



Workshop 16

***Integrating the Western Balkans into the European Union:
Overcoming the Political and Economic Constraints***

directed by

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Workshop abstract

The Workshop will address some of the open questions regarding the economic and political integration of the Western Balkan (WB) countries - Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia, and Kosovo (under UNSC Resolution 1244) - into the European Union (EU). Since the launch of the EU Stabilization and Association Process in 2000, which has offered the WB countries generous trade preferences, the possibility of signing Stabilization and Association Agreements (SAAs), specific financial assistance programmes (CARDS, IPA), and prospects of future EU membership, substantial progress has been achieved in bringing them closer to the EU. Still, there are a number of remaining political and economic constraints preventing their full integration into the EU. Although presently all WB countries are already economically integrated with the EU - through trade, FDI, financial flows, banking systems – the process of economic transition is far from complete. In addition, there are important political problems to be resolved in a number of WB countries, which have delayed ongoing systemic changes and are currently blocking progress in their relations with the EU. The workshop will address some of the controversial issues, including the WB countries' readiness for EU membership, EU conditionality and its compatibility with the WB countries' development needs, alternative EU approaches that could provide stronger incentives for continued economic and political transition, and how to raise the effectiveness of EU assistance, especially in view of the high vulnerability of the WB countries to the current global economic crisis.

Workshop Description

Aims and rationale

The aim of the Workshop is to discuss some of the open questions regarding the economic and political integration of the Western Balkan (WB) countries - Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Montenegro, Serbia, and Kosovo under UNSC Resolution 1244 - with the European Union (EU). More specifically, it will address two groups of interrelated issues: (1) results achieved in transition to market economy and multiparty democracy in the WB countries; and (2) EU policies towards the WB countries applied after the launch of the Stabilization and Association Process in 2000, which has also opened the prospects of their future EU membership. Though substantial progress has been achieved in bringing the WB countries closer to the EU in recent years, through generous EU trade preferences, signing of Stabilization and Association Agreements, and provision of financial resources through specific assistance programmes (CARDS, IPA), there are a number of remaining political and economic constraints for their quick integration into the EU.

All WB countries are already economically strongly integrated with the rest of Europe - through trade, FDI, financial flows, banking systems – but the process of economic transition is far from complete. The political events of the early 1990s (the disintegration of former Yugoslavia, five military conflicts, UN and EU sanctions) have left profound and long-lasting economic consequences. These countries are today relatively poor and underdeveloped (some are still at only 65% of their 1989 GDP), they are highly dependent on inflows of foreign capital to cover rising current account deficits, the social costs of economic reforms undertaken so far have been extremely high, and the region has until recently attracted limited FDI. The WB countries are also likely to be severely affected by the current global economic crisis, because of large external imbalances, substantial reduction of FDI and other forms of capital inflows, banking systems owned almost entirely by western banks, and falling demand for their exports on EU markets (Uvalic, 2009).

In most WB countries there are also a number of political problems to be resolved, which have frequently hampered or delayed ongoing economic reforms. The political issues include the question of borders, such as the delicate issue of Kosovo (Kosovo declared its independence in February 2008, but a number of countries, including five EU member states, have still not recognised it), insufficient collaboration of some WB countries with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague, the problem of EU visa regimes, return of refugees, minority rights, property issues, insufficient transport links within the EU region. The renewal of cooperation in the WB region in different fields is hampered not only by remaining problems among the WB countries, but also by a number of political questions *within* individual countries (see Bianchini, Marco, Nation, and Uvalic, 2007).

Despite substantial progress achieved in bringing the WB countries closer to the EU, there are a number of remaining challenges. While EU policies are likely to crucially influence the future course of economic and political reforms in the WB countries, much will clearly depend on the countries themselves. The Workshop will seek to address some of the controversial policy issues, and discuss the implications of alternative approaches.

Historical background

Since the fall of the Wall of Berlin in November 1989, the transition to market economy and multiparty democracy has been much more difficult in the WB region than in central and eastern Europe. High political instability caused by the events of the 1990s – the disintegration of SFR Yugoslavia, nationalistic policies of most of its newly created states, slow progress with political reforms and democratisation, the multiple military conflicts including the 11-weeks NATO bombardments of FR Yugoslavia in 1999, the UN and EC

sanctions against Serbia, the Greek embargo against FYR Macedonia - have all left profound and long-lasting economic, social and political consequences (see Uvalic, 2003; Cerovic, 2008). The WB countries have experienced political and economic instability throughout most of the 1990s, delaying the transition to a market economy and political democratisation (Bianchini and Uvalic, 1997).

A decade of marked political and economic instability in the WB region has also delayed economic and political integration of the WB countries with the EU (Cerovic and Pelevic, 2003, Uvalic, 2007b). Contrary to the other transition countries in central and eastern Europe, the WB countries were not able to intensify their relations with the EU until fairly recently. It is only after the end of the Kosovo conflict in mid-1999 that there was a turnaround in international and EU strategies towards the WB region. After political changes in Croatia and Serbia in 2000, the WB countries started renewing their political, economic, and other links both with the EU and with the other countries in the region. The Stability Pact for South Eastern Europe (SEE) adopted in Cologne in mid-1999 was to help reconstruction efforts of the then seven SEE countries affected by the 1999 military conflict (the WB countries, Bulgaria and Romania).

Even more importantly, the EU in 2000 launched its Stabilisation and Association Process which offered the then five WB countries generous trade preferences, the possibility of establishing contractual relations through the signing of Stabilisation and Association Agreements, and a new programme of financial assistance - the Community Assistance to Reconstruction, Development and Stabilisation (CARDS) - through which some €5 billion were provided to the WB countries over the 2000-06 period. For the first time since the beginning of the transition, the WB countries were also offered prospects of future EU membership. Such prospects were reconfirmed at the June 2003 Thessaloniki Summit, when further steps were undertaken for strengthening the SAP, with the introduction of the European Partnerships for the WB countries which identify the main priorities and checklists. As part of the EU Financial Framework for 2007-2013, a new instrument of financial assistance has also been adopted in July 2006 - the Instrument of Pre-Accession Assistance (IPA) - through which EU financial assistance will be delivered to the candidate and potential candidate countries in the forthcoming years. During the last two years, the European Council has again reaffirmed that the future of the Western Balkans lies within the EU (see Commission, 2008).

The new EU strategy towards the WB countries implemented after 2000 has provided excellent results in some areas, though limited progress in others. The Stabilization and Association Process and prospects of EU membership have been an important incentive for ongoing political and economic reforms. Substantial economic reforms have been implemented in all the WB countries, even in countries previously lagging behind (see Uvalic, 2007a). Since 2000, the WB countries have also implemented a number of important institutional and legal reforms, approaching standards considered to reflect developed market economies (EBRD, 2008). The opening of the WB economies and of EU markets has facilitated gradual EU-WB economic integration, through increasing trade flows, foreign direct investment, and integration of financial markets (Uvalic, 2007b).

Despite progress on many fronts, there are a number of problems in the WB region that have not been resolved. While EU membership has become a political priority in all WB countries, joining the EU still seems a distant goal to most WB countries. Regarding contractual relations with the EU, the WB countries are presently at very different stages of the EU integration process. Croatia is the only country presently negotiating EU accession, FYR Macedonia is a candidate for entry but has not yet started negotiations, while the other WB countries still have the status of "potential candidates". The EU has signed a Stabilization and Association Agreement (SAA) with Albania (June 2006) and with Montenegro (October 2007), while the SAAs with Bosnia and Herzegovina and with Serbia have been initialled only in late 2007 and signed in 2008, but their implementation is still pending on specific conditions that need to be fulfilled.

Approach

Given that political and economic processes in the WB region have been so closely intertwined over the past two decades, these issues will need to be addressed from a broader, political economy perspective. The reasons behind the need for a multidisciplinary approach are twofold. First, political processes throughout the 1990s, but also today, have had such a strong impact on economic performance and speed of economic reforms in the WB countries, that it is impossible not to take into account the political determinants of such outcomes. Second, EU policies towards the WB countries have crucially influenced the speed and contents of their political and economic transformation processes. EU bilateral policies of strict conditionality have offered some countries stronger incentives than others, contributing to the very different current status of the single countries vis-à-vis the EU.

Questions to be addressed

Presently there is no consensus over many issues regarding the future accession of the WB countries to the EU. Future prospects will depend not only on the WB countries' readiness for membership, but also on the readiness of the EU to absorb new members. While the quest of some EU officials to let the WB countries join the EU as soon as possible has strong political foundations, this view is not shared by many, particularly not all the EU member states. Whereas it is in the interest of the EU that the WB region should implement political and economic reforms as rapidly as possible, in this way also moving closer to EU membership, these countries still face a number of political and economic constraints, which could have important implications for future EU-WB integration processes.

The Workshop will seek to address some of these challenges and controversial issues, and discuss the implications of alternative policies. Some of the relevant questions of economic and political integration of the WB countries with the EU include:

- *Readiness for EU membership*: What is the effective degree of fulfilment by individual WB countries of the EU accession conditions (the Copenhagen criteria, cooperation with the ICTY, regional cooperation)?
- *EU conditionality Vs. development needs*: Given the present low level of development of most WB countries, what measures are to be implemented in order to prevent the further broadening of the development gap between present EU members and future newcomers from the WB region?
- *Incentives for transition*: The present distant perspectives of EU membership may prove an insufficient anchor to keep the momentum of accelerated economic and political reforms in some WB countries. How to avoid the risk of backsliding in the reform process?
- *EU financial assistance*: How to increase the efficiency of EU assistance to the WB? Particularly in view of the high vulnerability of the WB countries to the current global financial and economic crisis, how could the EU help them overcome current economic problems?
- *Intra-regional cooperation*: How to achieve further progress in regional initiatives in the WB (Regional Cooperation Council, CEFTA 2007, regional energy market, etc.)?
- *EU membership of the WB countries*: Will the WB actually be able to join the EU and under what conditions? Will they join together or individually? How can the EU enlargement strategy be improved in order to render it more credible?

Potential participants

The potential participants of the Workshop are economists and political scientists from both the EU and the WB countries, working on issues of economic and political integration of the Western Balkan countries into the EU.

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