

THE FRENCH AND THE DUTCH REJECTED THE EUROPEAN CONSTITUTION

Short note

Almost 55% of all voters in France and 62% in The Netherlands said no to the Constitution, causing the first more serious complication of the current ratification process.

Even though we can reasonably presume that the vote was to a large extent affected by the discontent of the public with domestic political affairs, we must not underestimate the circumstances under which the French and the Dutch expressed their disapproval with the values the Union is based on. The outcome in France is even more serious because the Treaty was meant to respect to a large extent the attitude of its leadership to European integration.

However, rather than analysing the cause, we shall concentrate on individual consequences and also on possible scenarios. They need to be viewed through the process of ratification planned in the future in other member states whose public is not expected to be overwhelmingly in favour of the Constitution.

Consequences

In our opinion, the result of the plebiscite in France and The Netherlands **will not affect** at all the economic development of the Czech Republic in **short and medium term**, apart from its rather ambiguous impact on the current global strengthening of the dollar and its standard consequences.

Neither will it **significantly affect** the Union's economic situation. However, possible negative consequences in this area would be more serious for our country, if the presented catastrophic scenarios and concepts making our local investment environment quite unpredictable and unstable were to come true.

Foreign exchange rates and investment conditions are the only areas that could be more significantly affected in European context by the rejection of the Constitution. However the impact of the said aspects on our economic environment is very likely to be only implicit.

Possible strengthening of the dollar and the resulting weakening of the Union's common currency, together with the current development of investment and business conditions, can be to a certain extent explained by general nervousness. It is very likely that the common currency will weaken even further in the weeks to come. The impact on our currency, however, should be neutral, unless other regional currencies are destabilised. In such a case, the exchange rate CZK/US\$ might change considerably. Nevertheless, the said scenario is not expected because the present situation is caused by **psychological factors** (i.e. by **general uncertainty**) rather than by the rejection of the Constitution itself. This might, naturally, change, in the event of a real crisis throwing doubt on the Union's existence as such.

Possible Scenarios

We think that the **European Constitution has its purport**. Although its form is not ideal, its content is advantageous for the current stage of European integration. The rejection of the Constitution in France, The Netherlands and in a longer horizon also in other "more problematic" countries may easily cause the entire project in its existing version to end in a blind alley.

However, this does not mean that if one project, even though such a very important and symbolic one, fails, the entire EU history will end. The past of European integration is full of efforts ending in a dead-end street only to be resurrected years afterwards (the monetary union, Werner's plan, tax harmonisation of the end of 1960s, etc.). The current situation might be interpreted as a signal for the Union to **take some time off**, get used to some principal successes of its recent past (introduction of the Euro, massive expansion, etc.) and realise that not everything can be achieved at once.

The rejection of the European Constitution also means that the **process of further expansion will be** at least temporarily **stopped** (this does not apply to the planned accession of Romania and Bulgaria) and that the Union cannot become a formal partner of global powers. It may lead to fragmentation and even deeper division of the European Union into several groups of countries characterised by different speed and extent of integration. And that would be a **waste of energy**. Too much time and effort has been already invested in the Constitution. Even the Union's future projects are based on the presumption that the

Constitution will be adopted. If the Constitution is rejected, all past efforts will be wasted and it will be necessary to invest a lot of energy and time in a new conception, not to mention the fact that certain activities may become paralysed as a result.

The current state of ratification of the European Constitution can be checked here:

http://europa.eu.int/constitution/ratification_en.htm

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