level rationalisation of productive capacities and spending would entail job losses in many member states. There are indeed also economic gains to be made in the defence sector, especially by selling civil-military equipment and services to rising and/or aspiring powers such as Brazil, Russia, India, China and South Korea ("the BRICKs"). The BRICKs are net recipients of Foreign Direct Investment (FDI), and 'this pattern is probably repeated in the defence sector as well', as well as major recipients of arms transfers from regions such as the EU, (Ecorys *et al*, 2010, p. 291). In 2011, for example, Germany was one of the major exporters of arms to countries such as Brazil and South Korea (SIPRI, 2012). While a potential source of profit for EU defence firms, there is a rightful moral argument to be had about the EU member states exporting defence equipment to BRICKs if it results in the fuelling of regional arms races or serves to further empower the EU's strategic competitors. In this regard, public opinion on EU defence should perhaps be consulted for such developments. The problem of course is that apart from the Security and Defence (SEDE) Sub-Committee in the European Parliament, which has very little legal and political power, citizens have no direct link over the content and direction of the CSDP.

However, the emerging EDTIB paradoxically raises its own security concerns, especially with recent fears that states such as China, seeking to profit from the eurozone crisis, are seeking to expand foreign asset portfolios by buying stakes in key infrastructure such as ports and high-tech firms and investing in critical economic sectors such as defence (Godement, Parello-Plesner and Richard, 2011). As Hanemann and Rosen explain, emerging economies such as China are using the eurozone crisis to tap into new European markets, to expand production chains and to increase human capital and technological know-how. While private firms such as Huawei Technologies and Lenovo Group are responsible for the 'overwhelming majority of deals' in the EU (80% to be exact), the value of FDI deals made by State-owned Enterprises such as the China Ocean Shipping Group Company in the EU rank higher in terms of overall value (Hanemann and Rosen, 2012, pp. 45-46). This poses a political risk. For example, while Chinese FDI in the EU obviously pre-dates the eurozone crisis, Hanemann and Rosen estimate that in 2011 China's major FDI assets included US$3,631 million in Chemicals, Plastics and Rubber, US$34 million in biotechnology, US$253 million in aerospace, defence and space and US$1,357 million in communications, equipment and services (*ibid*., p. 41).

The liberal reader will perhaps argue that Chinese FDI in Europe brings new capital, employment opportunities, boosts productivity and that it serves as a means to bring China in line with EU standards through the Single Market. Others might argue that the EU does not really have to worry about FDI exposure to emerging economies such as China in the short-term, given that both overall FDI inflows and outflows have decreased since 2007 (inflows have decreased by approximately US$436 billion; outflows have decreased by approximately US$555 billion (OECD, 2012b). Going further still, and with some justification, others could point out that to single-out China as a threat to the EU's defence industrial infrastructure is not quantitatively supported given that in 2010 the US was still the largest FDI investor in the EU followed, in order of investment values, by Canada, Hong Kong, Switzerland, Brazil, Japan, China, India and Russia (Eurostat, 2010).

These arguments being duly considered, it surely still makes sense that the EU's nascent EDTIB should be protected from potential ownership by global competitors coming from the BRICKs and traditional partners such as the US. As an extremely prescient report by Michael Brzoska explains, the EDTIB most certainly requires protection from FDI investment by competitors in sensitive sectors such as aerospace (Brzoska, 2007, p. 11). This idea is starting to gain ground, as publications by the European Commission (2007b) and the European Economic and Social Committee suggest (2012). But as Brzoska explains: 'while an increasing number of cautious activities for nurturing a European approach to defence technology-generation and production capabilities in Europe are apparent, there are no similar initiatives for protecting these capabilities from foreign control or ownership on the European level.' As he continues, 'because of the double risk of losing out on competitiveness and of European control, the current focus on improving competitiveness should be balanced by the development of a policy and instruments for the protection of crucial assets' (2007, p. 11).

If the eurozone crisis does make the EU more reliant on foreign partners for investment, this is not an excuse to allow strategic competitors to own stakes in critical sectors of the European economy. Selling-off tracts of critical sectors to competitors would most certainly challenge the EU's ability to overcome geographical constraints, even if the commercial benefits are being promoted at present by various actors (see: Bekkers *et al*, 2009). Yet there is currently no European-level framework for the screening of FDI (Hanemann and Rosen, 2012, p. 61), in fact it is fragmented which leads to a "race to the bottom" as national procedures favour "short-cuts" and oversights in order to secure short-term economic gains (Istituto Affari Internazionali, 2010, p. 325). So far only ten EU Member States[4] have FDI restrictions in place for defence, transport and telecommunications sectors and Lithuania is the only member that has an outright prohibition on FDI in defence and security from non-EU and non-NATO members (Hanemann and Rosen, 2012). This situation has led to a number of calls for a European-level supervisory body to look at internal market and trade supervision for areas such as defence, critical technologies, among others (Roller and Véron, 2008 & Godement, Parello-Plesner and Richard, 2011, p. 10).

## Conclusion

In the area of the CSDP, the eurozone crisis potentially threatens to leave the EU's capabilities to manage geography over the longer-term threadbare: firstly, by affecting the type of restructuring efforts and military rationalisation made by member states as a result of fiscal consolidation; and secondly, by potentially selling-off key industrial infrastructures in the defence sector to strategic competitors. These two specific factors will in turn challenge the EU's ability to manage security concerns emerging from its near neighbourhood and to secure its interests globally. Strained political cohesion, a lack of growth and debt restructuring will also impact the EU's abilities to manage geographical forces. To repeat Kaplan's observation for a second time, the weakening of political, economic and social orders leaves a state – or for our purposes a whole region – exposed to the natural frontiers of the globe (2009). While geopolitics should not in itself become the chief basis for the EU's foreign and defence policies, naval, air and land capabilities represent the fundamental elements which make it possible to overcome geography. Added to this are new dimensions such as the cyber world and UAVs, which the EU should explore with all due and necessary moral and political caution.

The "political topography" of the world is changing, and without the tools to circumnavigate the peaks and troughs, the EU will be tested. The eurozone crisis threatens to undermine the EU's ability to overcome geography in a political and material sense. Parochialism is a very definite side-effect of the eurozone crisis, even if the crisis is but one, albeit rather serious, black hole in the constellation of problems in Europe. The crisis has revealed that sovereign debt in one country poses a very real risk of contagion; the crisis in Greece soon spread to Spain and Italy. While there will be a lower sense of urgency in defence when compared to the eurozone crisis, member states could fall prey to ever decreasing military strength if restructuring programmes are not undertaken in common at the EU-level and if critical industrial infrastructure is not protected. Over the longer-term, if the political

[4] Austria, Denmark, Finland, France, Germany, Lithuania, Slovenia, Spain, Sweden and the United Kingdom.

will for further integration wanes, the eurozone crisis would have served as a significant moment in history that challenged the EU's ability to make its way in the world and to overcome geographical constraints.

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