

# DIALOGUES

Ownership for Regional Cooperation  
in the Western Balkan Countries

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# Introduction

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At the end of 2008, the then EU-Commissioner for Enlargement, Olli Rehn, declared 2009 as „the Critical Year of the Balkans“. It remains to be seen if this prediction will come true, whether it is meant to be a warning or an offer, and to whom it has been directed. The “To-Do-List” for both the countries in the Balkans, as well as for the European Union’s enlargement policy is long. The apparently endless period of transition and preparation for the accession into the EU has resulted in an increasing impatience and frustration on the side of the Balkans, whereas on the side of the European Union the question is asked more frequently these days why the political elites in the Balkans apparently lack the will and the capacity to overcome the legacies of the past and get their act together. The “Year of the Balkans 2009” shall probably be understood as an encouragement to both sides.

The enormous challenges for each of the countries of the Balkans and the unresolved tensions that exist between them are further overshadowed by the impact of international financial crisis, which is hitting the region as well. The already difficult economic conditions will be further aggravated, and reduce the perspectives for development and stability. As it seems today, countries of the region will only be able to face the challenges ahead as an integral part of a wider socio-economic and political framework. Or, in other words, the Balkans will only be in the position to achieve the conditions for EU membership once they have become an integral part of the European Union. This obvious contradiction can only be overcome if the inclusion of the Balkans in the European Union can be accelerated and if it re-gains momentum.

For a number of reasons, regional cooperation has been put high on the international agenda for the region. The “Stability Pact for South Eastern Europe” was established in 1999, and was expected to strengthen cooperation and - through cooperation - stability and development of each of the participating countries. In 2008, this internationally driven framework of the Stability Pact was handed over to the South East European countries, and transformed into the “Regional Cooperation Council” (RCC), coordinated by the SEE-governments through the South-East European Cooperation Process (SEECP). This transformation from an externally driven to an internally driven approach was celebrated – first of all, by the international community - as an important step in the region’s assuming ownership over its own affairs.

The message of this publication is: yes, regional cooperation is in the very interest of these countries since it offers opportunities and is to the benefit of its members. Regional cooperation, based on common interests, is possible and it already happens, and it is a necessary pre-requisite for development of each of the countries involved. Constructing the region is a process, which has to be based on initiatives and actors from within the region, though it requires support of the outside factors like the European Union and other international players.

It is against this background that a group of experts completed a process of collective reflection on regional cooperation and the complex relation between intervention and ownership in the South Eastern Europe, aimed at advocating a new concept of region-building and regional cooperation. We consider regionalism as networking – as the interplay between different layers of networks, of which some are more and some are less institutionalised, some are more

and some are less formal. In this context, “region” is understood not as a territory, but as a flexible concept of common interests. “Ownership” means assuming responsibility, the sense of responsibility. A measure of ownership is, therefore, the presence and implementation of initiatives from within the region. Different experiences and initiatives of regional cooperation represent the fora for partnership in pursuing and lobbying for common interests, and in doing so, contribute to building ownership.

The theoretical and conceptual basis for our discussion was found, on the one hand, in debate about regionalism as a kind of reaction to Globalization. This approach focuses on the formalization of economic, political and social relations between a group of countries, and the creation of formal regional institutional structures and legally-binding agreements. Hettne (1999)<sup>1</sup> distinguishes between old regionalism, dominated by a single issue and, often, steered by one of the global superpowers, and new regionalism, which is more multi-dimensional, fluid, based on shared interests and, sometimes, involves grassroots actors (the bottom-up regionalism). Conceptually, there is a real issue as to whether SEE constitutes a “regional block”, either in terms of protecting common interests or in terms of challenging the status quo, in the context of EU-membership aspirations of SEE states. The existence of regional free trade agreements and the influence of regional development banks with close links to the IMF and World Bank also limit the extent, to which some forms of regionalism are an alternative, rather than an accommodation and a variant of dominant forms of neo-liberal globalization.

Another conceptual approach was found in the debate of the problems and possibilities of achieving genuine partnerships between external and internal development actors and of securing ownership, as the central feature of a post-conditionality development policy regime, extendable to the issues such as democratization and post-conflict peace-building and state-building. The rhetoric that suggests that external interventions can be tailored to the context, and that it can be locally-owned and based on stakeholder participation, flies in the face of the continued asymmetries of power (Gould, 2005).<sup>2</sup> In SEE, ownership has tended to be a slogan associated with an exit strategy for international actors, resulting in new political opportunities for unaccountable domestic elites. The notion of regional ownership in an SEE context reinforces a kind of claim for a new regionalism. This would emphasize the importance of functional, accountable, transparent and inclusive cooperation between SEE states, their citizenries, businesses, and civil societies, in and for itself, rather than imposed as a condition within the EU accession process, much less to meet the EU’s need for security and development on its doorstep. The reality, of course, again, is that posing this in either/or terms is probably too simplistic, although advocating the movement along a continuum towards a greater regional ownership would seem to be politically feasible and conceptually defensible.

In an effort to understand “ownership”, we have distinguished three horizontal and three vertical dimensions:

#### Horizontal

- The transfer of responsibilities in the state-building and transformation business from international to national actors (exit-entry-strategy);
- The variation, the interests and the constellation of different national actors and stakeholders, and the need for empowerment. Identity, social trust, leadership and

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1 Hettne, Björn. Globalization and the New Regionalism: The Second Great Transformation. In *Globalism and the New Regionalism*, edited by Björn Hettne, Andras Sapir and Osvaldo Sunkel, New York: St. Martin’s Press, 1999.

2 Gould, Jeremy. Poverty, Politics and States of Partnership. In *The New Conditionality: The Politics of Poverty Reduction Strategies*, edited by Jeremy Gould, London: Zed Books, 2005

participation of society and its segments;

- The regional dimension and its contribution towards common interests, or even a common identity. Inter-linkage of formal and informal regional networks. Networks of networks of different actors.

#### Vertical

- The process of capacity building regarding human, institutional and financial resources.
- The actual model of development assistance has tended to override the existing capacities in SEE countries and replace them with knowledge and systems that have evolved in other countries. Through distortion and lack of use, these frequently constrain the growth of national capacities. Elements of technical cooperation in particular have obscured the fact that different societies have learnt from one another – taking information and ways of doing things from other cultures and using these imports, often with significant modifications, to expand and enrich their own evolution.

For a period of more than four years, a team of experts has intensively discussed the complex relationship between international intervention and national/regional ownership. As a first result, a couple of case studies have been prepared and discussed, and finally published in late 2006.<sup>3</sup>

In the second part of our debate, we decided to focus on the regional dimension of ownership. The main objectives of this part of the “ownership-project” can be summarized as follows:

- To provide a comprehensive and multidisciplinary analysis of the current status and prospective progress in regional cooperation;
- To assess potential for different regional initiatives regarding support to political democratization and social and economic integration of the region, especially taking account of the interests of wider population and local communities;
- To inform public, policy-makers and international community about regional cooperation/ownership issues;
- To provide advice and recommendations regarding the most viable and sustainable manners to approach regional cooperation, targeting: governmental institutions, civil society, and the international community;
- To promote regional cooperation as a web, as a network of different formalized and informal layers and structures of cooperation, based on common interests;
- To propose ways and means further regional integration efforts, taking into account the present experience, especially in view of the association and accession of the Western Balkan countries into EU;
- To support and mobilize support for the institutional setting of regional cooperation (RCC), and make it an issue of research and debate at universities, expert communities, think-tanks and NGOs.

The European Commission commits financial resources to support regional cooperation initiatives, with a focus on trade, justice, freedom, security, transport, energy and cross-border cooperation, whereby the region is gradually being associated with key European policies. Despite the undeniable benefits generated by these multi- sectoral initiatives, the international community has been the main trigger of this process so far. For these efforts to produce long-term and sustainable results, it is necessary to increase its regional ownership.

3 Friedrich-Ebert-Stiftung, From International Intervention to National/Local Ownership?, Sarajevo, December 2006



It is necessary to analyze the key strengths, weaknesses, opportunities and threats of regional cooperation initiatives and to assess the consequences and prospects of ownership building process, having in mind all the complexities of the regional status of emerging institutions and their balanced distribution.

Based on the above, this book is structured in three sections as follows:

1. New regionalism and the Western Balkans – mapping foreign policies to assess capacity for regional ownership.

What does actual cooperation encompass as opposed to mere interaction? Where does SEE stand between Globalism, Regionalism and European Integration? What are the capacities in the region to autonomously develop cooperation? What is the role of governments, NGOs and regional organizations? What that of external actors?

The main objective and analytical framework of the ownership-project will be outlined and the main assumptions – regional cooperation as a prerequisite and a tool for reconciliation, development and the European Integration of the Western Balkans – will be presented. This chapter is based, also, on an assessment of capacities for regional cooperation, national actors in gaining ownership of regional cooperation and the EU-integration processes, and the perception of “the region” within the countries of the Western Balkans.

2. The state of regional cooperation in the Western Balkans.

Between Imposition and Ownership – the existing regional cooperation frameworks between external influences and regional leadership will be discussed here. What regional frameworks do we have in SEE and how did they develop? Who is calling the shots? How functional are these frameworks? What are the conditions for greater ownership? Key projects of regional cooperation in SEE and the Western Balkans during the last decade are analyzed in this section, by identifying priorities, assessing the role of national and international actors; evaluating the effects of regional cooperation, and debating its character as a condition for the EU-integration. The latest initiative, the Regional Cooperation Council is discussed on the basis of the above mentioned considerations, and considering its potential from the view-point of ownership.

3. Sectoral case studies

To provide a clear and comprehensive overview of the nature of regional cooperation between the countries of SEE, a small number of specific sectors are analyzed. What is crucial for development of the region? What makes the region interesting to the European and global players? And, where do we have the greatest possible common interests?

There is an increasing understanding among experts and the NGO-sector of the region, that the region needs to establish some kind of regional agenda of its own, because it will allow the identification of common interests within the region, and to focus the attention of its relation with the European Union and other international players on the crossing points of mutual interests, and strengthening the negotiating power of the region vis à vis the international community. In addition, this effort of identifying common interests (e.g. energy, transport, telecommunication, trade, the movement of people and goods, etc.) will facilitate the establishment of some kind of new regional identity, which would hopefully contribute to overcome some of the obstacles which have negatively affected regional cooperation in the past.

This publication proposes elements and allows for a new understanding of the concept of “region”. It underlines the importance of cooperation between state and society in regional cooperation. And, while it sees EU integration as an important promoter of regional cooperation, “ownership for regional cooperation” has to be grounded in regional communities

of interests, at all levels and sectors of state and society. This is particularly true in the context of the current global crisis, which demands a new focus of regional cooperation. We need a regional new deal, a new social contract.

This book does not want to be yet another book with a collection of – possibly interesting – contributions towards yet another among many issues that are of concern to academic expertise. Instead, the book wants to be a call for action; in fact, it wants to be a part of action and an expression of a new movement for regional cooperation that emerges from within the region, thus making it an issue of our own.

This publication is the result of an unusual, yet very creative process of discussion and debate, in which many people have been involved, some in particular stages of the process, others throughout the whole period. In my capacity of the representative of the Friedrich-Ebert-Foundation in this process, I would like to express my gratitude for this opportunity to be part of a group of experts and friends, committed to the region - and committed to the project. Many more people in addition to the authors of these articles have made their contribution as well. Therefore, it would not be fair nor would it be wise, to make special mention of any individual contributor. However, I would like to thank Björn Kühne for his knowledgeable and patient support in the final stage of putting the book together, as well as Zoran Kulundzic for his untiring commitment throughout the project. Without their support, this publication would not have been possible. If this book finds interest, if it motivates further study, debate and action, if it contributes to the strengthening of regional cooperation, it will prove to be a worthwhile effort and investment.



## **Part 1**

New Regionalism and the Western Balkans – Mapping Foreign  
Policies to Assess Capacity for Regional Ownership



# A Decade of Regional Cooperation in South Eastern Europe – Sharing Guidance, Leadership and Ownership

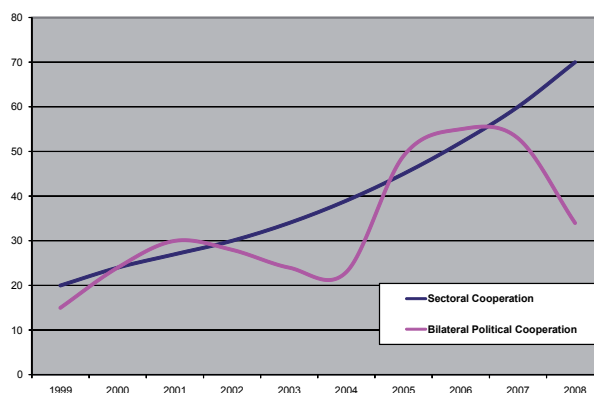
*Jelica Minić  
Belgrade*

## Introduction

in this chapter we intend to provide an overview of regional co-operation in the Western Balkans, its main stakeholders and achievements, and the way they could be structured in the wider theoretical or policy framework. Have these processes been in compliance with or do they challenge the concept of new regionalism? How does this concept fit into the theoretical framework of new institutionalism<sup>4</sup> that, in this case, combines different models emerging from the studies of European integration, comparative regionalist studies and studies of international relations? What is the relevance of these analytical tools for policy making in the realm of regional co-operation?

The flourishing of regional organisations was influenced by endogenous and exogenous factors strengthening interdependence and redesigning the role of the state as well as the composition of multilateral arrangements. The Western Balkans has figured in these processes both as an active player, influencing the wider context in which regional cooperation has been developed, but more as a passive recipient of exogenous influences, with increasing efforts to adjust to the chosen external framework of European and Euro-Atlantic integration. The most important outcome of the combined developments on the national, regional and European scene seems to be a visible strengthening of autonomous political and economic domestic players as they progress along the European integration path. Growing capacity for European integration develops as growing capacity to deal with internal and regional problems as well.

### Regional Cooperation in the SEE 1999 – 2009



<sup>4</sup> Telo M. "Introduction: Globalization, New Regionalism and the Role of the European Union", in Telo M. ed, European Union And New Regionalism, Ashgate, Hampshire, England, 2007, p. 16.

However, although regional co-operation in different fields like trade, energy, infrastructure, environment, justice and home affairs, education and science, culture, health, cross-border co-operation etc. is steadily progressing, political cooperation, especially at the bilateral level, goes through great oscillations recording in the year 2008 a steep deterioration which seemingly brings it back to the low level of almost a decade ago, at least in the bilateral relations of several regional countries.

What has changed vis à vis the year 1999, when conflicts in the region ended and the peace process gained momentum through the launching of the Stabilisation and Association Process for the Western Balkan countries and the Stability Pact for South Eastern Europe, as mechanisms of predominantly European support to the region? Were these mechanisms effective enough in building stability and prosperity in the region? Is a new war in the Balkans possible?

Studies of the post-communist Balkans, generally speaking, juxtapose two schools of thought that could be characterised as „recidivist” and „transitionist”. The thesis of the recidivists is that war is a deep characteristic of the Balkans and is destined to recur in the future. The transitionists, on the contrary, posit that war is a product of economic, political and social underdevelopment rather than being specific to particular geographic regions or cultures... Given the evidence of convergence (political, economic, and social) between the post-communist Balkans and the rest of the Euro-Atlantic region, the authors conclude that a sustained period of growth, co-operation and peace can be projected. Major problems, such as state fragmentation, inflation, unemployment, corruption, underground economies, organised crime and Islamist terrorism will not disappear soon in the Balkans. But an environment of consolidated democracy, advanced and liberal economy, and the promise of a common institutional roof over the whole Balkan region will act as a gradual and sure-fire remedy for such and other ills.<sup>5</sup>

We share the view of those who perceive changing institutional constellations and mechanisms as more powerful than the influence of traditional patterns and bad historic experiences including all related stereotypes. As the so-called “Asian mode of production”, the once popular theory that Asia was not able to progress because of its static social and economic structures, the Balkans has been associated with war and its cyclical recurrence, as an obstacle to development. Does growing regional co-operation and in particular growing regional ownership over the process challenge prevailing stereotypes concerning the Balkans? Or does it simply represent a new cycle of reintegration after disintegration according to predetermined patterns? What are the differences in the overall context and what are its new characteristics in the historical perspective in comparison with other regions?

In the introductory part of this publication, an attempt has been made to use the tools of the new theoretical paradigm – regionalism – in order to explore processes of regional cooperation in the Western Balkans and its relevance for stabilization and development in the region and its eventual integration into the European Union.

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5 Coloumbis T. And Ramaj E., Debalcanising the Balkans with the Kantian Theory of Democratic Peace, manuscript, p.2 <http://ahiworld.org/pdfs/Debalkanizing.pdf>

## Choosing an approach

The concept of “New Regionalism” emerged as a theoretical interpretation of the third wave of regionalization, which took the form of voluntary, jurisdictional integration of different constellations of neighbouring countries all over the world. The success of the new regional model has been proven by the viability of most of the existing regional arrangements in the last two decades. The European Union had a paramount importance in starting new regionalism as a historical process as well as in providing a role model for its theoretical framework. The main development path was a gradual transformation of a network of sovereign states into a political entity through the surrendering of sovereign power over economic, monetary and external policies to the supra-national bodies.<sup>6</sup> Although theoretical debates are going on in defining the EU as a continental trading block, or a new mercantilist fortress, or a new civilian power its role in promoting, as well as provoking regional integration, is indisputable.

International economic structures in the globalized economy and related political forces are shaping new power hierarchies among states and regions opening scope for a multilateral, multilevel and multidimensional networking process. The establishing of regional and global networks through different institutional and functional arrangements has substantially changed the morphology of international relations. Moreover, regions have been more and more shaped as networks of networks. This was the prevailing constellation but also the mode of operation of the new type of regionalism.

Historically, previous models of regional integration/organization have been described as hegemonic, ‘malevolent regionalism’ or discriminatory, regionalist imperialism in the period between the two World Wars when Germany and Japan attempted to become regional hegemonic powers, after centuries of the British-centered hegemonic multilateral order, which collapsed in the First World War.<sup>7</sup>

In the period after the Second World War, during the fifties and sixties, under the huge impact of American hegemony, a second type of regionalism was set up – economic regionalism. The European Community was the leading regional integration with several less successful experiments in Latin America, Asia and Africa. Inward-looking economic policies, weak institutional settlements, overall underdevelopment and the legacy of colonialism were blamed for their failure. During the seventies, after dollar and oil crises, a new regionalism started to emerge but it became mainstream only in the 1990s, after the end of the block division of the world. It was a third, post-hegemonic regionalism as a constituting element of a more heterogeneous world system. This new regionalism proved to be more complex, broader and deeper and much more differentiated compared to the previous models. In the last twenty years, during the period of intensive globalization (trade, investment, and technologies) a simultaneous process of intensive regionalization occurred.<sup>8</sup>

A question has been raised about the capacity of regionalism to be a complementing or opposing trend regarding globalization. The answer was that regionalism and globalisation have been perceived as two components of the same historical process. Globalization is a more recent concept (phenomenon) compared to regionalism indicating a qualitative deepening of the internationalization process, thus strengthening the functional and weakening the territorial dimension. Globalization is taken primarily as an economic phenomenon, implying

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6 Joffe G.H., „Regionalism – A New Paradigm?“, in Telo M. ed, *European Union And New Regionalism*, Ashgate, Hampshire, England, 2007, p. XIV.

7 Telo, op. cit. p. 2.

8 Besides the EU, there was a revival or establishment of numerous new regional arrangements like the North American Free Trade Agreement/NAFTA, Association of South-East Asian Nations/ASEAN, Andean Community, Mercado Comun del Sul/MERCOSUR, Southern African Development Community/SADC, South Asian Association for Regional Cooperation/SAARC, Central European Free Trade Agreement/CEFTA, Black Sea Economic Cooperation/BSEC, and many others.



the growth of a world market which increasingly penetrates and dominates subordinate national economies which lose their “nation-ness” in the process. Its outcome is also cultural – a compression of the world and the development of a planetary consciousness.

In developing the theoretical framework of New Regionalism, Hettne defines regions as territorially based subsystems of the international system with many varieties and different degrees of integration.<sup>9</sup> Regionalism is a way of coping with global transformation<sup>10</sup>, since an increasing number of states experience a lack of capability and the means to do so at a national level. New Regionalism takes place in a multi-polar global order, whereas the old regionalism was marked by bipolarism, as hegemonic regionalism.

Economic globalization and political regionalization are going on simultaneously. The two processes are not parallel, but have been articulated within the same larger process of global structural transformation. They deeply affect the stability of the state system and at the same time possibly contribute to the development of a future order. Regions are emerging phenomena forming part of and driving, but also reacting against and modifying the process of globalization. Two processes are interdependent and their development is not linear.

Regional integration is traditionally seen as a harmonization of trade policies leading to deeper economic integration and with political integration (as a spill-over effect) as a possible future result. New Regionalism refers to a more comprehensive process, implying a change of a particular region from relative heterogeneity to increased homogeneity with regard to a number of dimensions (culture, security, economic policies, political regimes etc.). It goes beyond the goal of creating region-based free trade regimes and pushing countries towards cooperation within various types of regionalist frameworks. Establishing regional coherence and identity seems to be of primary importance. Hettne stresses that New Regionalism is different compared to the “old regionalism” because the processes of integration are happening more below and within than top-down and from outside.<sup>11</sup> This multidimensional form of integration includes different fields of cooperation: economy, politics, social development, environment, security, culture. Besides, it is an open system – extroverted rather than introverted, which reflects a deeper interdependence in the global economy.

Some areas and forms of co-operation can be more easily developed at the regional level, for others it takes more time and effort to achieve greater co-ordination at the supra-national level. According to research done in Central Asia the order of co-operation areas according to their openness to regional arrangements is presented in the Figure 1.1.

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9 Hettne B, *The New Regionalism: A Prologue*, in *National Perspectives on the New Regionalism in the South*, eds. Hettne B., Inotai A., and Sunkel O., UNU-WIDER, Helsinki, 2000, MacMillan Press LTD and St. Martin's Press INC. 2000.

10 UNDP offers another periodization for different sequences of the post-Second World War process of regionalization, according to which three waves of regional cooperation have taken place since 1947 (during the 1960s – EEC; during the 1980s and early 1990s – NAFTA, MERCOSUR, ASEAN, SARC, ECO etc; and after 1997/98 – following the Asian crisis, the post-conflict Balkans etc.). UNDP, op.cit. p. 23

11 Hettne, op. cit. p. XIV

## Figure 1.1. Main regional issues – policy dimensions

### Migrations

Trade, transport, transit

Water, energy, environment

Regional and national security

Investment climate and the financial sector

Prevention of natural and man-made disasters

Health care

Education, knowledge, foreign languages

National policy issues

Gender equality

Public administration

REGIONAL LEVEL

NATIONAL LEVEL

Policy dimension

*Source: UNDP, Central Asia Human Development Report, Bringing down barriers: Regional co-operation for human development and human security, UNDP Regional Office, Bratislava, 2005, p.26.*

It is obvious that regional integration nowadays consists of much more than trade and security arrangements, even though they usually represent the initial regional structures. It covers many areas of economic and social life, political structures, internal security, environmental protection, culture, etc. It is a complex and multi-faceted process of building links across the region, including not only relations between states and national administrations, but also many other societal actors such as business, politics, civil society, etc. Local communities are taking an increasing role in this process by developing different forms of cross-border co-operation.

Regional co-operation can, for this reason, be perceived from different angles, depending on its objectives and character. It is possible to differentiate between institutional and functional forms of co-operation; initiated and/or performed top-down or bottom-up, which depends on the level of institutionalisation, players involved or modes and levels of execution. All of them are aimed at solving some of the basic needs of countries and societies in the region (e.g. facilitating cross-border movement of goods and people, or cross-border protection of water resources). Countries can benefit from the improvement of the economic and political situation across the whole region through specific incentives (e.g. free trade zones or infrastructure development), or integration into the EU, through direct transposition of the EU *acquis communautaire* by implementing forms of co-operation related to the region's integration process (e.g. integrating the Western Balkans by harmonising regulations in the energy sector – the establishment of the SEE Energy Community, multi-annual plans for the development of regional transport infrastructure, air traffic agreements in the SEE and the like).<sup>12</sup>

<sup>12</sup> For additional information see W. van Meurs (Ed), *Prospects and Risks Beyond EU Enlargement*, SEE: Weak States and Strong International Support, Leske Budrich, Opladen 2003, pp. 26-30.

The level and intensity of integration can increase or decrease depending on the regional dynamics, on which global as well as national/local forces have an impact. It means that regionalization takes place at several levels: the world system as a whole, structures that have been established at the inter-regional level and the internal structure of the single region - nation states, sub-national ethnic groups and the micro-regions.

The structure of the world system provides room for manoeuvre for the regional actors, at the same time, as the process of regionalization in itself constitutes structural change at the world level. On the level of inter-regional relations – the behaviour of one region affects the behaviour of others (European regionalism is for instance, the trigger of global regionalization in two different ways: positive- promoting and negative-provoking regionalism). NAFTA was partly a response to the “Fortress Europe”, and East Asian regionalism emerged as a defence against the fragmentation of the world economy. It is evident that regions are becoming actors in the global system, forming the basis “for an improved and better functioning multilateral system – a ‘new multilateralism’.”<sup>13</sup>

On the other hand, nation states perceive a region as an arena for sometimes competing, sometimes converging national interests. Regionalization is triggered by events at the sub-national level as well: ethno-national mobilization disintegrates nation states, but strengthening of micro-regions creates a more direct approach to the macro economy for dynamic sub-national regions.<sup>14</sup> National interests are differently understood by different groups in the society. That is why regionalization creates its own counter-forces. Whereas certain groups may find it rewarding to move into the supranational space, others cling to the national space where they have their vested interests. There are specific conditions for various kinds of regionalisms and developing any regional entity is an enormously complex process. This analytical framework is highly applicable in the case of the Western Balkan societies and their differentiated structures of interests regarding nation state building, regional cooperation and European integration

Overarching systemic factors do not rule out the crucial role of domestic forces. Regional politics develops as an aggregation as well as a concerted effort of national interests. At the level of individual countries, some are classified as “policy makers” and others as “policy takers”.

Hettne also identifies core regions (Europe, North America, and East Asia) and peripheral regions (post-Soviet space, the Western Balkans, the Middle East, Africa, and South Asia).<sup>15</sup> Core regions are politically stable and economically dynamic and organize for the sake of better controlling the world. Peripheral regions are politically turbulent and economically stagnant, and are forced to organize in order to arrest a process of marginalization. Their regional arrangements are fragile and ineffective. Security and development are more important than the creation of a free trade regime.

Finally, why regional cooperation? Regional cooperation is an imperative, particularly in the case of micro states, which either have to cooperate to solve common problems or become client states of the “core countries”. In respect of economy, the countries of a specific region cannot solve some basic problems at the national level (energy, transport infrastructure, environment protection etc.), while they have been increasingly met at the regional level. Along with this, economic policies or individual sectoral policies, which are harmonized at the regional level are as a rule more stable and more coherent, as regional arrangements cannot be broken without some kind of sanction. For example, in the Western Balkans, this

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13 Hettne, op.cit. XIII

14 Hettne, op.cit. XXII

15 Hettne, op.cit. p. XV

is the case with the Energy Community Treaty and CEFTA. In relation to external partners, a group of marginalized countries, which is organized as a region, increases significantly its negotiating power. Reinforced societal viability could be provided by including social security issues and an element of redistribution by regional funds or specialized banks. Regionalism makes possible exploitation and the regional management of natural resources in a sustainable way having in mind that ecological and political borders do not necessarily coincide. The creation of regional networks and structures increases the potential to enhance economic stability and a more open and conducive environment. For instance, the creation of a regional economic area usually eliminates unfavourable investment patterns and enables a better resolution of conflicting interests in the business domain.

## Relevance for the Balkans

The idea of regionalism could be considered as a strategy of peace. Macro-processes are the result of many competing and contradictory micro-processes. Which direction regional integration in the Balkans will take? Is it going to be developed as formal cooperation of governments (bilateral and multilateral), or formal and informal cooperation based on the convergence of political regimes, economic policies and security arrangements, or passive integration through participation into the European structures?

Co-operation in the Western Balkans does not mean recreating former states or empires. Besides being a political prerequisite for stabilisation and European integration it implies creating conditions for people, capital, goods and services to move and operate across borders, connecting infrastructure and sharing resources, including knowledge and experience. Co-operation and integration also serve as a mechanism to commit governments to reform their economic policies and political systems. Cooperation facilitates the provision of 'regional public goods' (water, energy, etc.) and the prevention of 'regional public ills' (natural and man-made disasters, arms, drugs and human trafficking, and organised crime), reduces the risk of cross-border conflicts and increases the bargaining power of the countries in international fora.<sup>16</sup>

The benefits of regional co-operation are likely to be distributed in a way that the poor benefit on average more than the better-off.<sup>17</sup> But this fact alone is not likely to result in political commitment for domestic reforms or strong regional cooperation. The leading political and economic interests in the Western Balkans are more likely to align themselves with the better-off elites, and those who control the flow of legal and illegal rents that since the conflicts in the 1990's have been so pervasive in the region and South Eastern Europe in general. The political push for change, open borders and regional cooperation will likely have to come either from the top leadership or from the enlightened self-interest of the elites as they recognise that in the longer term, they will also benefit substantially from a more competitive, vibrant and rapidly growing regional economy, one based on integration and co-operation. The drive for change could also come from those who feel most oppressed by the closed borders and corrupt officials – the people in the border communities, who are the most negatively affected by the fragmentation of the Western Balkans.

The case of the Western Balkans is an obvious example demonstrating that the collapse of political authority on one level opens up a previously latent power struggle at a lower level and, in ethnically-complex countries, it is difficult to reach a new equilibrium. Previous conflicts, the resistance to give up part of the newly acquired sovereignty, the incomplete and

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16 UNDP, Central Asia Human Development Report, Bringing down barriers: Regional cooperation for human development and human security, UNDP Regional Office, Bratislava, 2005, p.21.

17 UNDP, op.cit. p.17

late (compared to most countries in the Western Europe) nation state building, unresolved status issues and, on top of it all, problems related to transition to democratic societies and market economies, make regional co-operation of the Western Balkans difficult. Since few conflicts can be settled definitely, as solutions which do not open up new problems are rare, it is necessary to continually monitor the potential new conflicts of interests, and regions and regional structures will be key actors in this respect in the future, as the emerging role of the European Union as supervisor and moderator is demonstrating.

## Stocktaking after one decade

It is possible to test the previously described analytical framework of “new regionalism” taking the case of the Western Balkans, or South Eastern Europe as its wider context and “playing ground” for most regional initiatives. The overall balance of regional co-operation in the region in the last ten years is positive. This is a statement with no additional reservations. Who could have imagined in 1998 that a decade later military and police sectors from recently warring countries from the region would have a high level of co-operation; that ministries of economy and finances would harmonise their trade, financial and investment regulations and policies; that ministries of science would initiate the development of joint research strategy; that parliaments would co-operate; and towns in bordering areas apply with their co-ordinated projects for European and other donors’ funds? The regional picture has changed indeed. This is, however, a look from an optimistic perspective without masking of reality.

If one takes a less optimistic look, many challenges and obstacles emerge: status and constitutional issues in several countries; weak institutions; incomplete structural adjustments in national economies; poverty and unemployment; growing social and regional differences; lack of a stable international position; the negative image of the region and the high risk of doing business connected to it. However, the overall positive balance of regional co-operation cannot be disputed that easily.

For over a decade, regional co-operation has been contributing to the establishment of trust, stability and security and the strengthening of good neighbourly relations in South Eastern Europe – a model that follows the experiences of Nordic, Baltic and Central European countries. Though many regional initiatives were created involving a bigger or smaller number of countries from the region depending on the main gravitation area (Central European Initiative, Black Sea Economic Co-operation, Southeast European Co-operative Initiative, Adriatic – Ionian Initiative, Danube Co-operation Process), a special role was played by the South East European Co-operation Process and the Stability Pact for South Eastern Europe which were mostly focused on the former Yugoslav republics and their immediate neighbours in the region. The former initiative enabled and instigated the development of political dialogue while the Stability Pact, largely supported by the European Union, developed co-operation in many areas of importance to the citizens, specific social groups, the economy, administration or local communities in the region.

Democratic institutions, although very fragile all over the region, have been established and became more or less functional. The initial phase of transition in the region has been accomplished and most of the economies entered the process of structural changes. There has been an evident improvement in the overall business climate, primarily in view of the fact that the whole region recorded high growth rates in the last decade. Economic and social reforms have been strongly guided by the determination of all countries to join the EU, although the extent of social and political consensus in this respect differed from country to country.<sup>18</sup>

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<sup>18</sup> Although social consensus on European integration in Serbia has been permanently over two thirds of the population,

Preferential access to the regional and the EU markets; growing inflow of foreign direct investment; establishment of CEFTA 2006 and SEE Energy Community; launching of negotiations on the SEE Transport Community Treaty; the adoption of the SEE Agenda; development of the Regional Environment Reconstruction Programme; successful regional co-operation in the area of public health; relatively poor but more and more promising reforms in the sector of education and labour; achievements in improving human and minority rights, gender equality, Roma inclusion, status of refugees and displaced persons and generally increased awareness of the problems of marginalised and discriminated groups; growing institutionalisation in fighting organised crime and strengthening of civil society role in developing mechanisms for collecting evidence and informing about war crimes are the records that cannot be denied. All of these achievements have a strong regional dimension which is becoming increasingly evident.

The year 2008 provided a beneficial time to take stock of where we stand, since from the view of the regional co-operation, this year is of special importance as the Stability Pact was officially transformed into the Regional Cooperation Council<sup>19</sup> (RCC) in February 2008. The change of name is linked to a number of other essential changes. From being an international forum, which mostly treated the region as a working object, especially throughout the first years after the establishment, the Stability Pact gradually built a partnership relationship with the regional players in this year, when the region both in the political and the operational sense, gained the role of the main subject within the new framework of the Regional Co-operation Council. The region itself defines the scope, objectives, methods and instruments of cooperation via a team, consisting exclusively of representatives from the region and with equal financial contribution of South East European countries, the European Commission and bilateral donors. Regional ownership implies not only expertise and funds provided from the region, but also guidance and leadership.

Though the main framework and scope of co-operation, as well as the accompanying regional structures (centres, initiatives, working groups and similar), that facilitated this co-operation, were inherited from the Stability Pact, the forthcoming re-examination phase will provide opportunities to clearly see which of them were of a temporary character and which have a lasting perspective and importance.

The Council's role is to streamline regional co-operation, provide support to the reform process in the region, support European and Euro-Atlantic integration and promote further involvement of the European Union and other donors in the region.<sup>20</sup> This is aimed at achieving the following objectives:

- Fostering stability, security, mutual respect and open dialogue in the region;
- Improving the image of South Eastern Europe and promoting results of regional co-operation up to now;
- Mediation in relations between the Southeast European Co-operation Process and the EU in initiating and prioritising projects especially regarding the EU Multi-beneficiary Instrument for Pre-accession Assistance;
- Co-ordination of international political, technical and financial support to the region;

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political consensus in the Serbian Parliament considerably overcame one half only this year, what was manifested by entering of the Socialist Party of Serbia in the ruling coalition and through split of the Radical Party of Serbia.

19 The Regional Cooperation Council brings together 45 members – countries, institutions and organizations. Members that financially contribute to the budget of Council's Secretariat constitute the Council's Board. Presently, there are 29 of them (12 members from the SEE, 16 European and non-European countries and the EU).

20 Regional Cooperation Council focused its activities on six priority areas: economic and social development; energy and infrastructure; justice and home affairs; security; building human capital; and parliamentary cooperation as an overarching theme.



- Providing a forum for dialogue between interested countries, international organisations and other partners.

The key words are co-operation, co-ordination and networking both among the members in the region and in relation to the international partners, donors and individual regional initiatives and institutions.

## The Role of the European Union

The ability and willingness of the international community to influence developments in the Western Balkans have been considerable. Their involvement facilitated the stabilisation and economic and social revival in the region. It also supported the strengthening of weak government structures and poor governance in most of the Western Balkan countries. However, leaders and elites of the Western Balkan countries have often shown a limited interest, or even resistance, to improved governance and political reforms. Nevertheless, the demonstration effect of the accession of the Central and East European countries, the immediate neighbours of the Western Balkan countries, to the European Union in 2004 (Slovenia and Hungary), and 2007 (Bulgaria and Romania), has become stronger since the moment when the region became completely surrounded by EU member states in 2007. The perspective of EU membership and the speed of the association and accession process have been the most powerful leverage in influencing the national leadership in the region.

The European perspective is of crucial importance, having in mind that the years of conflicts during the 1990s, with perverted transition, increased the gap between the losers and winners in the societies across the Balkans, with high expectations and ambitions regarding economic and social development and more equitable distribution of its results. The slow down or the halting of the EU integration processes could lead to serious destabilisation of the region and slow down its growth. The region cannot achieve prosperity and stability without the EU integration process. It is clear that failing states and protectorates, which characterise the region, prevent its accelerated integration into the European mainstreams.<sup>21</sup>

On the other hand, regional co-operation is one of the prerequisites for the successful European integration of the states established after the dissolution of Yugoslavia. The EU had not promoted this policy exclusively in the Western Balkans, but also in Central Europe and the Baltic Countries, before countries of these regions had joined the EU. The argument was the same: a country cannot become a good member state without good neighbourly relations with other countries on its borders. The European Union had especially encouraged the establishment of free trade areas among candidate countries: CEFTA - which originally included Czech Republic, Hungary, Poland and Slovakia (and later on Slovenia, Bulgaria, Romania, Croatia and Macedonia), and BAFTA - among Estonia, Latvia, and Lithuania. Political co-operation as well as co-operation on security issues has been established in another forum – the Visegrad Group, which covers only four Central European countries and did not expand, although from time to time it operated in the format of 4+2 (including Austria and Slovenia). Contrary to CEFTA, where acceptance as an EU member state resulted in the requirement to leave CEFTA, the Visegrad group survived even after Central Europe integrated into the European Union.

Regional co-operation among participating countries is a key element of the Stabilisation and Association Process<sup>22</sup> – constructive regional co-operation is valued as an indicator of the

21 Krastev I., *European Union and the Balkans: Enlargement or Empire?* in *The Balkan Prism*, eds. Deimel J. and van Meurs W., Verlag Otto Sagner, Munchen 2007, p.96.

22 One of the chapters of the SAP is dedicated to regional cooperation, stating that the signatory country will actively support regional cooperation. What is more, after signing the SAA, the country undertakes to „begin negotiations with the country or countries who have already signed the SAA in order to enter into bilateral conventions on regional cooperation, with the

readiness of a country to integrate into the EU and is a part of the political criteria of the SAA. Approximation to the EU will proceed in line with the development of regional co-operation in the Western Balkans following the model of integration and co-operation within the EU itself.

The European Union had additional reason for promoting regional co-operation among former Yugoslav republics – economic, political and security links were supposed to become a key factor of stabilisation, reconciliation and overcoming nationalism and intolerance in the countries of the region. But, it would not have been possible to achieve the existing level of co-operation without permanent EU support and inducement. The current intensity, areas and forms of co-operation in the former Yugoslav area and Albania (with participation of Moldova in most of the initiatives in South Eastern Europe), could be considered as one of the greatest successes of the EU foreign and enlargement policy.

## Remaining challenges

The remaining challenges are numerous and should not be underestimated; for individual countries, for the region and for the external stakeholders who are deeply involved in regional processes. Analysis of the challenges and status of regional co-operation indicates that there is no uniform approach to common problems. Regional co-operation is segmented into several layers, such as politically driven European and Euro-Atlantic integration, motivated, thematically based or strictly issue specific. Some countries are more focused on bilateral co-operation and tend not to be active in multilateral arrangements; others are mainly visible in active initiatives and task forces escaping high involvement in the growing spectrum of regional institutions.

Apart from different approaches and understanding, there are also competitive interests and different motivations among the stakeholders of regional co-operation. Diversity of institutional responsibilities and complex (often complicated) co-ordination mechanisms result in a slow reaction and low efficiency of some institutions, as well as overlaps and duplication.

But, the most alarming challenge is the inevitable impact of the international financial crisis on the countries of the region and its potential to amplify existing and provoke latent tensions in South Eastern Europe and to shift interests of the donor community and partner organizations towards their own problems or towards other regions.

The unaccomplished and ambiguous processes related to Kosovo's status, the constitutional setup of Bosnia and Herzegovina, the problem relating to the name of Macedonia, mutual charges of Croatia and Serbia etc keep the door open for new waves of political and social tension, frustration and dissatisfaction. A slow down in the European integration process in some countries and still open cases at the International Crimes Tribunal for the Former Yugoslavia could additionally decrease the chances for lasting stability in the region. High rates of unemployment and widespread poverty in the region endanger sustainable economic growth, increase social marginalisation and bring to the scene political radicalisation. Exports are still weak, and current account deficits high, as are foreign and internal debts. The pace of modernisation of the regional infrastructure has been too slow, with delays in the restructuring and liberalisation of markets in all infrastructure areas (energy, transport, telecommunications, environment protection and social infrastructure). Building human capital as the main prerequisite for improving competitiveness in the long-term has not yet become a priority in national development agendas.

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aim to enhance the scope of cooperation between the relevant countries.” Article 12 of the SAA with Croatia.



However, establishing confidence in institutions remains one of the main challenges in the region. At the national level, as well as in regional and international relations the main issue is respect of concluded contracts and agreements. That means the rule of law, which is not at the high level all over the region. The main prerequisite for achieving confidence in projects and institutions at the regional level is the exchange of information and coordinated action in solving common problems.

External partners also face many challenges today in addressing regional issues. The first one is choosing the optimal scale and modalities of engagement (Kosovo is the UN/EU protectorate and Bosnia and Herzegovina is an EU semi-protectorate). As it was already underlined, there is still an unclear trade-off between investing in the nation-state building and building of a member-state that could fully match obligations resulting from the integration into the EU.<sup>23</sup>

The second issue is a sectoral mix - the issue of prioritisation. There are great needs for improvement in the regional energy, water and transport infrastructure and to control many threats to human security, like organised crime, corruption and an inefficient judiciary system. It is necessary to strengthen the rule of law and to provide for better governance. The question is how donors can support countries of the WB in improving the quality of governance given that poor governance obstructs not only effective national policy-making and implementation, but also regional co-operation and integration. While some bilateral and multilateral donors have provided assistance in strengthening good governance, they have not devoted much of their resources to consolidating democracy and improving governance structures. Moreover, human capital is becoming a critical issue; it has to be fostered and built up in order to improve governance at all levels and increase overall competitiveness of the region in the long-term.

The third challenge relates to the focus of external engagement in terms of the choice between regional initiatives and nationally focused programmes. While donors have taken more of a regional perspective in recent years, support for regional co-operation has not yet been sufficient.

In that respect, donor co-ordination is of critical importance. There are many examples of effective co-operation among individual donors on particular projects. It is of particular importance that the multilateral institutions have come together for regular consultations under the IFI AG (International Financial Institutions Advisory Group for the development of infrastructure in the Western Balkans) and the recently initiated Donor Co-ordination (following the Paris Declaration on donor co-ordination, in 2005). It is expected that the higher level of donor co-ordination, organised more systematically at the sectoral or thematic level in an overall framework of regional co-operation could become more effective through relying on regional institutions, capacities and expertise in defining regional priorities.

The fourth challenge, a substantial financial support from the EU and other donors, especially for the poorer countries in the region, will be necessary to solve these problems. Countries pursuing systematic and credible economic reforms and willing to actively support regional co-operation and integration into the EU deserve increased support.

The fifth challenge is that of assuring successful transition of ownership by assuring strong and effective regional organisations, primarily a network of different centres, secretariats, initiatives and task forces, mostly developed in the framework of the Stability Pact for South Eastern Europe, that can enlarge and carry forward a regional co-operation and integration agenda. The Regional Cooperation Council (RCC), as successor to the Stability Pact, has emerged as a principal regional organization, advancing in its ability to address regional issues through co-ordination of the inherited network of regional institutions and intensified

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23 International Commission for the Balkans, *The Balkans in Europe's Future*, King Bouduin Foundation, Sofia, 2005, p.14

cooperation with the donor community. But making regional ownership operational requires political, technical and financial support not only of the regional stakeholders but also of those external actors who have been involved in the process since the beginning.

## Recommendations

Addressing challenges through regional co-operation contributes to a common understanding and development of a single approach to common problems; increases efficiency through reduction of expenses and the use of common assets; facilitates exchange of data, expert knowledge and technologies; helps the deepening of knowledge and the undertaking of joint research; and leads to integrated planning in different fields of regional cooperation. As a whole it brings more stability to the region.

For that reason, it is of particular importance to consolidate existing initiatives. They need additional capacity building, re-examination of their objectives, and better focusing of their programmes. It is necessary to identify potential synergies among them, strengthen their organisational structures and co-ordination mechanisms, and improve their co-operation with international organisations and individual donor countries. It is not possible to perform all these tasks successfully without the promotion of inter-institutional in-country dialogue and co-operation, implying institutional capacity building, and providing synergy between stated political will at a higher level and the practical expert participation and involvement in the individual regional initiatives and task forces.<sup>24</sup>

All partners and donors should expand their support for regional cooperation and integration as a part of an explicit regional strategy to assist the countries of the Western Balkans, their governments, private sectors and civil society to promote regional physical and social infrastructure, policy reform that permit better integration and responses to common threats, and regional communication and knowledge networks.

Legislative activities related to the harmonisation with the *acquis communautaire* are of primary importance for the European integration of the region. This imposes a demanding task to all national parliaments in their regional and European networking. All partners and donors should assist the Western Balkan countries in improving their institutional capacities and policies for good governance and reduced corruption, as well as through the increased transparency and accountability of state institutions. It has a critical significance for the implementation of political and legal commitments regarding regional cooperation and European integration.

Broad regional, European and international partnership is necessary to establish harmonised and functioning regional markets for goods, services, labour and capital. It is of great importance for the development of regional infrastructure, which is aimed at becoming an integral part of the trans-European systems and networks. This partnership should comprise of all interested parties, including governments and non-governmental organisations, industries, trade unions, universities, research and development centres etc. Development of public-private partnerships is of key importance, bearing in mind a lack of public funds, especially for the development of infrastructure. Developing a favourable investment climate and attracting foreign direct investments is crucial in that respect.

Building human capital, and especially education in that context, has to become a priority on national and regional agendas. It means that increased commitments and assistance are required regarding further curricula reforms and development of legally binding regulations in quality assurance and control. It implies increased disbursements from national budgets

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<sup>24</sup> Radev E, Regional Cooperation Council – Security Cooperation, Power Point Presentation, slide 9, November 2008.

and pre-accession assistance, as well as other donor sources. The emerging regional labour market, its mapping, facilitation and encouragement also depend on the harmonization of national education and training systems, mutual recognition of diplomas and upgrading of research and innovation capacities in the region.

All partners and donors should work together and with the authorities of the Western Balkan countries to improve the coordination of their assistance. One way to do this is strengthening the role of the RCC as a co-ordination mechanism in support of the key regional organisations and initiatives.

The members of complex networks co-ordinated by the RCC should consider clarifying, streamlining and in certain areas extending their currently overlapping mandates. They should also consider strengthening the institutional infrastructure, and align wherever possible the Western Balkan countries and wider group of RCC members that are all regional players in securing the effective implementation of regional projects. Closer co-operation of national administrations and improved knowledge and skills are required regarding better project cycle management in the field of regional co-operation.

The most likely trajectory in terms of cooperation and regional integration in the Western Balkans could follow one of three possibilities: a status quo scenario, which perpetuates co-operation at the achieved level; a cluster scenario, where some countries in the region co-operate and integrate, but others more or less isolate themselves from their neighbours; and a scenario of proactive co-operation, with much more open borders, stronger regional institutions, and a broad scope of co-operation which could be more intensive in some areas.<sup>25</sup>

Having in mind the strong involvement of the EU in promoting regional co-operation which is considered of importance for the further European integration of the countries of the region, the most probable option is the last one, although the previous two could also be expected in specific areas of co-operation and different time frames. It is a great advantage that the Western Balkans has an anchor – the EU – providing access to markets, finance and knowledge, and encouraging expectations of good governance and respect for human rights.

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<sup>25</sup> UNDP, *op.cit.* p. 17.

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# Foreign Policy, Elites and Regional Identity

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## Introduction

The research question that this chapter will tackle is: can an “international regime”<sup>26</sup> arise in the Western Balkans (WB) in order to supplant the *deus ex machina* of international intervention and baby-sitting? If yes, what is the most likely way for this to happen? What are the greatest conceptual and political obstacles to such a regime? The hope for such a regime to be created in WB stems not only from the myriad of Brussels or Washington-inspired initiatives in the region, but also because all WB countries now share the vision of European integration which implies a shared “set of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations” (Krasner 1983). That is, they all share the goal of participating in an “international regime”.

As explained in Chapter 1, this type of international regime has been most recently explained within the framework of “new regionalism” which is a multidimensional form of bottom-up integration that results in some type of regional coherence and, ultimately, identity. In fact, ‘identity’ is a scaremongering term in the region—many argue that the new regional cooperation is an effort to overcome identity politics based on history, experiences or culture. In this sense, the new, prosperous and cooperative regime must stand in opposition to the myriad of national identities that have caused much grief in the past. But, the term ‘ownership’ implies the capacity to act collectively to solve collective problems. This requires some sense of trust, common ground and a shared vision of the future based on compatibility as opposed to competition. In other words, ownership necessitates the construction of an identity however ‘soft’ this may be—a foundation or the basic principle on which a collective project depends; unity or a common framework of understanding and interpretation necessary for dialogue, and; end or the movement towards a different future state that is collectively deemed to be better than the present state (Laidi, 1). In our case, this identity necessarily needs to be ‘soft’ (Bechev) in that the region must be conceptualized as a new ‘imagined community’ that can handle the negative heritage of the old national identities. This new identity must transcend borders, nation-building efforts and national ideologies in favour of, to put it crudely, liberal action—interest-based cooperation to make money through economies of scale. The example of how to build a ‘soft’ identity of this kind already exists: the functional cooperation in the European Coal and Steel Community that led to a new European identity that never even tried to become ‘hard’—i.e. based on a common Christian heritage, or laying exclusive claim to a certain kind of political regime and so on. In the history of the region, the ‘other’ refers to the hard national identities and the interests that they solicit. The goal is to remove obstacles to cooperation that would benefit all, rather than create of a new political space. Or, in the words of Bechev, the WB story must become ‘rational’ (Bechev, 2004: 5).

The benefits from such a regime are twofold. First, regional integration is an explicit condition of European integration. As the Second Annual Report of the Stabilisation and Association Process for South East Europe noted:

Regional cooperation remains a cornerstone of the EU’s policy for the region...regional cooperation is an integral part of the preparation for integration into European structures.

<sup>26</sup> Ruggie defines regimes as “mutual expectations, rules and regulations, plans organizational energies and financial commitments, which have been accepted by a group of states. Ruggie in Katzenstein: 660.



Each country's contribution to achieving regional objectives will help determine its readiness to take on the demands of full integration into the EU.

Secondly, it helps to avoid the suboptimal outcomes that are present in the Prisoners' Dilemma games that states "play" whenever regimes do not exist. Merely by providing information for actors, states may lower transaction costs and diminish uncertainty. In other words, not only does it enhance security but it also makes states and people richer more quickly.

However, it is clear that regional cooperation initiatives do not spring magically out of the existence of common interests even if there is compatibility between each country's perception of its interests as well as its neighbours. The literature on comparative regional integration studies is strewn with victims of this view. Neo-functional studies of cooperation in East Africa, Latin America and Europe flourished in the 70s but mostly foundered on the overly optimistic assumption that such cooperation would succeed. Unsurprisingly, as non-European efforts at regional integration in the 60s failed, optimistic theorists quickly became pessimistic predictors of doom (Katzenstein, 655).

That is why we do not assume that perceived shared interest will automatically translate into reliable, effective and locally-owned regional cooperation. Instead of some objective criteria of what constitutes actionable interests, we assume that 'interests are what actors make of them'. We had to find a way to analyze the potentialities of regional cooperation from the point of view of local actors. We chose to do this through a comparative analysis of the foreign policy formulation dynamics in each WB country. If we are to adopt a methodological "ism" for this chapter, constructivism comes closest to it. We asked a national expert in each WB country (minus Kosovo) to submit a study that sought to answer the following questions:

- How is foreign policy formulated in your country?
- What are the implementing bodies and what is their real input in foreign policy?
- What are the characteristics (if any) of the foreign policy elites?
- How does each country view its national interests, its WB neighbours and regional cooperation?
- What are the intellectual/political discourses and views, which feed into your country's understanding of itself, its role in the world and shape its views of its neighbours? In other words, what are the conceptual options available to foreign policy makers in their dealings with the neighbours?

In this way we avoided the 'primordialist' pitfalls of common identity based on a supposed homo balcanicus or Balkan mentalité (Pippidi: 1999) which can be used to explain any outcome with a little bit of imagination—Huntington used it to explain conflict fault lines while Stojanovic used to describe the region as a single millennia-old cultural space. Instead, it was our assumption that foreign policy is the result of 'national ideology' and debates as well as the nature of regimes, institutions, political economy and the perceptions of leaders of a given state. Regarding the first, as Bechev says on WB states "it is virtually impossible to look at interstate relations without taking into account the impact of the conception of national identity in the course of the last two hundred years" (Bechev: 2004, 4). Regarding the second, each state's idea of itself and others is shaped, channelled and implemented according to the idiosyncrasies of its institutions and decision-makers. The theoretical justification behind such an approach comes mainly from the sociology of knowledge and constructivism in IR theory. In order to understand how complete, deep (or shallow) the commitment of a political community is to an idea or to a particular kind of collective (political) action, we need to refer to its 'central value system' which is quite similar to an individual's 'cognitive bias'—the

mapping of his/her possible choices, limits, justifications, and perceptions of himself and the world around him. A helpful comparison can be made here between a political community and an individual. In the same way that an individual has his truths, falsehoods, desires and goals, so does the political community have its own worldview—otherwise the term ‘political’ would lose its meaning. While mapping out this ‘central value system’ of each society is not necessary here, our national experts referred to it as they discussed the possibilities of foreign policy and regional cooperation in order to understand the potentialities of regional cooperation.

Within this framework, the experts had considerable leeway to interpret those questions that seemed most relevant to them. Their work was based on two methods. Firstly, they interviewed people from the foreign policy establishment as well as academia, civil society and business. Secondly, they researched a wide range of academic literature about identity debates in WB in order to bring the disparate material gleaned from the fieldwork within a coherent framework.

The national studies were then used to identify the commonalities and differences in foreign policy goals of each country; the shared vision of common interests, and institutional, discursive and conceptual impediments to cooperation. It is important to note that polls and studies on peoples’ perceptions of each other were used very sparsely since foreign policy is a peculiarly undemocratic domain by nature in that it allows considerable room for elites to impose their vision since votes are rarely to be won or lost in foreign policy debates. Opinion polls do not show us the basic values that underwrite a political community’s commitment to some type of political action—that is, we have no means of separating momentary support from durable long-term commitment. Moreover, a considerable number of respondents usually base their arguments on perceived utilitarian cost-benefit analysis—those that estimate they will gain from the process support it while the others do not. However, if important long-term projects on regional cooperation depend on utilitarian support only, then their future is liable to be easily disrupted as the mood of the public or politicians changes. Finally, we are aware that any effort to include ‘everything’ in our analysis—the vision and understanding of the “other” in intellectual works, businesses, population of border areas, average citizens, politicians, institutional make-up, think-tanks and so on—would make the impossible possible since all future outcomes may be ‘predicted’ by such large and undefined studies. That is why we focus on schools of thought and debates among top politicians and policy-makers while including the views of others only where they have had a traceable impact on the foreign policy of each particular state. That is because we believe that political action and agendas are made possible by the social norms and ideas which actors subscribe to rather than being objective conditions. However, in cases like Serbia’s foreign policy, polls and similar studies have become important because of the weight of Serbia’s role in the region and especially on the question of Kosovo’s independence. Since that issue was part of the electoral campaign in the May 11, 2008 elections and it has been an integral part of Serbian state policy since, we included Serbian polls and debates in the analysis.

Finally, the recent literature on ‘new regionalism’ does not disprove some of the earlier stipulations on successful collective action. Successful regional collective action to achieve some public good still requires that a single dominant power or nucleus of actors have enough interest to see regional cooperation succeed so as to underwrite its costs and sustain it politically. So far, this role has been played by the nefarious ‘international community’ which is, of course, an outside actor. For ownership to occur, that actor must exist locally. Assuming that all actors want to cooperate but each of them is small enough so that its efforts cannot really make or break a regional initiative, regional ownership would not occur because of insoluble free-riding issues (Olson). Past research suggests that for collective action to work there needs to be either a single actor with enough interest to underwrite costs

and enforce the rules—such as the US's role in NATO—or a small nuclear group of countries that can make a difference like Germany, France and others within the EU. In the latter case, strong institutional arrangements are needed in order to identify incentives and increase the costs of non-cooperation or free-riding. Either way, the point is that collective action does not come into being merely because of the existence of common interests and wishes but requires the leadership of some countries and the others jumping on the bandwagon. A glance at the WB map shows that, in a best-case scenario, ownership would mean a leading role for countries like Croatia or Serbia because of their relative material capabilities and asymmetric bargaining power. However, because of geographic, historical and identity issues this is not possible. On one hand, Croatia is unlikely to want to play this role uncomfortable as it is with its place in the WB. Suffice to recall that in 1998 the Croatian parliament passed a constitutional amendment prohibiting membership in any regional association that could recreate Yugoslavia in any form (Bechev, 13). On the other hand, even if Serbia tried to claim such a role for itself, it would alienate other WB countries and thus hamper integration.<sup>27</sup>

However, this is the scenario required for a 'hard' version of regional ownership. 'Hard' ownership means a regional agenda that is wholly home-grown and responds effectively to regional challenges. It requires two things: firstly, an institutional structure that serves as the forum where the agenda is adopted based on clear rules of interaction among countries. This is the deliberative setting. The deliberative setting can handle the routine agenda on projects that either do not require political backing or projects that earn the political consensus of actors through negotiations in the deliberative setting. But, secondly, it also requires that at the inevitable moments of impasse, key political actors in the region can provide the political muscle necessary to solve the impasse. This is the executive prerogative and it often lies beyond the explicit rules-bound interaction that defines normal interaction. In regional cooperation terms, this means that there is one (or there are a few) actors who are leaders in the region and can informally persuade others to follow through since following the formal route would mean getting bogged down by the rules. It is the actors who take the lead that define what is an 'extraordinary circumstance'—a circumstance that cannot be solved through normal procedures—and are informally tasked with finding a solution. Once the solution is found, normal order is restored and business as usual is carried out in the deliberative setting.

To earn such leadership, these countries need to have the relative material capabilities and asymmetrical bargaining power of countries such as Croatia and Serbia, the will to lead, as well as the legitimacy accruing from the informal acknowledgment of others that their leadership is necessary. The latter component is missing in the WB case and, therefore, ownership in its 'hard' sense as in the case of the EU, cannot be expected. However, ownership in the 'soft' sense can occur. 'Soft' ownership means the capacity to create a deliberative setting, a regional structure such as the RCC that pushes the process forward. This institution creates the necessary space for cooperation through organizing meetings, briefings, follow-ups and so on. More importantly, it is acknowledged by all as a good setting for regional interaction. For 'soft' ownership to succeed, regional interaction must be functional in nature—based on concrete projects of an economic and technical nature that have a weak political dimension. These projects tend to require the least amount of political cost from actors that back them. Generally, 'soft' ownership requires no more than the overall backing of all countries—the idea that cooperation is a good thing and worth pursuing—and a legitimate and technically capable institutional setting.

Since 'soft' ownership must be the realistic goal in WB cooperation given regional realities and the recent creation of the RCC, the main structural impediments to cooperation may be

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<sup>27</sup> One recent example concerns the decision for the host country of the RCC. When Serbia proposed to host the RCC Secretariat in Belgrade, all the other countries backed up Sarajevo's proposal more or less automatically.

the foreign policies and national visions that animate each country. But, since our national studies show that all countries in the region favour EU and NATO integration as the ‘only game in town’ save Serbia which is pursuing a more complex agenda, then we focus our discussion on Serbia. Therefore, firstly we discuss the foreign policies of all countries taken together as they have an impact on regional cooperation and secondly we pursue a more in-depth discussion of Serbia’s foreign policy. While this may be controversial (why only Serbia?) it is important to note that although Belgrade cannot play a leadership role, it is important that it plays a constructive role because the others cannot compensate through some type of network regime (all WB minus Serbia). Serbia’s geo-strategic position, the relative weight of WB countries vis-à-vis each other and recent history demonstrates its Archimedean position on regional cooperation. The rest of the WB countries may conceivably gain EU membership no matter what happens in Serbia. But they cannot do so by owning regional cooperation without Serbia’s participation. This is why we spent considerable effort analyzing Serbia’s foreign policy and the impediments to its leadership role in regional cooperation.

## Main Body

Our study will proceed in two parts. Firstly, commonalities and differences in the foreign policy making processes and visions of WB countries will be outlined. This outline will demonstrate that all WB countries share common interests and perceive regional cooperation in a positive light. However, as noted in the introduction, the dynamics of regional cooperation require that Serbia take a key leadership role in regional cooperation. That is why, in the second part a discussion of Serbia’s foreign policy will follow in order to outline the possible role that Serbia can play in the near future in regional cooperation initiatives.

## Foreign Policies of WB Countries

The following table shows the commonalities and divergences in the foreign policies of WB countries taken together:

Positive Commonalities	Negative Commonalities	Divergences
-Goal of EU and NATO integration	-lack of professionalism of diplomatic corps	-institutional coherence (Albania, Montenegro, Croatia, Macedonia) vs. incoherence (BiH)
	-undemocratic nature of foreign policy formulation	-search for Big Brother (Albania, Macedonia) vs. independent vision (Serbia)
	-reactive rather than proactive foreign policy	-Broad consensus and positive view of neighbours among elites (Albania, Macedonia) vs. competing visions (Croatia in the 90s, Serbia)
	-bilateral problems	-lack of capacity to implement agreements (Albania, BiH) vs. strong capacities (Croatia, Serbia)

The goal of EU and NATO integration is, of course, shared by all WB countries—although in the case of Serbia this goal is not pursued unconditionally<sup>28</sup> (See 2.2.2)—and constitutes the

28 It may be pointed out that Macedonia also is not ‘unconditionally committed’ to EU integration because its government and people are unwilling to give up their name for EU/NATO membership. However, this claim misunderstands the nature of obligations elicited by the European liberal regime. The new regime does not demand unconditional support on every policy but sharing the common goal. In the case of Macedonia, political elites have not formulated any alternative goals to European integration although they choose to go about it at their own pace. On the contrary, in the case of Serbia multiple visions exist. In that country, Europe is an alternative that may progress or regress depending on the makeup of the political elite in power.

raison d'être of regional cooperation. It ensures that all countries now share the same language and are unified by a single vision which commits them to democracy, good neighbourly relations, minority rights and the free market. Only the umbrella of EU integration and Western guidance and sponsorship has allowed regional integration to progress considerably since the late 1990s to the point where the question of 'regional ownership' is increasingly demanded by local actors.

This common goal has helped the region move away from 'hard' security issues, although they do remain latent and are immediate in the case of Kosovo. The centrality of the link between the shared goal and the means of regional integration is illustrated not only by the clear causality that may easily be traced in the history of regional initiatives, but also, for example, by the practical conditionality which helped turn Croatia from a reluctant participant in regional integration to a fully participating member of these initiatives. Indeed, Croatia's goal of membership would not have progressed to the stage of candidate without its full commitment to regional cooperation since 2002. Similarly, the progress made by other WB countries has continuously depended on this type of strong commitment. The EU goals of moving from enmity to amity by providing technical solutions to 'soft' security issues and shepherding the countries towards integration are seen as mutually reinforcing by the EU as well as local political elites.

All this has had a powerful impact on the tendencies towards political rapprochement in the region. Especially during preparations for the Thessaloniki summit, multilateral cooperation intensified culminating in a common letter by the presidents of Macedonia and Croatia and the Prime Minister of Serbia published in the Financial Times. Croatia and Serbia and Montenegro mended fences when the two presidents exchanged apologies for the conflict of the 1990s. But, from the perspective of regional ownership, this highlighted once again that political cooperation has worked better with a bilateral basis rather than in regional forums. Multilateral forums continue to serve more as instruments of conveying messages to the EU rather than mechanisms for solving regional problems.

More importantly for our purposes, this shared goal has made it possible for us to speak of a WB 'region' based on the common set of problems faced by the countries of the region. While countries have achieved different rates of progress in fulfilling this goal, the reforms that they have to carry out and the end-state towards which they aim give rise to similar concerns and demand common solutions. It is out of these shared challenges rather than some common identity that countries in the region are now tentatively thinking about 'ownership' of regional cooperation.

However, this shared goal may have its drawbacks as well if it is not well managed by the EU and countries in the region. Through the mechanism of the Stabilization and Association process (SAP), each WB country's progress depends, first and foremost, on a bilateral relationship with Brussels. This is why different countries are in different stages of the process. Croatia and Macedonia have achieved candidate status, Albania and Montenegro have applied for candidate status while Serbia and Bosnia-Herzegovina have signed the Stabilization and Association Agreement. At present, the foreign policy establishments in these countries do not view regional ownership as a necessary condition for EU integration. Instead, they merely have to do 'just enough' to avoid impeding integration and subscribe to regional initiatives without expanding efforts towards ownership when the whole of their administrative capacities are fully preoccupied with the demands of their individual efforts towards accession.

Unfortunately, most other commonalities that are to be found in foreign policy formulation and implementation processes have a negative impact on foreign policy. The first, a lack of professionalism in the national diplomatic corps, is particularly noticeable in smaller countries as well as Bosnia and Herzegovina (BiH) whose institutional arrangements result



from the Dayton peace agreement and are watched over by the international community rather than emerging from normal negotiations between the country's main political actors. In the case of BiH, the lack of procedures and rules in the MFA mean that improvisation and political arbitration tend to carry the day. This state of affairs points to a greater problem with the civil service across some WB countries: the domination of politics over professional civil service. As a rule, political appointments overrule the requirements of professionalism leaving the MFA's diplomatic appointments in the domain of the ruling political party with few diplomatic posts filled in a meritocratic manner. Although the national laws on foreign affairs that are being adopted in some countries are designed to bring some stability to the diplomatic corps, some of the weaker states in the region are still far from developing any form of practice in this area.

At first glance, this should not have a direct impact on achieving regional ownership but only the implementation of whatever is agreed should have an influence. However, as the fieldwork suggests, a structurally weak diplomatic corps reinforces a country's image of itself as weak, vulnerable and that its opinion does not really matter. The absence of clear strategies in foreign policies especially in delicate areas such as regional cooperation comes not merely from the lack of technical capacities but also from this sense of futility which is exacerbated not only by the relatively small size of the country but also by an inferiority complex it may develop in regional forums. In such cases, a country can play a fully positive and innovative role usually only when the post of Minister of Foreign Affairs is taken by important political personalities who need to make an impact on foreign policy in order to further their political ambitions. By their very nature, such important political personalities with a great deal of experience and independence within their own parties have a vested interest in bringing the public spotlight to their activities. On the other hand, if the post of Minister of Foreign Affairs is taken by someone that is new in politics or a technocrat with no political weight, there is little new that may be expected and, coupled with the weaknesses in the bureaucratic apparatus, the country at best can jump on the bandwagon of existing initiatives.

Secondly, foreign policy strategies in WB countries are formulated undemocratically. With the single exception of Serbia, where foreign policy is rarely far from the agenda of political contestation between competing alternatives, foreign policy is naturally elitist. The political stakes of formulating foreign policy alternatives are quite low as there is little to be won or lost in terms of votes and political clout by playing the foreign policy card. In countries where the ultimate long-term direction of the body politic is consensually accepted such as Croatia, Montenegro, Albania and Macedonia, this is considered to be beneficial and a factor that helps regional integration because it provides stability and continuity of policies from one administration to the next. In general, foreign policy elites have a positive view of their neighbours or at least recognize the usefulness of cooperation. However, civil society actors in the region are demanding a democratization of the process in order to include business forums, think-tanks, and other apolitical actors which have a definitive stake in improving regional cooperation. It is generally assumed that while the political elites have little interest in regional cooperation beyond the minimal necessary efforts to convince Brussels of their reliability, these other groups have a direct stake in the free flow of goods and persons in the region and establishing partnerships with homologues in neighbouring countries in order to increase markets or clout. The undemocratic nature of foreign policy allows political agendas and personalities which value the scoring of points through political posturing to trump business interests with a direct interest in the free flow of goods and people.

However, such demands for democratization may be met only where the constitutional political system creates the incentives for the entrance of the third sector in the policy formulation process in general. This requires a weak executive and a strong legislature similar to constitutional arrangements in, say, the United States. However, this is far from being the

case in the WB where parliamentary majorities are generally controlled by the executive and parliamentary committees lack the necessary technical and institutional support. Therefore, the democratization of foreign policy making in WB countries largely depends on the will of the politicians, those that are least interested in such democratization.

The third negative feature of WB foreign policies is their reactive rather than proactive character. Again, this is more the case in the smaller countries in the region for understandable reasons—they lack the clout to influence events and other powers and therefore cannot help jumping on the bandwagon on others' actions. This feature is not necessarily negative when analyzed from the perspective of its impact on regional cooperation since these countries, after all, need only to bandwagon and cannot be expected to shape regional institutions. Little thought has been put in strategic cooperation with policy-makers and institutions within the EU that are committed to the future of WB, niche diplomacy in areas of inter-ethnic or inter-religious conflict or diplomatic public relations efforts in order to increase foreign direct investment.<sup>29</sup> While sporadic efforts are occurring with advertisements on major foreign media outlets on tourism and contacts with foreign relations firms, the institutional weaknesses within the MFA staff as well as turbulent recent history has understandably impeded progress in this regard.

Bilateral problems also have a way of coming back and undermining the atmosphere of cooperation that is vital for regional initiatives to succeed. For example, the issue of Kosovo's final status has repeatedly blighted dialogue between Albania and Serbia in regional forums undermining any real potential for rapprochement between the two countries. Also, BiH's lawsuit against Serbia for genocide and Serbia's establishment of special economic and cultural relations with Republika Srpska has fuelled mutual suspicion between the two. While the fallout from the battlefields of the 1990s is only to be expected, sometimes national governments aggravate tensions for no obvious benefit rather than for domestic political purposes. For example, in January 2008 Macedonia announced that it would scrap its visa entry regime in preparation for EU membership to the surprise of EU officials and countries in the region. Three months of media circus followed, as under the new plan Macedonia would tighten its visa regime with Albania although the status-quo was working remarkably well. Technical problems, claims and counter-claims created an atmosphere of bungled efforts which generated a great deal of unnecessary mistrust until the issue was finally cleared by the two prime ministers Gruevski and Berisha.

On the other hand, WB countries diverge in important respects on the process of formulating foreign policy as well as in the way they view their neighbours. In general, the elites of the smaller WB countries have a more positive view of their homologues and are more open to regional cooperation. Countries like Albania, Macedonia and Montenegro enjoy considerable consensus on foreign policy matters. They see foreign policy as one of the means to the final goals of economic development, democratic consolidation and membership in the Western economic and security space. Hence, they are more or less enthusiastic supporters of regional cooperation and try to navigate as carefully around politically explosive regional issues as they can, for example, on the issue of Kosovo's declaration of independence. Albania provided support by recognizing the independence but all along underlining that its cooperation with Serbia need not suffer as a result. On the other hand, Montenegro and Macedonia extended recognition much later after some very public interference from Western countries such as an article by David Miliband, British Foreign Secretary, in Montenegro's daily *Vijesti*. But what was important to them was to avoid impeding their own journey towards the EU and at the same time not aggravate the Kosovars or the Serbs.

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29 The situation is changing with Macedonia and Montenegro increasingly trying to portray a 'small but trendy' face to the world. However, witness for example the foreign policy strategy of Albania's ex Foreign Minister Besnik Mustafaj who promoted "economic diplomacy" as his government's innovation in Albania's foreign policy without any tangible follow-up. Now the Albanian MFA seems to have forgotten "economic diplomacy" altogether.

Competing visions on the general direction of foreign policy that could signal changes in course are missing in these countries. Foreign policy debates do not revolve around substantive political or identity issues but on technical matters such as the quality of diplomatic corps appointments, negotiations for EU membership or international agreements. At particular moments in the 1990s, a variety of agendas were put forward, for example, Macedonia and Albania adopted a policy of 'Europeanization' of the Balkans while Belgrade and Athens professed a policy of "the Balkans for the Balkan peoples" in the 1997 Crete Summit, but that was quite natural as the entire region had just stepped out of the communist slumber and a variety of national and trans-national agendas were cropping up before the dust settled. Generally, the larger and more important a country is, the more diverse the competing foreign policy agendas are. Thus, countries like Croatia and Serbia have not always enjoyed such consensus but while in Croatia, the European line seems to have clearly won, in Serbia the struggle between the two competing worldviews is still on going. Since Serbia is so important for regional cooperation, its position will be discussed below.

## Serbian Foreign Policy and Regional Ownership

The analysis of Serbian foreign policy must be taken into consideration in its political and its institutional dimension. Firstly, up until the May 2006 elections that brought to power the ruling Tadić's DS coalition, the institutional structure of Serbia's foreign policy making was the least clear of the WB countries perhaps reflecting the deep political divisions concerning the general direction of the country. Although according to the constitution, foreign policy is the domain of the government and the President of the Republic and is implemented by the Ministry of Foreign Affairs, in fact the Ministry of Kosovo and Metohija and the Ministry of Diaspora had their own and often uncoordinated input in foreign policy making. Additional input is provided by the Vice President of the Government who is directly responsible for European integration affairs. While this may well reflect the complicated structure of Serbian governing coalitions in the post-Milošević period as well as the conflicting foreign policy priorities in the previous administration between President Tadić's 'pro-European' Democratic Party (DS) and ex-premier Koštunica's 'nationalist' Democratic Party of Serbia (DSS), as a matter of fact Serbia has failed to formulate a coherent foreign policy strategy after October 5th 2000. This failure as well as the complicated institutional structure of Serbian foreign policy has meant that the Serbian state has often pursued foreign policy goals rather inefficiently to say the least: there seems to be no clear analysis of how to move towards European and NATO integration, regional cooperation and stability as well as how to deal with Kosovo's declaration of independence and the necessary rapprochement with Russia that this entailed. Pursuing all three tracks as if they were fully complimentary has meant that Serbia has been unable to focus its diplomatic vision in a coherent, long-term fashion.

The only effort so far to map out a foreign policy strategy has been the exposé of Goran Svilanović, former Minister of Foreign Affairs of the Federal Republic of Yugoslavia, to the Federal Assembly on 24 October 2001. This exposé distinguished four goals for Serbia and Montenegro:

- Determination of the country to become a full member of the European Union and NATO;
- Enhancement of bilateral and multilateral forms of cooperation with the countries in the region of WB and South Eastern Europe;
- Balancing the relations with the great powers (primarily the United States of America, the European Union and the Russian Federation);



- Consolidation of relations and cooperation with the countries of the “Third World”.

However, the exposé was not followed up by any strategic document and the quickly changing realities at the beginning of negotiations for Kosovo's final status made it of dubious value as foreign policy gained an unusual political importance for Serbia's domestic politics. Only at the end of August 2007 did the Ministry of Foreign Affairs of the Republic of Serbia establish the Council for Foreign Relations as an advisory body in order to formulate a long-term strategy. However, the different visions of the two parties in the then-ruling coalition, the declaration of Kosovo's independence and the subsequent break up of the coalition because of divergences in foreign policy increased the lack of clarity until the new ruling coalition between Tadić's DS and Ivica Dačić's Socialist Party took office in the summer of 2008.

The erratic nature of Serbia's foreign policy during the previous administration was influenced by the different political visions of the DS and the DSS. On the one hand, the DS had the unambiguous goal of integrating in the EU and NATO as well as doing everything possible to preserve Serbian sovereignty over Kosovo but not at the cost of integration. This has meant a balanced approach towards Washington, Brussels and Moscow and strong support from the EU for the pro-European forces in Serbia such as the strong pressure to offer the carrot of a visa-free regime and signing the SAA prior to the 11 May 2008 elections. On the other hand, ex-Prime Minister Koštunica and the DSS were not particularly interested in NATO membership and do not want to pay the ‘Kosovo price’ in exchange for progress on EU membership and they continue in this direction now that they are in opposition.

Since then, under the energetic direction of Foreign Minister Vuk Jeremić, Serbia's foreign policy has gained more coherence and achieved some success in delaying the process of recognition of Kosovo's independence and referring the issue to the International Court of Justice (ICJ) because of the support it earned in the United Nations General Assembly in October 2008. The EU has not explicitly linked progress on EU membership with the recognition of Kosovo, and Serbia continues to work on both tracks at the same time. However, from the perspective of regional ownership, the Kosovo issue continues to be a major stumbling block. Clashes between Serbia and Albania on regional forums, the expulsion of the ambassadors of Montenegro and Macedonia from Belgrade after the former recognized Kosovo's independence (an event that had not occurred with the ambassadors of other countries that recognized Kosovo) and the security issues arising from Serbia's antagonistic view towards Kosovo that lead right up to partition as stated by President Tadić for the moment have thwarted any serious considerations of a more constructive role on regional cooperation.

Leaving aside the mammoth question of Kosovo which is dealt with below, the foreign policy disputes within the Serbian body politic have translated into two different approaches to the WB region. The DS aims to increase cooperation with the countries of the so-called Serbian neighbourhood (the successor states of Yugoslavia minus Kosovo) as well as the countries of South Eastern Europe in general. On the other hand, the Radicals and the DSS are not particularly interested in broadening Serbia's involvement in existing regional initiatives.

However, examining closely the pronouncements of Serbian officials on regional cooperation issues tends to miss the larger point which is Kosovo's independence now recognized by all WB countries except for Serbia and Bosnia and Herzegovina. Since there is such a divergence within the region, no important group of Serbian politicians is willing to make much headway on regional cooperation. At the very least, regional cooperation requires a basic agreement on the political and legal make up of the region which at present is lacking. Furthermore, while that disagreement is fuelled by internal Serbian politics, the counter-balancing voter demand for more cooperative efforts with the neighbours is lacking. The ruling coalition has yet to describe how it will reconcile the fundamentally divergent goals on Kosovo and EU membership.

## Serbian Elites and the Kosovo nexus

To borrow terms from Western (or Western funded) literature on Serbia, there exists a traditional and deep division in Serbian society that is also reflected in its elites, between cosmopolitans and conservatives. While the usefulness of these terms is quite doubtful, as indicated by membership in the conservative group of an eclectic mix of nationalists, orthodox Christians and ex-communists, for the purpose of this study it is enough to note that deep divisions do exist and have an impact on how Serbian elites view their own country and their neighbours. Opinion polls show that Serbia remains divided on its future with, for example, a poll in April 2008 showing that 70 percent of Serbs favoured membership in the EU, but only 43 percent do so if they had to pick between the EU and Kosovo (Reuters: 2008). What seems clear is that the Serbs are broadly united on their attitude towards Kosovo—the same poll showed that 94 percent of Serbs were against Kosovo's independence. But, the group is not monolithic. Some hold the view because of the perceived role of Kosovo in Serbian history and identity. Perhaps even more are rather indifferent to Kosovo itself but unhappy with the perceived constant drubbing that Serbia has taken in the international arena from the vilification of Serbs in foreign media, to NATO intervention and the 'imposition' of Kosovo's independence. This group is hungry for 'foreign policy victories' and wisely administered carrots may be enough to render its objections politically impotent. It is quite likely that the Serbian government is pandering to this constituency by taking the Kosovo 'fight' to the UN and the ICJ.

These divisions are reflected in the political responses to Kosovo's independence. Obradovic points out that Koštunica's emotional response to the issue was one of agitating the minds and stoking the fears of the electorate. It was rooted in the traditional 'victim syndrome' which sees Serbia as the victim of the US, Germany, the Vatican and the Islamic world. Sometimes it has seen its role in temporary opposition to the West which has fallen victim of its own misunderstandings of the real situation in the Balkans while at other times it has seen itself as the true soul of the West, the last virtuous bulwark to encroaching Islam or whomever else may play the role of the other. The discourse employed by this group is highly emotional. It is peppered with the terms 'truth,' 'justice' and so on that makes a difficult basis for negotiating. The view is characterized by myopia and no real engagement with the issue of Kosovo and the behaviour of Serbs towards Kosovo Albanians especially in the 1990s; however, it does not offer any diplomatic solutions on the issue.

However, the 11 May 2008 elections indicated that a considerable part of the public is no longer interested in merely belligerent rhetoric that may comfort the ego but leave Serbia further behind its neighbours. The voters favoured the pragmatic response of Tadić who, from the beginning, challenged the new state on the basis of international legality and the principle of sovereignty. This 'cosmopolitan' section of Serbia's elites ranges from a minority that publicly advocates reconciliation with Kosovo Albanians such as the Liberal Democrats of Čedomir Jovanović to those willing to do everything possible within the diplomatic realm to fight Kosovo's statehood. It is the bigger latter group that seems to be dictating Serbian foreign policy at present. It is important to note that time may well favour the pragmatists. The traditionalists have little to offer as a way out of the impasse while the pragmatists may even continue on the road of EU integration while continuing the Kosovo fight as best they can.

Serbian foreign policy on regional cooperation has followed the dynamics of this clash. From 2001 to the second half of 2004, Serbia became a full participant in regional initiatives and rapprochement. However, with the issue of Kosovo becoming more prominent on the diplomatic agenda, the focus turned again inwards and interest on regional cooperation withered away. At present, its approach is often obstructive with the Serbian delegation

walking out of regional forums attended by the Kosovar leadership, threatening to resign from the SEE Energy Community, or even the expulsion of Montenegrin and Macedonian ambassadors after their countries' recognition of Kosovo. While a new business class with strong interests in regional economic cooperation is gaining ground, it is easily overruled by the political agenda of the day. Anyway, Serbia cannot in the short-term play the role it must for regional ownership to become a plausible option.

## Conclusions

What do all of these factors mean for regional ownership? Firstly, it means that national foreign policy elites lack clarity of purpose on regional cooperation. Beyond subscribing to the agenda imposed from outside, regional cooperation is not given sufficient attention by local actors. Hardly anyone can say what they want from regional cooperation beyond vague words about economic cooperation and the desirability of political rapprochement. This inattention does not flow from traditional sources of mistrust such as ethnic or religious antagonisms. Instead, it comes from the political dynamics within WB countries. Those countries that could take the lead on regional cooperation cannot do so because they do not see it as a viable option for the moment, because the benefits to be accrued from it are not enough or because the legitimacy of their leadership is questioned by the others. Smaller countries do not object but lack the capacities to proactively deal with the regional cooperation agenda. This is reflected in the lack of knowledge regarding existing initiatives. However, the cure is not to increase knowledge but to present a cooperation strategy that is viable and locks a critical mass of actors in.

Secondly, the interplay of factors analyzed here means that foreign policy elites are not myopic when approaching the issue from the perspective of European integration. If no-one presents a platform of 'hard' ownership, then minimal administrative efforts on existing initiatives is the most rational course of action. That is not to say that existing initiatives and especially the Regional Cooperation Council (RCC) are doomed to failure. But, they will continue to depend strongly on a clear supportive vision by outside factors.

Thirdly, local elites are perfectly willing and capable of cooperating mostly at a bilateral level on the basis of concrete aims with clear benefits as will be explored in other chapters of this book. Recognizing that collective action is often needed to draw foreign financing and assistance, elites see that cooperation and exchanges can be fruitful tools for maximizing benefits. While this is beneficial in economic, security and political terms, it is a far from the ownership which requires that "regions are invented by political actors as a political programme" (Neumann: 2001).

Fourthly, the future of regional cooperation will demand a great deal from the performance of the RCC as its deliberative structure. That is because the nature of the regional interaction is such that it favours 'soft' ownership. All countries support the idea of regional cooperation as a means of bridge-building and economic growth but this takes second place to the bilateral nature of each country's EU integration process. The source of tension to watch out is between RCC as a forum of 'soft' ownership and informal network regimes within WB countries. While informal networks often help push the process forward, if decisions are taken there rather than at the RCC, it could alienate other RCC members that are not part of the informal networks. The optimistic outlook for regional cooperation in the immediate future is one of a strong RCC as a setting where functional cooperation occurs as a support for each country's national efforts to integrate in the Euro-Atlantic structures.

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## **Part 2**

Development of Regional; Cooperation in the Western Balkans and  
EU Integration – Evaluating Regional Cooperation Initiatives



# Development of Regional Cooperation in the Western Balkans and EU Integration

## – Evaluation of Regional Cooperation Initiatives

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### Introduction

A complex interplay among geographic, historical, geo-strategic, religious and other factors in South Eastern Europe (SEE - also referred to as the Balkans) contributed to the creation of one of Europe's most ethnically heterogeneous, politically unstable, isolated and economically underdeveloped regions. Major causes for this "tragic" historic development<sup>30</sup> are elaborated in detail in [1]. History of the region in the 20th century is marked by constant antagonism between states over territories, which were contested between neighbouring countries. These disputes took precedence over the desire for reconciliation through regional cooperation. Historically, instability and violence in one country almost always spread across much of the region. World War II ushered the era of fragmentation of the region that was tenser than ever before. The Balkan states joined rival camps during the War and sought to gain advantage at the expense of their neighbours. Sporadic attempts to find a firm basis of cooperation and mutual defence in the time of relative peace and security between the World Wars and during the Cold War were never based on a multilateral/regional basis but on a network of bilateral agreements between the regional powers. However, even this rather limited co-operation proved extremely difficult to achieve.

The end of the Cold War and especially the time of the bloody conflicts during the disintegration of the Socialist Federal Republic of Yugoslavia (Yugoslavia) found the region in a state of profound crisis, creating the impression that the Balkans had lost none of its penchant for turbulence. Scholars, journalists, and practitioners alike agreed that the Cold War temporarily suppressed but failed to resolve ancient ethnic and other conflicts. These analysts have little hope that the "powder keg" of Europe will be able to escape the legacy of its bloody history. This prompted Robert Kaplan to write in 1993:

"Like an old photograph found suddenly in a dusty attic, the Balkan Peninsula is once again back at centre stage. Here is where twentieth-century history began - with the assassination of the Archduke Franz Ferdinand in Sarajevo - and is where it is likely to end."

However, despite the untold destruction of property and human misery the Yugoslav crisis, and the numerous and severe economic, security, humanitarian, ethnic, social and other problems ravaging the region in the last decade of the 20th century, the apocalypse that Kaplan and many other analysts predicted did not materialise. Despite the numerous difficulties the Yugoslav crisis caused in the neighbouring countries, it was largely contained within its own borders. And after initial hesitation, post-Cold War governments in SEE showed a willingness to join the world, and instead of confrontation began seeking ways to deal with their daunting problems through bilateral and regional co-operation. The existence of regional issues and shared problems derived from the transition, under-development and the lack of security in the region is recognised as a major factor stimulating co-operation.

<sup>30</sup> Tragic "historic" development of the region is frequently explained by the saying that "the region produces more history than it can consume".



As such, security and fighting organised crime, managing migrations, the development of regional infrastructure (related to transportation, energy and communications networks) and improving the environment, fostering free trade and investment and building human capital have been identified as major regional incentives for co-operation and convergence. The governments of the region realised that geography and physical proximity, cultural and social cohesiveness in terms of ethnicity, religion and popular culture and above all the common goal of membership in international organisations, namely NATO and the EU, create a firm basis for more advanced forms of regional co-operation.

At the beginning of the 21st century for the first time in the history, all the countries in the region have common strategic goals: to provide security, political stability and socio-economic operation was seen as an integral part of the preparation for integration into development to their citizens through a process of becoming members of NATO and the EU. This strategic political orientation of the region gave extensive power to NATO and above all to the US, and to the EU and its most influential states to influence the political and socio-economic transformation of the region using, among other mechanisms, conditions for regional co-operation and regional integration. Regional integration at the multilateral level is for the first time offered to the Balkans as a concept, the basic principles of which have been already tested within the EU itself. Regional cooperation in SEE gained momentum after the fall of Tudjman's and Milosevic's regimes. Incorporating requests for regional co-operation as a prerequisite and a tool for European integration and a necessary condition in the Stabilisation and Association Agreement (SAA), the EU became the main international facilitator of regional co-operation in SEE.

In the last decade SEE countries established a number of multilateral fora dealing with a variety of political, economic, environmental and domestic and regional security issues. Thus a number of regional cooperation initiatives have been initiated or revived. Other political co-operation initiatives include:

- The South-East European Co-operation Process (SEECP)
- The Stability Pact for South Eastern Europe (SP SEE) and its successor
- The Regional Co-operation Council (RCC)
- The South East European Co-operative Initiative (SECI)
- The Central European Initiative (CEI)
- The Adriatic Ionian Initiative (AII)
- The Organisation for Black Sea Economic Co-operation (BSEC)

The initiatives that are more thematically oriented include:

- The Danube Co-operation Process (DCP)
- Sava River Initiative
- The enhancement and enlargement of CEFTA 2006
- The Energy Community Treaty (ECT)
- Parliamentary Co-operation with a Regional Secretariat in Sofia,
- The SECI Centre for fighting trans-border Crime in Bucharest,
- The SEE Police Commissioners Association (SEPCA),

- The SEE Prosecutors Advisory Group (SEPAG),
- The MARRI Regional Centre in Skopje,
- The SEE Transport Observatory in Belgrade,

The Regional Anti-Corruption Initiative with a Secretariat in Sarajevo, as well as numerous regional cooperation programmes, mainly supported by the European Commission (EC). Different groups of countries participate in the individual initiatives. Since the focus of analysis in this study is on the Western Balkan countries the co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY), as conditionality in the SAP, was set as an additional requirement in the regional co-operation arena. A comprehensive description of the regional co-operation initiatives and the fields of regional cooperation are given in [4].

In general the fields for co-operation in SEE could be classified into three groups:

- Security related issues and politically oriented projects,
- Co-operation projects and initiatives on a specific technical (thematic) subjects,
- Co-operation initiatives and projects aiming to achieve reconciliation and eventually transformation of the region (SP and RCC), thus preparing it for wider integrations, mainly for association with the EU.

The majority of thematic processes were launched in the context of the Stability Pact. The idea was that by recreating the links between the countries and facilitating technical co-operation in areas of mutual interest, one would also gradually support reconciliation. Many lively debates led by scholars and political analysts have analysed various co-operation initiatives from historic, geo-political, social and economic perspectives. Part of this vast academic and policy-making material is listed in the literature, at the end of the Introduction to this chapter [5-11]. A brief review of the listed literature presented below will elaborate only the issues which are relevant for local/regional ownership of the co-operation process, while more elaborate analysis will be presented in the remaining part of this chapter.

In the related literature a number of authors have analysed regional co-operation in SEE from the following main issues, aspects and perspectives:

- Needs and incentives for regional co-operation

If regional co-operation needs are defined by issues which require collective and multilateral action by some or all the states in the region in order to achieve benefits which cannot be attained by individual states acting in isolation, then the following areas have been identified to have incentives for regional co-operation: internal and external security and fighting organised crime; managing migration; development of regional infrastructure; protecting the environment; fostering economic co-operation through free trade and investment; education and building of human capital. These issues are elaborated in detail in the literature, providing both quantitative and qualitative data and indicators, which confirm strong incentives for regional co-operation. Some of these issues, especially those that are more technical in nature, have gained support from the majority of regional players. However, the countries of the region have not yet taken full ownership even in this narrow arena of regional co-operation.

- Prevailing negative perception

The impact of prevailing negative perception of the Balkans as the “dark side of Europe’s liberal, tolerant, democratic society”, especially in Western Europe, on attitudes of regional players towards regional co-operation was analysed extensively. It was concluded that this image of the region was not attractive to regional players, since

nobody wants to be associated with the negative image and hence to be seen as Balkan.

- Historical background

Analysts compared SEE with CEE and the Baltic region with regard to regional co-operation in the context of European integration. They found that the recent historical burden of the war, ethnic conflicts, border disputes and minority rights constituted decisive differences between these regions, being a substantial obstacle for genuine and deeper regional integration in SEE. They also identified that in some countries (i.e. Serbia and Bosnia and Herzegovina) a genuine social and political consensus for regional integration has not yet been built, which presents an additional obstacle for regional ownership.

- Weak regional identity

In spite of geographic proximity, common history, cultural and social cohesiveness and common problems of a difficult post-war reconstruction and transition, key regional stakeholders found the region to have a very weak identity. Analysts concluded that this fact also contributed to a low level of regional ownership.

- Roles and strategies of key international players

The context, structure and strategies of different regional co-operation initiatives in SEE were developed externally by international players, usually referred to as “the international community”. Therefore, the international community mainly led by the EU and the US and influenced by Russia and the international financial institutions, determined objectives, priorities and actions of the individual initiatives. In the aftermath of the bloody disintegration of Yugoslavia, after the signing of the Dayton Peace Agreement, the international community defined security and normalisation of relations among “the warring parties”, as a conflict prevention mechanism, as a priority issue thus deciding not to deal with the questions at the heart of the conflict, i.e. minorities and frontiers. The decision to avoid dealing with the key issue of the conflict prevented genuine dialogue in the region having lasting negative consequences on ownership of regional co-operation.

- The bilateral versus multilateral approach

From the outset, and especially since the Thessaloniki EU Summit in 2003, regional co-operation was seen as an integral part of the preparation for integration into the EU and NATO. The contributions of each country to achieving regional co-operation objectives were seen as its readiness to take on the demands of full integration into the EU and NATO. However, progress in the EU and NATO integrations has been measured on each individual country's merits, thus in nature being based on a bilateral approach. Since the priority of each country in the region was membership in the EU and NATO, the fulfilment of the requirements of these integration processes became the priority of the political stakeholders in the region. Hence regional co-operation, which was a multilateral approach by nature, was seen by the same elites as an obligation imposed through external pressure to the mainstream EU and NATO integration processes. Conflict between the bilateral and multilateral approaches and its impact on regional co-operation is elaborated in detail in [11].

- The roles and strategies of regional players

The position of the countries of the region toward regional co-operation varied from silent opposition to reluctant or neutral acceptance. Official regional stakeholders mostly played roles assigned by the international community. The exception represents the only endogenous initiative, the South-East European Co-operation Process (SEECP), which, however, achieved limited results. This passive position of local elites combined with the above described “international” factors, which shaped regional co-operation

frameworks from its inception, substantially hampered prospects for developing ownership of the process of regional co-operation.

- The Regional Co-operation Council: determination and capacity for ownership  
The Regional Co-operation Council (RCC) presents a new phase in the evolutionary process of regional co-operation in SEE. The RCC started with ambitious objectives, incorporating in its agenda additional social priorities that were not the priorities of its predecessor, the Stability Pact. The challenge for the RCC is to facilitate the planning of specific actions based on the real needs of the region and with full participation not only of state actors, but also of the wider community, especially of civil society. Determination of key state and political stakeholders in the region to take ownership of the planning process and the initiative in the implementation will be a key factor in the future transformation of the RCC from the ownership perspective. The capacity to organise such a complex consultation process and wide participation in regional co-operation projects will be an additional challenge.

In the remaining part of this chapter an overview of the development of regional co-operation in SEE with the focus on the Western Balkans countries will be presented first. The overview will focus on the evolution of basic trends in the development of co-operation in the last decade, the role of international and regional actors, their strategies, priorities and courses of action. A special focus of the analysis will be on regional co-operation as a condition for EU integration. In the second part of this chapter a review of the Stability Pact, with lessons learned from this most encompassing regional co-operation initiative, and its transformation towards the Regional Co-operation Council will be presented. Challenges and opportunities for regional ownership within the current situation of EU integration and regional co-operation and the implications for the future perspective of RCC will subsequently be evaluated. At the end of the conclusions to this chapter, the focus is on the key issues of regional cooperation, especially with regard to transformation from international intervention to regional/local ownership, and on recommendations that could be used as long-term strategic framework especially for future activities of the RCC.

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# Regional Cooperation in the Balkans 1996-2008

## – from Imposed to Intrinsic

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Twelve years following the launching of the “regional approach” for the countries of the Western Balkans, the Regional Co-operation Council was formed – proclaimed as taking ownership over the process of regional co-operation and European integration. The launching of the Council took place during the Slovenian Presidency of the EU – the country that managed to disband itself from the group for which it now acts as a bridge to the Euro-Atlantic world.

It is a demanding task to address the issue of regional co-operation in South Eastern Europe (or the Western Balkans), especially since it has already been addressed by a number of academic works, think-tank analyses and reviews, reports, etc.

Building on analysis done so far, we shall review the establishment of the concept of regional co-operation in South Eastern Europe, the main advocates and actors, and to what extent the region itself participated in the creation, development and implementation of regional co-operation, thus establishing the level of ownership over the processes. Based on this analysis, we shall establish the necessary presumptions for sustainability of regional co-operation in South Eastern Europe.

### The “birth” of a region

Two basic denominations for the Balkans have evolved – that of South Eastern Europe and that of the Western Balkans. Regardless of the wording, at the core of the region’s denomination is the geographical, but also geo-strategic and cultural concept of the Balkans. Both South Eastern Europe and Western Balkans are relatively new concepts, created only following the geo-strategic reconstruction of Europe. During the Cold War, the Balkans was a geographic and cultural notion, not a geo-political concept.

Following the fall of the Berlin Wall, new regions and alliances were created and re-created in Europe. Until the middle of the nineties the former communist Eastern European states merged into the group of Central-European states. The new attribute was not a geographic one; it indicated the geo-political change in Europe and the new alliances created on the continent, basically reflecting the inclusion of these new democracies into the EU and NATO. Although in the narrower sense, ex-Eastern block Baltic States and ex-Eastern block Balkan states did not belong to the Central European countries, they were included in the geo-political notion of CEE countries. The other grouping at the beginning of the nineties was that of the countries of ex-Yugoslavia, which was undergoing a long and painful dissolution process. Albania, coming out of isolation and having a difficult transition process, was also excluded from the CEE group. In the middle of the nineties, following the peace agreements to mark the end of the wars on the ground of ex-Yugoslavia, this re-grouping took place. Slovenia joined the geo-political group of Central-European States, thus definitely breaking up with former Yugoslavia. Albania was added to the group of the ex-Yugoslav republics.

Thus, the most precise and at the same time the narrowest differentiation of the region, although probably the most artificial and temporary one, is the one that derives from the status of each country towards the EU. This is reflected in the terminology of the Western Balkans – ex-Yugoslavia, minus Slovenia, plus Albania.

South Eastern Europe, as a wider and more natural concept, includes all the countries from the Balkans, some of which also belong to the political notion of Central European group of states – now EU member states, like Bulgaria and Romania, and the “oldest” EU member state from the region Greece. Other neighbours in the region, although clearly not associating themselves with the region politically, sought participation in different forms of regional co-operation in the Western Balkans, driven by their own interests and objectives. Bulgaria and Romania, sharing the same political background of Eastern Europe during the Cold War, but having geographic and cultural links with the Balkans, joined the CEE group, at the same time remaining actors in regional co-operation in the Balkans. Greece, already EU and NATO member state, but also geographically and culturally a Balkan state, continuously remained an actor and sought leverage in the region. On the other hand, Moldova, which is not a Balkan state, was included in many regional co-operation processes in South Eastern Europe on political grounds.

Thus, during the 1990s, regional co-operation in the Balkans was shaped in two different ways: one followed the geographic, cultural and economic logic of regional co-operation and the other the geo-political re-creation of the continent. The dissolution of the former Yugoslavia and addressing the consequences of this dissolution remained at the core of the concept of regional co-operation.

## The background

Following the Dayton Peace Agreement, the playing field in the region substantially changed. The somewhat abstract, but powerful notion of the “international community” in the region was already well established by the time of the creation of the EU regional approach. Its predominant manifestation at that time was through military and diplomatic means, complemented by humanitarian aid actions, connected to the conflicts in Croatia and Bosnia and Herzegovina. During the first half of the decade a number of “missions” were deployed in the region – their first task being monitoring and reporting. With the outburst of the conflict, new mandates were sought for the missions under the umbrella of different international actors. Under the UN umbrella, NATO was the leading international player until the brokerage of the Dayton Agreement. The EU operation during the military actions was through the EC (later EU) monitoring mission and ECHO – the humanitarian programme<sup>31</sup>. The OSCE and the Council of Europe, in co-ordination with the EU or separately, had also established their presence in the region, deploying monitoring missions in crisis regions, as well as establishing links and activities from the “promotion of democracy” palette in the newly independent states, which were not involved in the conflict. The Western European Union ensured its participation (specifically in a mission in Albania). The international financial institutions (the IMF and the World Bank) had established their presence in the region, however acting mainly on bilateral level. Other UN agencies also got involved – primarily the UNHCR, the UN High Commissioner for Human Rights, as well as the UNDP. The region was a playground for testing different methods of action by the “international community”, some of which were for the first time established and explored, ranging from preventative missions (UNPREDEP in Macedonia), to the High Representative for Bosnia and Herzegovina. A number of special envoys with specific mandates were appointed.

At the time the Dayton Agreement was imposed, the regional scene was far from promising. The Dayton Agreement did end the war in Bosnia and Herzegovina, but it did not significantly change the power game in the Balkans, with Tudjman and Milosevic remaining in power until the end of the decade. Thus, during the second decade of the 1990s, the already

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31 Wouters, J. & Naert, F. The EU and conflict prevention: a brief historic overview Institute for International Law, Working Paper No 52 - April 2003



established methods of the international community remained and were further developed, while new ones were being created, putting more emphasis on “soft” measures and opening the perspectives for EU and NATO integration.

The EU’s role until 1996, following the failure of diplomatic efforts to peacefully resolve the crisis at the beginning of the 1990s, was only secondary. This became very clear with the Declaration on Yugoslavia Edinburgh Summit of December 1993, when the Community stated it had “no other choice than to support and participate in any future initiatives that the international community would deem necessary”<sup>32</sup>. While during the period 1993-1996 it did adopt common positions and issued declarations on the former Yugoslavia they were mainly backing the NATO engagement in the Croatian and Bosnia and Herzegovina’s conflicts. It was just at the time of the end of the conflict when new groupings in terms of rapprochement to the EU took place. Slovenia caught up with the group of CEI countries, applying for membership and signing a Europe Agreement in 1995. Albania and Macedonia, which were not involved in the conflicts, were placed in a “positive vacuum” with internal issues preventing faster reform, as well as external ones preventing faster rapprochement – such as lacking a strong EU Member State sponsorship or obstructions from an EU member, as the Greek block for international recognition of Macedonia, because Greece opposed Macedonia’s constitutional name.

It was against this background that the “new” region emerged. The time came for the EU’s “soft” measures, including new instruments that were being developed within the Union’s newly created foreign and security policy and tested in the case of this new region.

Two phases of regional co-operation in South-East Europe could be distinguished until then: the first one until the end of the millennium, and the new one following 2000. Although a sharp division is difficult to identify, the years 1999-2001 were decisive for the shift from predominantly stability oriented goals and instruments to predominantly integrative ones. The changes that took place in the countries themselves (in the first place, the changes of governments in Zagreb and Belgrade), the launching of the Stabilisation and Association process with the Stability Pact and the opening of the perspective for membership in the EU and NATO were the crucial markers, indicating the shift from security-oriented and more imposed approach to an integrative and more ownership-oriented approach to regional co-operation.

The EU regional approach 1996 and regional co-operation initiatives

The regional approach was a genuine political decision and the basis for the strategy of the EU to be developed, once military actions ended on the ground of former Yugoslavia. The newly promoted geo-strategic concept was formalised through the political decision formulated in 1996.<sup>33</sup> The “Western Balkans” was born - the new satellite group on the borders of the EU, encompassing the ex-Yugoslav republics, without Slovenia, but including Albania.

It took the EU institutions a relatively long time to elaborate and agree on the concept of its policy towards the region. It was only in the middle of 1997 that an agreement was reached on the regional approach, setting conditionality as the basis of the EU strategy, and establishing regional co-operation as an aim of the strategy. Furthermore, the relatively crowded and competitive list of international actors on the ground combined with the frequently diverging positions of EU Member States did not facilitate fast decisions and effective implementation.

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32 Presidency Conclusions, Edinburgh European Council, 12 December 1992, Declaration on former Yugoslavia [http://www.europarl.eu.int/summits/edinburgh/d1\\_en.pdf](http://www.europarl.eu.int/summits/edinburgh/d1_en.pdf)

33 Council of the EU, General Affairs Council Conclusions, 26 February 1996



Regional co-operation was part of the post-conflict stabilisation efforts of the international community.<sup>34</sup> In this context, regional co-operation was declared one of the objectives of the regional approach of the EU. At this point, within the just established conditionality principle of the Union towards the countries in the region, regional co-operation was also defined as a precondition for all stages of progress in relations with the Union. Thus, the will of the countries to engage in cross-border co-operation and to grant analogue advantages to other countries in the region was required. However, states would not be considered responsible for the lack of reciprocal will by potential partners in the region.<sup>35</sup> Each country was to be assessed on individual merit. Nevertheless, the “individual merit” principle and the “regional approach” principle remained a source of dualism in the process of regional co-operation.<sup>36</sup>

Two competing initiatives – one by the EU, the other by the US – the Royaumont process and the South East European Co-operative Initiative (SECI) had been on the table during the formulation of the strategy. It took one year of negotiations between the EU and the US to come to a compromise on the respective roles of the initiatives. Along with these “external” lines of developing regional co-operation – EU-led and US-led, – the regionally initiated and sustained lines of co-operation could also be observed.

In parallel and complementary to the establishment of the regional approach, the EU continued to sponsor the Royaumont process.<sup>37</sup> Already initiated by France during the Paris Peace conference at the end of 1995, it was evidently complementary to the evolving regional approach of the EU. It was also seen as the “desire of Western Europe to try and balance in some way or another, the growing US political and military influence in the region as a result of the Dayton Agreement”.<sup>38</sup> However, the Royaumont process was not to deal “with the questions at the heart of the conflict, i.e. minorities and frontiers”, but to “try to contribute to reducing the tensions arising from the conflict and preventing a resumption of hostilities, to promote a better understanding that it is in the interest of each party to co-operate rather than to try systematically to put obstacles in the way of any undertaking by a neighbour, to contribute to restoring confidence and dialogue, and overcome ethnic divisions and hatreds”.<sup>39</sup> Thus, the Royaumont process was primarily meant to ease the pressure of the demanding reconciliation requirements and status issues, and facilitate dialogue. It included all the neighbours of today’s Western Balkans, as well as the OSCE and the US, while Greece was strongly involved and was supporting the process (the process involved Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Yugoslavia, Macedonia, Romania, Slovenia, and Turkey plus the 15 EU Member-States, the USA, Hungary and Russia; the OSCE was to act as the Secretariat of the Process).

The US sponsored process of co-operation in the region – the South-East European Co-operative Initiative was initially not welcomed by the EU, however by the end of 1996 it was agreed that Royaumont would cover the so called third basket (humanitarian co-operation, interethnic relations, and the civil society), while SECI would cover the ‘second basket’, i.e., the economy, the environment, and infrastructure development<sup>40</sup>. With its more pragmatic

34 Solioz, C, Rethinking south-eastern Europe through a pan-European perspective, South East Europe Review for Labour and Social Affairs SEER issue: 02 / 2007, pages: 6780

35 Council of the EU, General Affairs Council Conclusions, 29 April 1997

36 Delevic, M. Regional Cooperation in the Western Balkans, Chaillot Paper No. 104, July 2007

37 Common Position of 9 November 1998 defined by the Council on the basis of Article J.2 of the Treaty on European Union, concerning the process on stability and good-neighbourliness in South-East Europe (98/633/CFSP)

38 Shtonova, S, 1998, „Regional Co-Operation and Strengthening Stability in Southeast Europe,” in NATO Research Fellowships Reports (Sofia: NATO Research Fellowships Reports, 1998), <http://www.nato.int/acad/fellow/96-98/shtonova.pdf>

39 Council of the EU, General Affairs Council Conclusions, 26 February 1996, ANNEX III, Process of stability and good-neighbourly relations in South-Eastern Europe: Platform for the development of the process for possible submission to all participants

40 Shtonova, S, 1998, „Regional Co-Operation and Strengthening Stability in Southeast Europe,” in NATO Research Fellowships

approach, SECI focused primarily on private sector development, trade (specifically cross-border trade) and investment issues, with its basic aim to establish cross-border trade. However, SECI did not exclusively limit itself to the economic field and in 1999 the SECI Regional Centre for the Fight against Trans-Border Crime was established, which further developed into a functional regional institution that is not only providing a framework for co-operation, but also performing concrete joint actions.

In parallel, the indigenous initiative of the South East European Co-operation Process (SEECP) was revived<sup>41</sup> at a Meeting in Sofia in July 1996, with the participation of Albania, Bosnia and Herzegovina, Bulgaria, Greece, Romania, Turkey, and Yugoslavia<sup>42</sup>. The Declaration of Good Neighbourliness, Stability, Security, and Co-operation were adopted. Unlike the EU and the US sponsored initiatives, the SEECP consisted of high-level state representatives. The Presidency was rotating, while no permanent Secretariat was formed, basically due to the reluctance of Bulgaria and Romania, who feared that stronger involvement in the process would endanger their advanced position towards the EU, compared to the other states in the region.

## Imposed regionalism and overlapping regions?

The positions of the countries in the region towards the “regional approach” differed; yet none of them was satisfied with being grouped together under the heading “Western Balkans”.

Croatia, during the Tudjman period banned participation in “Balkan associations”.<sup>43</sup> Croatia immediately declared itself a central European state, putting to the forefront its Austro-Hungarian legacy and Catholic background. Following pressure from the international community, Croatia changed its attitude already during Tudjman’s era and took a more positive stance towards the subsequently launched Stability Pact. Macedonia, then “the oasis of peace” clearly opposed to being grouped with countries that were just coming out of a brutal conflict. On the other hand, for Macedonia, as a small and land-locked country, additionally being denied international recognition at the beginning of its existence, regional co-operation was a natural rational choice. Serbia, for a decade on the brink of exclusion or isolated, had to struggle for inclusion. However, as the nation with the biggest population in the region, with strong links from the past with European capitals, has endeavoured to re-establish its prominent position on the regional scene once it disassociated itself from the Milosevic era. For Bosnia and Herzegovina, regional co-operation has probably had the least negative connotation, even though all the entities within the state have had different preferences. For Albania the regional approach and regional co-operation meant overcoming long isolation, while also being a chance for getting more support for the Albanian minorities in the neighbourhood and for the establishment of an independent Kosovo.

In fact, none of the countries of the Western Balkans were in a position to react to or oppose the new emerging geo-political background setting to the creation of this new region – the Western Balkans. Having just emerged from inter-ethnic war, or having been threatened with isolation, the countries of the region could only accept what was offered. Following the peace agreements, symbolising the end of one of the worst periods in the Balkan’s history, the acceptance of the regional approach was inevitable – sooner or later. Thus, the position of the countries of the region could be described in a spectrum ranging from opposition to

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Reports (Sofia: NATO Research Fellowships Reports, 1998)., <http://www.nato.int/acad/fellow/96-98/shtonova.pdf>

41 The first meeting of the Balkan states was held in Belgrade in 1988.

42 Macedonia was absent at the Sofia meeting for the reasons of the name dispute with Greece, but participated in all later summits and meetings.

43 Razsa, M. and Lindstrom, N, 2004, *Balkan Is Beautiful: Balkanism in the Political Discourse of Tudman's Croatia*, *East European Politics and Societies* 2004; 18; 628

reluctant or neutral acceptance. In fact, there was no other offer, no other choice; the only other option was self-isolation. The way in which “the region” was created and regional co-operation promoted was one of imposition and external pressure. Thus the very nature of the inception of regional co-operation through the regional approach hampered prospects for developing ownership of the process of regional co-operation.

The totally inappropriate geographical naming of the new group was another source of non-acceptance in the region. We can only guess whether the naming was aimed at putting across the message that the Balkans would now be “westernised”, since there was no other Balkans referred to by the EU (there is no such thing as “Eastern Balkans”). In terms of the EU geopolitical classifications, the Western Balkans neighbours with Central Europe to the East, North and West. On the other hand, the lack of any notion of Europe (as opposed to “Central European countries”) was perceived in the region as a negative message of reluctance, from the very start of the process, to be embraced in Europe.

One of the obstacles for the countries of the region fully identifying themselves with the new concept of regional co-operation connected to the regional approach was the issue of identity. It seemed that all the political actors wanted to escape from the image of the Balkans, in terms of Maria Todorova’s definition of the Balkans as Europe’s “alter-ego, the dark side of Europe’s liberal, tolerant, democratic societies.”<sup>44</sup> As an entity is likely to associate itself with a positive identity, and since groups with a negative identity are not attractive for membership, “it is no surprise then that nobody wants to be seen as Balkan and nobody wants to belong there.”<sup>45</sup>

The other impediment of regional co-operation is the one connected to the disassociation from the former state – ex-Yugoslavia. Most of the political elites in the countries of the region, except for Yugoslavia itself – later Serbia and Montenegro/Serbia - endeavoured to clearly demonstrate their break-up with the former Yugoslavia in any possible form - and in primarily political manner, as opposed to demonstrating their genuine and firm loyalty to the new alliances. This was especially the case with Slovenia and Croatia.<sup>46</sup> The efforts to demonstrate the level of disassociation were also motivated by the competitive environment of catching up with other regional groupings, seen as more prosperous and promising in terms of Euro-Atlantic integration.

By the time the new regional group was formed and new regional initiatives created, all the countries in the region, in addition to the adherence to the European regional agglomerations – like the Council of Europe and the OSCE - had expressed their interest in joining the existing regional initiatives following their preferences based, inter alia, on geographic location and economic interest. The first regional initiative shared by countries from the region was the Central European Initiative, which originally had been created as the Quadragonale in 1989, including Italy, Austria, Hungary and Yugoslavia. Croatia, Slovenia and Bosnia and Herzegovina were admitted in 1992, Macedonia in 1993 and Albania in 1995<sup>47</sup>. Within the CEI, the predominant and competitive influence of Italy and Austria, and later the new members like Poland and Hungary, were also an expression of their strong interest in the region of SEE. The Black-Sea Economic Co-operation (BSEC) established in 1992 has primarily focused on transport, communications, information technology, energy, environment and tourism. Bulgaria, Romania, Serbia, Greece, Turkey, Moldova and Albania

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44 Todorova, M., 1997, *Imagining the Balkans*,

45 Koneska, C, *Regional identity: the missing element in Western Balkans security cooperation*, Western Balkans Security Observer English Edition, issue:78 /2007-2008, pages: 8289

46 Bechev, D., *Constructing South-East Europe, The politics of Regional Identity in the Balkans*, RAMSES WP 1/2006, European Studies Centre, Oxford

47 At the moment, CEI has the following members: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Italy, the Republic of Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine see: [www.ceinet.org](http://www.ceinet.org)

have joined; Croatia has observer status, while Macedonia's membership is on hold (again because of the name dispute with Greece).<sup>48</sup>

Croatia, strongly expressing its ties and political orientation to Central Europe and its Mediterranean position, has joined the Adriatic-Ionian Initiative, and the Alps-Adriatic initiative, as well as the „Quadrilaterale“ (between Italy, Slovenia, Hungary and Croatia).

Concerning integration into NATO, countries in the region were divided over their aspirations, due to the NATO intervention in former Yugoslavia and Kosovo. Albania became a member of Partnership for Peace (as NATO's wider framework and membership "waiting room") in 1994, Macedonia in 1995, and Croatia in 2000, while Serbia, Bosnia and Herzegovina joined in 2006.<sup>49</sup>

## The region between the EU bilateral and multilateral framework

The approach of the EU towards regional co-operation in the Balkans has been based on two pillars - stabilisation and integration. Both pillars fit within the wider framework of the approach of the "international community" to the region and cannot be isolated from this broader environment. The EU was not the only – and, in crucial times, not even the predominant actor in the region. On the other hand, its activities have been complemented by activities of other regional and global actors. Thus, the approach has been multi-faceted and complex.

EU activities regarding regional co-operation have developed in multiple layers:

- Bilateral level – relations and inter-action between the countries in the region and with neighbouring countries within the EU bilateral framework, based on the conditionality principle;
- Multilateral regional level – support to regional initiatives and co-operation within the Western Balkans or the wider South-East European framework; inclusion of the region as a whole in the multilateral framework – European and global.

The aims of the EU in promoting regional co-operation were at the beginning basic political and economic aims after the turbulent period – reconciliation and reconstruction of the states and economies. These objectives evolved as the situation on the ground changed. Stabilisation and association were the more advanced goals of the strategy by the end of the past decade and were used as a "carrot" for faster reforms. At the beginning of the millennium, and especially following the fall of Milosevic, the objectives included EU integration and then predominantly focused on it. Regional co-operation was seen as "an integral part of the preparation for integration into European structures." Each country's contribution to achieving regional objectives would help determine its readiness to take on the demands of full integration into the EU.<sup>50</sup> Although declared a goal of the regional approach, regional co-operation was mostly a tool of stabilisation and subsequent integration.

Once the EU established its strategy towards the "Western Balkans", the basic toolbox was put in place and further developed. The tools that the EU used in the regional approach have been:

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<sup>48</sup> Declaration on Black Sea Economic Co-operation, Istanbul, 25 June 1992.

<sup>49</sup> <http://www.nato.int/pfp/sig-cntr.htm>

<sup>50</sup> Commission of the European Communities, Brussels, 26.3.2003, COM (2003) 139 final, Report from the Commission, The Stabilisation and Association process for South East Europe, Second Annual Report

- Conditionality – setting and monitoring of conditions
- Promotion and support of regional co-operation
- Legal framework – (co-operation agreements, followed by Stabilisation and Association Agreements)
- Aid – PHARE, later CARDS
- Support to civil society
- Sanctions

The EU has been hesitant with regards to its most powerful instrument – promising a viable membership prospective. The door started to open slightly in 1999, with the launching of the stabilisation and association process. Still avoiding an unambiguous promise of accession, the EU once again had to rely on the more concerted approach of the “international community” to the region. Thus, in 1999, simultaneously with the NATO intervention in Yugoslavia, the Stability Pact, as a wider regional framework of the new approach, supported by the “international community” was initiated – the “carrot” that was supposed to create further pressure for change. Yet again the results came later than expected – at the end of 2000, when Tudjman and Milosevic were off the political scene.

## The bilateral framework and conditionality

While the conditionality policy of the EU was already fully developed during its Eastern Enlargement based on the Copenhagen criteria of 1993, regional co-operation was not part of the core conditionality principles of this wave of enlargement<sup>51</sup>. Only in its approach to the Balkans, the EU prioritised regional co-operation as a condition for progress towards the EU. Within the EU conditionality policy to the Western Balkans regional co-operation was framed bilaterally. In every annual report (regional and for each country), the Commission also gives an appraisal on regional co-operation. However, viewed within the wider framework of “regional issues and international obligations”; its original concept has been maintained so far, which combined tackling the consequences from the conflicts with the slowly strengthened perspectives of association and integration.

Regional co-operation was included first in the system of compliance assessment within the regional approach (in the period 1997-2000) and since 2002 in the more developed monitoring system of the Stabilisation and Association Process.

Within the compliance assessment system of the regional approach, regional co-operation was the fifth criterion of assessment (in addition to “1. democratic principles”, “2. human rights and rule of law”, “3. respect for and protection of minorities”, “4. market economy”, while a separate part – compliance with obligations under the Dayton Agreement was added for Bosnia and Herzegovina, Croatia and Serbia). Two aspects of regional co-operation were assessed - bilateral and multilateral. Bilateral relations have been observed with the neighbouring countries, as well as the countries of the region. The multilateral aspect includes participation in regional initiatives and co-operation, as well as trade (trade regimes with the countries in the region, and intensity of trade).

The SAP process was largely based on the 1996 regional approach, but enriched with instruments from the accession process of the Central European countries. The changes were basically: a wider framework of conditions moving towards the full set of Copenhagen criteria; more systematic and extensive monitoring, the inclusion of European/Accession

51 Bechev, D. Carrots, sticks and norms: the EU and regional cooperation in Southeast Europe, *Journal of Southern Europe and the Balkans*, Volume 8, Number 1, April 2006



partnerships as guidance in the integration process, inclusion of some enlargement aid instruments in the process. As a condition for progress, regional co-operation was framed within the list of the sub-criterion of the Copenhagen political criteria “regional issues and international obligations”. In addition, regional issues and co-operation became increasingly embedded in all of the criteria and all the instruments to support reform in the complicated EU-integration framework – political, economic and even the European standards/acquis issues. The assessments in the reports led to formulating priorities in the European/Accession partnerships, and the latter presented the basis for developing aid strategies. Furthermore, bilateral conventions on regional co-operation are included as a legal requirement under the SAA agreements. Until now, Macedonia and Croatia have concluded such a convention and have been implementing it. A convention between Macedonia and Albania is being negotiated, and the others should be on track, as the SAAs are being concluded and entered into force. This is a lengthy process, since ratification of the stabilisation and association agreements in the EU member states, as practice has shown, takes a minimum of three years.

The analysis of the compliance reports from the period 1997-2000, as well as those from the period 2002-2007, shows that the focus of the criterion during the first period was narrower and concentrated on normalisation of the relations between the countries, especially those involved in the conflict, and closing the crucial open issues. Thus, “regional issues”, were predominantly defined as problems and challenges underlying the recent conflicts during the first period. In the second period, regional co-operation initiatives and positive encouragement of regional co-operation gained more focus.

These “regional issues” demonstrate the complexity of the consequences of the dissolution of the former Yugoslavia, many of which still remain unresolved and challenging. The first set of issues was connected to normalisation of relations. This included the establishment of diplomatic relations between the countries in the region, resolving border disputes and enabling cross-border movement. The primary focus of this set of issues was on the triangle Croatia – Yugoslavia – Bosnia and Herzegovina, and predominantly aimed at ensuring the actual functioning of Bosnia and Herzegovina as a state and eliminating the influence of Croatia and Yugoslavia on “internal” matters of Bosnia and Herzegovina. However, this was possible only after 2000 when Croatia renounced its “special parallel relationships with the Federation of BiH and established political co-operation exclusively with the central State authorities in Sarajevo.”<sup>52</sup>

But these “basic issues” of normalisation were not exclusive to these three states. Serbia and Slovenia had not established diplomatic relations until December 2000, Serbia and Albania – in 2002. Several border issues in the region were solved in 2002, while many are still pending – such as several Border issues between Croatia with Serbia, Montenegro, Bosnia and Herzegovina and Slovenia. Macedonia and Yugoslavia resolved the border issues in 2000, yet Kosovo, even before proclaiming its independence, disputed the delineation, which is being finalised now, only following Kosovo’s independence.

The succession of the former Yugoslavia also remained unresolved until 2001, with the last ratification in 2004. However, issues of implementation still remain open.

Issues of refugees, displaced persons, missing persons, dual citizenships, minorities, etc., which were important aspects of the political criteria have had direct impact on regional co-operation. Another point of focus was the position of countries of the region towards neighbouring countries with a significant ethnic minority. This was the case with Albania’s positions on Kosovo and ethnic issues in Macedonia, which were basically assessed as “moderate”.<sup>53</sup>

52 Commission of the European Communities, Brussels, 20.4.2004, COM(2004) 257 final, Communication from the Commission, Opinion on Croatia’s Application for Membership of the European Union

53 Commission of the European Communities, Regional Approach to the countries of South-Eastern Europe, Compliance with the conditions set out in the Council Conclusions of 29 April 1997, Bosnia-Herzegovina, Croatia, Federal Republic of Yugoslavia, Brussels, 3 October 1997

The situation in terms of compliance with the fundamental conditions of regional co-operation worsened with the NATO intervention in Yugoslavia 1999. The most complicated of these issues remained the issue of Kosovo. Until the proclamation of independence of Kosovo the prevailing issues were “dismantling Serbian parallel institutions in Kosovo”, issues of detainees from Kosovo, participation of Kosovo Serbs in the provisional Kosovo institutions, etc.<sup>54</sup> Today, when Kosovo has declared independence and has been internationally recognised by around 50 countries, including all the countries from the region, except for Serbia, Bosnia and Herzegovina and Greece, the issue of the recognition of Kosovo’s independence remains open and divisive and has the potential of blocking or delaying Serbia’s EU bid. Although not yet explicitly formulated as a condition for progress, the contextual analysis of the application of EU conditionality towards Serbia eventually leads to the underlying issue of recognising Kosovo’s independence.<sup>55</sup>

One of the obstacles for regional co-operation has been addressing the legacies of the past, or rather lack of readiness to address the legacies of the past. Divergent views and standpoints of the governments in the region, the citizens, and the “international community” on the ICTY, and specifically the role and actions of the ICTY Chief Prosecutor have created a rather conflicting and mixed picture.<sup>56</sup> The convergent views in Croatia on the operation “Oluja”<sup>57</sup> and the responsibility of the “national war heroes” have hampered and delayed, but not obstructed Croatia’s integration in the EU and NATO. In Serbia this issue has been the basic impediment of the integration process, preventing for years even the negotiation and signing of an SAA. In Bosnia and Herzegovina the strategy was left to international leaders, and asserted as more successful – on the one hand involving war-time leaders in democratic institutions, on the other bringing war criminals to justice.<sup>58</sup>

Among the achievements of regional co-operation in the period following the change of governments in Zagreb and Belgrade in 2000, the reconciliation efforts should be noted. Even though the statements such as the mutual excuses by Presidents Mesic and Tadic for the atrocities committed during the conflict may be assessed as having a limited impact “on the ground”, they are indicative of the change of attitude in the region and the preparedness to take short-term internal political risks by political leaders for the sake of improving regional co-operation, seen as a mid/long-term goal and essential national interest.

Apart from co-operation with ICTY, a number of regional co-operation issues have remained open for Croatia, such as refugee return, border issues with all the neighbouring countries from ex-Yugoslavia and Croatia’s declaration of a Fishing and Ecological Protection Zone in the Adriatic in 2003.<sup>59</sup> The latter provoked a strong reaction from two EU member states - Italy and Slovenia, - but although dialogue and consultations have been held among the

54 Commission of the European Communities, Commission Staff Working Paper, Federal Republic of Yugoslavia, Stabilisation and Association Report, Brussels, April 4, 2002, SEC(2002) 343, [COM(2002) 163],

55 Although in the European Partnerships for Serbia, Kosovo is treated in the same document, the part on Kosovo is a separate one, covering the same criteria as for any other state of the region. The European Partnership of 2008 specifies “cooperate constructively on matters relating to Kosovo” as a priority. See: Council Decision of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Serbia including Kosovo as defined by United Nations Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2006/56/EC, (2008/213/EC)

56 Bajraktari, Y, Serwer, D., Explaining the Yugoslav Catastrophe, The Quest for a Common Narrative, US Institute for Peace, USIPeace Briefing, January 2006, [http://www.usip.org/pubs/usipeace\\_briefings/2006/0105\\_narrative.html](http://www.usip.org/pubs/usipeace_briefings/2006/0105_narrative.html)

57 Loza, T and al., Yugoslav Successor States: Founded on War Crimes? Transitions Online, 17.05.2005

58 Knaus, G. and Cox, M., Bosnia and Herzegovina: Europeanisation by decree? In the Western Balkans Moving On, Chaillot Papers, No 70, October 2004

59 Commission of the European Communities, Communication from the Commission, Opinion on Croatia’s Application for Membership of the European Union, Brussels, 20.4.2004, COM(2004) 257 final, Commission Staff Working Paper, Croatia 2005 Progress Report, Brussels, 9 November 2005, SEC (2005) 1424, COM (2005) 561 final], Commission Staff Working Document, Croatia 2007 Progress Report Accompanying the Communication from the Commission to the European Parliament and the Council, Enlargement Strategy and Main Challenges 2007-2008, [COM(2007) 663 final], Brussels, 6.11.2007, SEC(2007) 1431

countries in the past years, the issue has not been resolved. All of these issues are listed among the key-priorities that the EU has established as a condition for progress towards Croatia joining the EU.<sup>60</sup> In fact, most of the key priorities for Croatia refer to regional co-operation issues. Yet, none of them has had the potential to impede Croatia's progress towards joining the EU up to now, except for the issue of co-operation with ICTY. However, the recent blockage by Slovenia of Croatia's progress in negotiations shows the potential of the unsolved issues relating to the criteria of the Stabilisation and Association Process to exert impact on the EU integration process.

In the bilateral conditionality framework the EU has also placed a focus on the issue of bilateral immunity agreements with the US - granting exemptions from ICC jurisdiction and its policy regarding the International Criminal Court (ICC). Macedonia, Albania and Bosnia and Herzegovina have concluded such agreements with the US. It is indicative that this issue has been formulated as a priority in the respective European/Accession partnerships ("fully aligned with the EU Common Positions on the integrity of the Rome Statute as well as related EU guiding principles"), showing the divergence of the US and the EU in their strategies towards the countries in the region and the insistence of the EU to demonstrate primary "loyalty" to the EU instead of the US. Some flexibility has been shown by the fact that the priority has been set as a mid-term priority, and not a short-term one.<sup>61</sup>

That the EU member states are using the EU conditionality policy to externalise their interests, based on their privileged position as EU members and the fact that decisions on practically all integration issues are taken unanimously (publicly it is defined as "solidarity"), has been extensively used by EU member states. The most striking example is that of the issue of the name of the Republic of Macedonia. Greece has managed to incorporate the requirement "Ensure regional co-operation and good neighbourly relations, in particular through intensified efforts to find a negotiated and mutually acceptable solution on the name issue with Greece, in the framework of UN Security Council Resolutions 817/93 and 845/93"<sup>62</sup> into the EU policy towards Macedonia. In spite of repeated official statements by EC representatives clearly indicating that the name dispute was a bilateral issue that did not fall under the Copenhagen criteria, recent developments, such as the blocking of Macedonia's bid for NATO membership at the NATO summit in April 2008, show the predominance of power politics over the conditionality policy of the EU based on a normative approach, thus undermining the leverage of the principle of regional co-operation in the EU integration process.

Trade connections were recovering slowly, and while Macedonia, for example, managed to conclude bilateral free trade agreements with all the countries in the region by 2000, progress in other countries was more limited. Croatia was predominantly set to enter CEFTA and concentrated on negotiating its entry in this regional organisation. A number of other impediments – such as the failure to ratify the agreements (Bosnia and Herzegovina failing to ratify the bilateral FTA with Macedonia) or the lack of implementation burdened the process. The volume of intra-regional trade was not significant (intra-regional trade made up only 7% of overall trade)<sup>63</sup> in 2002, with the only exception being that of Macedonia and Serbia and Montenegro.

60 Council Decision of 12 February 2008 on the Principles, Priorities and Conditions Contained in the Accession Partnership with Croatia and repealing Decision 2006/145/EC (2008/119/EC)

61 Decisions of the Council on the principles, Conditionality and Priorities of the European/Accession partnership with Albania, Bosnia and Herzegovina and the Republic of Macedonia

62 Council Decision of 30 January 2006 on the Principles, Priorities and Conditions Contained in the European Partnership with the Republic of Macedonia and repealing Decision 2004/518/EC , 2006/57/EC, Official Journal L 035 , 07/02/2006 P. 0057 - 0072

63 Commission of the European Communities, Brussels, 03.04.2002, COM(2002) 163 final, REPORT FROM THE COMMISSION, The Stabilisation and Association process for South East Europe, First Annual Report



In the critical period 1996-1999, the compliance record on “regional co-operation”, either in terms of addressing regional problems or in terms of developing regional co-operation was disappointing concerning the three first targeted countries – Bosnia and Herzegovina, Croatia, and Yugoslavia. Macedonia was praised as a leader of regional co-operation, while Albania was also positively assessed, but mainly on the basis of its position and will, rather than on concrete results, which was above all attached to its long history of isolation.<sup>64</sup>

The EU applied all the instruments it had (positive and negative) with diverse intensity and success. However, its toolbox was neither diverse, nor effective enough. The “carrot” in the period 1996-2000 was supposed to be preferential trade measures, participation in PHARE and co-operation agreements. None was attractive enough to compensate for what was considered to be essential national interest, especially with two crucial players – Croatia and Yugoslavia. The “stick” was the applied sanctions towards Yugoslavia, as well as isolating it from regional co-operation processes. Since 1999 Yugoslavia did not participate in SEECF, and was not invited to Royaumont meetings, while also being excluded from the SECI.

By the end of the last decade of the 20th century it was obvious that the regional co-operation initiatives did not result in an effective and co-ordinated process. An example of this was the fact that it took the Royaumont process two years since its establishment to complete an Action plan (1998). The major accomplishment of the initiative was to provide and facilitate dialogue on the political and the civil society level. While its results can be described as limited<sup>65</sup>, from today’s perspective we can state that - although not accomplishing the ambitious goals it set for itself - the initiative at least managed to provide a framework and forum for contacts, as well as familiarising the politicians from the region with the EU and its policies. As it was not exclusively devoted to post-war reconciliation issues, but tried to open wider issues and perspectives, it could be stated that the Royaumont process managed to a certain extent to turn the focus to a broader concept of regional co-operation and the perspectives of the region within the EU, thus providing a basis for the Stability Pact to develop its networks and concrete activities. On the other hand, SECI’s record could be assessed as more positive, since it tackled operative issues, for which concrete projects were developed. SEECF at least managed to gather the political leaders of the region at regular meetings. Still, it never went beyond general political statements and in particular those countries in the region hoping for earlier entry into the EU, were hesitant about their support.<sup>66</sup> Moreover, at this point SEECF was not recognised by the “international community” as a regional actor and the EU kept a low profile.<sup>67</sup> Exclusion of the non-compliant governments was seen as a method of encouragement for change. With “external” regional co-operation initiatives competing with each other and producing little result, and “internal” ones lacking the necessary support and still weak, the overall assessment of regional co-operation until 2000 was not very positive.

In terms of normative compliance with the EU criteria - what has been generally the specific weight of the criterion of regional co-operation in terms of being a condition for progress towards EU integration, or simply - did it pay off to be truly committed to regional co-operation and to comply? Looking from today’s position of the countries and the reviewed level of compliance with “regional issues and regional co-operation” conditions by the countries in the region, the logical conclusion is that compliance in terms of regional co-operation is not a

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64 Commission of the European Communities, Regional Approach to the countries of South-Eastern Europe, Compliance with the conditions set out in the Council Conclusions of 29 April 1997, Albania and the Republic of Macedonia, Brussels, 3 October 1997

65 Delevic, M., 2007, Regional Cooperation in the Western Balkans, Chailot Paper 104, European Union Institute for Security Studies, [www.iss.europa.eu](http://www.iss.europa.eu)

66 Bulgaria and Romania vetoed the establishment of a permanent secretariat, proposed by Greece.

67 Bechev, D., Carrots, sticks and norms: the EU and regional cooperation in Southeast Europe, *Journal of Southern Europe and the Balkans*, Volume 8, Number 1, April 2006

predominant factor for progress in the EU accession process. Other factors and criteria have prevailed. It could also be argued that this criterion cannot be assessed separately, but only in the context of the overall political criteria. However, taking into account that “regional issues” are also embedded in fundamental political criteria – as democracy and rule of law and human rights, then the leverage of the criterion of regional co-operation should have been much stronger.

## Multilateral regional framework

Following the substantial change in 2000, and the EU strategic decision to proclaim the countries of the region “potential candidates for membership”, the approach has substantially changed to a more positive inclination - encouragement of regional co-operation and gradual sectoral integration into the EU. While the credibility of the EU promise and the political commitment of the EU to accession can be contested, since it has successfully avoided any realistic promises to the countries of the Western Balkans, the increased commitment and practical engagement in projects of regional co-operation has been evident.

As a wider, complementary tool to the EU Stabilisation and Association Process in 1999, the Stability Pact was launched during a decisive period for the region. Meant to act as “a carrot” for change and a tool to encourage, but at the same time channel and co-ordinate regional co-operation, the Stability Pact steadily took over the leading role in regional co-operation. Its wide support from practically all international actors managed to demonstrate the “one voice” of the international community that was to be heard mostly in Belgrade and Zagreb, by their nationalistic regimes. The strong role of Germany as an advocate of the Stability Pact, triggered more compliance by Croatia with the SAP condition of regional co-operation. Following the change of power in Croatia and Serbia, the Zagreb Summit in 2000 marked the cleared ground for a renewed and more constructive phase of regional co-operation.<sup>68</sup> The process of re-integration of Serbia and Montenegro started, although the country remained burdened with fundamental issues of further disintegration.

Initially, the mismatch of the expectations put into the Stability Pact - which was seen in the region as a new Marshal Plan to channel money from the West to the region and allow rapid reconstruction of the damaged and impoverished region - with what was actually offered by the international community in the context of the Pact, resulted in widespread frustration. Gradually, the countries from the region learned that the SP was more of a training ground than a bank stand. The Stability Pact became “a hub” that captured the existing regional initiatives, with continuous endeavours to streamline and channel them, while brainstorming and developing new forms and means of co-operation, that could be “fed” back into the EU integration process, but also in other processes of integration and co-operation. Thus, the fields of co-operation that had been previously developed could be broadened to new areas – political and economic - while at the same time bringing them in line with the main EU policies and priorities. Trying to summarise the accomplishments of the Stability Pact within the relatively short time in terms of regional ownership, two points are most distinguished in our view: building acceptance in the region of regional co-operation as an essential need of the region itself and developing the capacity in the region to launch common regional projects. Both are connected to “the learning process” of EU integration. Maybe the most important achievement of the Stability Pact is its transformation and handing over of its competences to the Regional Co-operation Council. Rarely has an international organisation or initiative, having established itself on the map, simply disappeared from the international scene, however obsolete it might have become over the years. And this is a fact that only

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68 Zagreb Summit, Final Declaration, 24 November 2000

accentuates the responsibility of the new Regional Co-operation Council to justify the transfer of responsibilities.

The activities already developed within the Stability Pact in addition to the initiatives from the region, served as a basis to enlarge the scope of regional co-operation with the Thessaloniki Agenda of 2003, which is considered as another important benchmark of the process of EU integration of the Western Balkans. While remaining in the context of reconciliation together with enhancing regional co-operation, the targets and areas for regional co-operation became much more ambitious. The priorities for development of the future regional co-operation were specified: development of regional free trade, regional markets for electricity and gas, water management, cross-border co-operation, support for projects of regional significance and regional initiatives in the areas of science and technology, information and communication technology, and statistics; co-operation of European Affairs Committees in the Parliament, as well as co-operation in public administration.<sup>69</sup>

While it could be argued that the Thessaloniki Agenda acted as a strong push towards the integration of the region into the EU, it is also a point from which the two parallel tracks towards EU became more apparent – the bilateral one and the regional multilateral one. The bilateral track was strengthened with the development of an enlargement strategy, which, as the regional approach in 1996, was subject to difficult discussions of the Commission with Member States and finally endorsed in 2006, and the comprehensive set of policies and instruments to encourage the countries of the region to move forward to the EU (European/Accession Partnerships, progress reports, Instrument of Pre-Accession). The parallel focus on the regional multilateral framework was basically pushed forward by the EU Presidencies that decided to focus on the Western Balkans as a priority – for example, the Austrian (first half 2006) and the Slovenian Presidency (first half 2008), drawing on the Thessalonica Agenda. The Salzburg Declaration of March 2006<sup>70</sup>, following the Commission Communication of 2006 on regional cooperation<sup>71</sup> and the Brdo informal Gymnich meeting of EU Foreign Ministers following the Commission Communication of March 2008<sup>72</sup> brought no major encouragement to the process, basically repeating the EU Council and General Affairs Council conclusions. However, they focused on areas and instruments of regional co-operation, within the priorities set by the Thessalonica Agenda and contributed to the further re-shaping of the institutional multilateral framework.

Since the Thessalonica Agenda, the bilateral framework has clearly prevailed. The level of integration with the EU – steps in the integration process on the level of individual countries came to the forefront of the Stabilisation and Association Process. The regular progress report of the European Commission each November and the consecutive Council Conclusions have become an internal political benchmark for the countries of the region. On the other hand, the multilateral regional framework has attracted much less political and general interest.

While being gradually decoupled from the bilateral EU approach, which remained the framework for progress of the individual countries to the EU, the multilateral regional framework was gradually reshaped institutionally, allowing for more ownership of the region itself. Since 2000, the South-East European Co-operation Process has slowly been rehabilitated and identified as the “voice of the region”, which led to the transformation of the

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69 General Affairs and External relations, 2518th Council Meeting - External Relations, Luxembourg, 16 June 2003, Annex A, The Thessaloniki agenda for the Western Balkans: Moving towards European integration

70 Salzburg Declaration, Salzburg EU/Western Balkans Joint Press Statement [http://www.eu2006.at/en/News/Press\\_Releases/March/1103EUWesternBalkansStatement.html](http://www.eu2006.at/en/News/Press_Releases/March/1103EUWesternBalkansStatement.html)

71 Brussels, 27.1.2006, COM(2006) 27 final, Communication from the Commission The Western Balkans on the road to the EU: consolidating stability and raising prosperity

72 Communication from the Commission to the European Parliament and the Council, Western Balkans: Enhancing the European perspective, Brussels, 5.3.2008, COM(2008) 127 final

Stability Pact and the taking over of its functions by the newly created Regional Cooperation Council under the SEECP umbrella.<sup>73</sup> While the members of the SEECP are countries from the region, the membership of its institutional back-bone – the Regional Co-operation Council – is broader and encompasses 47 countries and international organisations, including all relevant international and European organisations and many EU member states, as well as the EU (“represented by the Troika, as well as the European Parliament”) and the United States<sup>74</sup>, whereas twenty nine countries are represented in the RCC Board.<sup>75</sup> The evident divergence of membership of the RCC with the membership of the SEECP creates a specific institutional setting for regional co-operation, which indicates the current state of ownership of regional co-operation. The principle “buy a ticket and you are in” results in a rather crowded playground. It is also a rather competitive playground for the countries in the region, as they have to struggle for influence and leverage in the presence of more powerful and more experienced players. On the other hand, the participation of the international actors can also be interpreted as support for the countries in the region to take over ownership.

In our opinion, this recent third stage of regional co-operation in South Eastern Europe is still a phase of transformation to ownership, probably the decisive transitional phase, where the countries of the region need to show that they have learned to play under the already established rules of the game - and not only to “participate in the game”, but to “win”.

## Priorities and ownership

In the first phase of regional co-operation (1996-2000), the focus of economic co-operation was on trade. At first this just meant re-establishing links, enabling movement of goods in the fragmented region with new, badly equipped and badly managed borders. The next step was the establishment of bilateral free-trade agreements, as well as individual countries’ membership in the WTO. Although initially, with the beginning of regional co-operation, the ideas for a South East European Free Trade Area emerged, this was not accepted, simply for political reasons. The Governments in the region were not ready politically to accept this level of integration. Their interpretation was that this would be a creation of a block as an alternative to EU membership. Time and energy of the limited resources were thus lost by negotiating, concluding and implementing a complicated set of bilateral agreements. With the CEFTA<sup>76</sup> finally set up and functioning, the regional trade landscape has been completed, at least until the time of accession of any of the countries to the EU, which would require re-defining of the trade relations.

On the other hand, fears of regional trade integration as a substitute could be justified, as the history of trade associations on the European continent shows that they do present an alternative to membership. Historically, there has always been a group of states around the European Community, which were closer to the Union, with a so-called “privileged” relationship with the Community. For the European countries that fulfilled (or could eventually fulfil) conditions for membership the option of joining was open. Those that did not join remained in a bilateral frame of trade relations – as a single country or as an association – such as the EFTA countries, some of them through the most enhanced form of

73 While the other countries from South-East Europe have been members since its establishment, Croatia joined in 2004.

74 Joint Declaration on the Establishment of the Regional Co-operation Council (RCC), [www.rcc.int](http://www.rcc.int)

75 According to RCC Statute, for membership of the RCC Board, a minimum contribution of 50.000 Euro to the budget of the RCC Secretariat is required, while membership fees of the countries of the region are set separately. Membership in the RCC is reserved for countries in the region and “donor countries, international organisations and international financial institutions actively and substantially engaged in support of regional co-operation in SEE”. New members need the consent of all existing members.

76 Even the name of the regional trade association – Central European Free Trade Association - is a symbol of the diverging identities and priorities. While clearly being a South-East Free Trade Association, the name CEFTA was inherited, together with the CEFTA institutional legacy.

integration as is the European Economic Area. Thus, free trade areas as a starting point and deeper integration with the EU up to the level of a free economic area as an enhanced form of integration can indeed present an alternative to membership.

In addition and in the framework of trade issues, customs was another priority sector for stimulating co-operation. When borders emerged where previously there had been none, these sectors were apparent fields for urgent co-operation. Further on, investment and support for small and medium enterprises have been established as priorities for regional co-operation and greatly supported by the EU and other donors. The EU engagement has been demonstrated through the inclusion of the SEE countries in the European Charter for Small Enterprises<sup>77</sup>, as well as in the mechanisms for the monitoring of the Charter and extensive support at a national and regional level through EU aid instruments. Later, these EU initiatives have also included references to the Lisbon Agenda. Projects in the investment field have also been supported by the OECD and the US. The EU has also promoted regional co-operation in the field of statistics, in addition to the large national projects in this field, which is understandable when considering that reliable and comparable data is indispensable for any policy formulation towards the region or a separate state.

The infrastructure sectors (the network industries of energy and transport) have been prioritised sectors for co-operation, besides trade and small and medium enterprises. For these sectors the European Commission developed strategies in 2001 within the framework of the Stability Pact.<sup>78</sup> The implementation of the strategies required intense regional co-operation, accompanied by requirements for economic reform suggested in the European/Accession partnership. This included provisions for liberalisation, and in some cases, explicit requirements for privatisation in the European/Accession Partnerships. The Commission policies towards the economic sector in the region have generally been explicitly neo-liberal.<sup>79</sup> The Energy Community Treaty (in force since 1 July 2006) and the planned extension of the European Common Aviation Area to the region by 2010 in practice mean the extension of the EU *acquis* and its direct application by the countries in the region, which is problematic as far as the consistency of their internal legal system and their implementation capacities are concerned. However, it does show that if there is political will and interest, the EU *acquis* can be extended to the region. Extending the EU Electricity and Transport market to the region is already creating a specific kind of sectoral integration of the region within itself and with the EU. The reluctance to integrate regionally has been gradually overcome by the sectoral extension of the EU to the region, thus eliminating the problem of some countries obstructing regional integration seen as a substitute for European integration and providing an “on-hand” example that regional co-operation and EU integration are complementary and not mutually excluding processes. The “sectoral” economic integration gradually leads to deeper integration with the EU than the free trade area established by the SAA agreements. Moreover, these sectoral integrations have not been subject to rigorous conditionality, nor has the EU treated them as a “reward”. On the contrary, all the countries have been encouraged to participate. The predominant interests of the EU and the investors, which need South Eastern Europe as one market, prevailed. Integration has been faster in areas where the EU had a strong interest like energy and aviation.<sup>80</sup> Within this context, the parallel processes of economic transition, privatisation, gradual transposition of EU market rules (especially in the internal market area, like state aid, competition and public procurement) and now even

77 Микић Ј., Кроња, Ј. Регионална соработка за развој и европска интеграција, Белград, Подгорица, Приштина, Сарајево, Скопје, Тирана, Загреб, 2007

78 Commission of the European Communities, Brussels, 03.04.2002, COM(2002) 163 final, REPORT FROM THE COMMISSION, The Stabilisation and Association process for South East Europe, First Annual Report

79 Türkeş, M. and Gökgöz, G. The European Union's Strategy towards the Western Balkans: Exclusion or Integration? East European Politics and Societies 2006; 20; 659

80 Solioz, C. Where Do We Stand; Where Should We Go?, A Pan-European Perspective for the Economic Integration of Southeastern Europe, A UNECE seminar Geneva, 6 December 2007, Secretary General, CEIS



intense integration in some other sectors have created a very specific and complex arena, whereby a regional market is actually non-existing and national markets are not functioning as market economies<sup>81</sup>.

Co-operation in the field of environment has been driven both by the interest of EU to prevent cross-border pollution and by the interests of the countries of the region to provide funds for the eroded environmental infrastructure, the extensive institutional reform and the need to increase capacities for project development. Environmental co-operation has been channelled through the Regional Environmental Centre<sup>82</sup>. The issue of managing waterways has also been high on the agenda, through the Danube Co-operation Process and the Sava River Basin Co-operation (Framework agreement on the Sava River Basin was concluded in 2002 in the context of the Stability Pact).

Projects for regional co-operation in the field of education (Education Reform Initiative – ERI-SEE), science and research (SEE ERA-NET, SEI Uni-net), information society (e-SEE) have been welcome by the countries in the region, although the level of participation in these projects has been limited, due to the difficult transition in these sectors in all the countries in the region and the eroded human capital<sup>83</sup>. Following the Thessaloniki Agenda and the launching of the inclusion of the countries in community programmes, these sectors have been prioritised for this type of co-operation. A greater focus was placed on participation in Community Programmes and Agencies, as well as in youth programmes with the 2006 and 2008 Commission Communications on regional co-operation.<sup>84</sup> It is to be expected that culture, as an area with extensive potential in the region that has not been explored enough, could be encouraged through community programmes, but also other regional initiatives and projects.

Closely connected to the objective of “stabilisation” of the region, the justice and home affairs sector was one that was targeted the most by the “international community” as a priority for co-operation. This was frequently justified by the assessments of the high level of organised crime, while the complexity and the underlying post-conflict roots of the phenomenon made success in this area difficult.<sup>85</sup> While intense “justice and home affairs projects”, combined with different forms of missions – military, police, civil, were justified with the need for deep reform in this sector and “approximation to EU standards”, as well as the need for regional co-operation, the first visible impact was influence on these services by global international actors and close monitoring and reporting. Whereas all the countries in the region have undertaken intense reform process at national level (to a lesser or higher degree), which included having high political issues at stake, a comprehensive evaluation of ownership and achievements of the countries concerned as well as other countries in terms of regional co-operation, has not been done. Yet, the regional initiatives and projects that have concentrated on concrete issues of co-operation and institution-building have yielded results. The first tangible achievement in regional co-operation was the SECI Centre for Organised Crime in Bucharest, which concentrated on a small number of areas of co-operation and the concrete network for co-operation on joint cases. Another tangible result was the network of public prosecutors, which resulted from the EU-led Regional Organised Crime Project. The EU

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81 The EU has not yet assessed any of the national markets in the region as functioning markets in terms of Copenhagen economic criteria, except for Croatia (in the Avis of 2004). The assessments are quite diverse.

82 Members: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Macedonia, Montenegro, Serbia

83 Stability Pact for South Eastern Europe, Final Report of the Special Co-ordinator on Regional Ownership and Streamlining of Stability Pact Task Forces and Initiatives

84 Communication from the Commission to the European Parliament and the Council, Western Balkans: Enhancing the European perspective, Brussels, 5.3.2008, COM(2008) 127 final

85 United Nations Office on Drugs and Crime, Crime and its Impact on the Balkans and Affected Countries, Report, March 2008

annual ministerial meeting – as a follow up of the 2003 London Conference with the WB on organised crime continues as a high profile meeting keeping momentum going on the priority of justice and home affairs, albeit poorly in terms of content. The regional framework for co-operation also included the Anti-Corruption Initiative. Furthermore, the Ohrid Border Process established a common platform for border management and has now been included in the RCC umbrella, while the Migration, Asylum and Refugee Regional Initiative has also been institutionalised with the MARRI Regional Centre in Skopje. The initiatives have been numerous<sup>86</sup>, dominated by the interests of strong global actors, as well as the neighbouring states who wish to enter and remain influential in this sensitive sector, while the countries in the region have cautiously and to different extents embraced and used these initiatives for the benefit of successful reforms and productive co-operation in this field.

Although the EU has pressed for regional and bilateral co-operation in justice and home affairs, it has itself been rather cautious in developing bilateral co-operation with the countries of the Western Balkans. Until now, only Croatia has an operative agreement with EUROPOL while Macedonia and Bosnia and Herzegovina have a Strategic Agreement.

However, the most “burning” issue for the region – the issue of visa liberalisation is not at the top of the regional co-operation agenda. The regional co-operation agenda does prioritise issues connected to visa liberalisation or, more precisely, connected to fulfilling the formulated conditions by the EU for visa liberalisation, however this is an EU formulated agenda. Some efforts have been made by the civil sector and advocated by European Parliament members. Yet, a genuine regional agenda is missing; the much-needed political co-operation in the region in this field is lacking; regional positions have not been established and pursued, except for general political statements at a bilateral level. The bilateral and competitive EU framework has prevailed.

Co-operation in the security sector, which was basically NATO-driven, has developed on two parallel lines, bilateral and regional multilateral. The Partnership for Peace, as the NATO wider framework for co-operation and membership “waiting room”, was joined by Albania in 1994, by Macedonia in 1995, by Croatia in 2000, and by Serbia, Montenegro and Bosnia and Herzegovina in 2006<sup>87</sup>. Bulgaria, Romania and Slovenia, now NATO members, joined in 1994. The first important achievement of multilateralism in the region was in 1998, when Romania, Bulgaria, Greece, Turkey, Macedonia, Albania and Italy set up the Multinational Peace Force for SEE (MPFSEE), a joint military unit intended to be deployed in OSCE, UN and NATO-led peacekeeping operations. As is the case with other sectors of co-operation, an inclusive South East European framework for co-operation was launched in 1999 and realised in 2001, the South-East Europe Initiative under the Euro-Atlantic Partnership Council. Macedonia, Croatia and Albania formed the so-called “Adriatic group”, based on their enhanced co-operation and expected membership. While Croatia and Albania were invited to join the Alliance in April 2009, Macedonia’s membership bid was blocked by Greece, due to the objections of Greece to the constitutional name of Macedonia.

The RACVIAC (Regional Arms Control and Verification Implementation Assistance Centre) has been another form of co-operation that has set a more ambitious goal of becoming the regional centre for “defence conversion”.

Parliamentary co-operation has been promoted through different initiatives, primarily the SEECF, the Royamont process, as well as the Stability Pact, resulting in formulating this area of co-operation as an overarching theme of the RCC.<sup>88</sup>

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86 Stability Pact for South-East Europe, List of Task Forces and Initiatives - 2005, informal overview

87 <http://www.nato.int/pfp/sig-cntr.htm>

88 Regional Cooperation Council, Regional Ownership and Beyond, Setting-up of the Regional Cooperation Council, Concept paper prepared by the Secretary General of the RCC Hido Bišević, 2007, [www.rcc.int](http://www.rcc.int)

The Regional Co-operation Council has started off with an ambitious and coherent agenda, putting forward priorities that have not been, or have been insufficiently addressed previously, such as the issues of employment, social policy, and human capital. At the same time, the agenda manages to incorporate the substance of the existing initiatives to a large extent.<sup>89</sup> However, one of the main challenges will be to consistently and resolutely pursue these priorities and ensure that they are mirrored and implemented in the regional projects and to prevent an “offer-oriented”, instead of “demand-oriented” approach.

## Divergence and impediments

The strategic approach of the international community towards the region was to prevent the re-emergence of violence and encourage the consolidation of peace through democracy, economic reform and development, as well as regional co-operation. Security has all along been the priority for the international community, while for the countries in the region the priorities were in a different order – their first priority was economic development, the second one, the European integration. Both were interlinked since most of the citizens identify the European Union with prosperity and higher living standards, while NATO is the synonym for security issues. Though this prioritisation of the countries/governments in the region was a result of the reluctance of political actors to face the difficult issues, which could result in high political risks, the priorities were rather a realistic expression of the actual needs on the ground. Ruined economies, impoverished citizens and badly affected communications have been the reality. The high hopes for fast reconstruction and vast assistance from the international community, created by the announcement of the Stability Pact, vanished soon after they had emerged. Assistance in the economic field was placed within the neo-liberal approach to requirements for economic reforms in the Western Balkans. The decision-makers in the region were neither prepared for, nor capable of realising and facing this challenge. Most were preoccupied with key political issues, such as the survival of their political entity and the complete constitutional re-arrangement of the state. As a final result, the cost of painful reforms in the economic sector was higher than necessary and largely born by the most disadvantaged groups in the society and the domestic economic agents.

The use of regional co-operation as a condition and tool for integration in the EU has also had its adverse effect. Regional co-operation tended to be “instrumentalised” merely as an imposed requirement that, if dealt with sufficiently or even to a “bearable” extent, would lead to faster integration into the EU. The basic fear of the countries of the region was that regional co-operation would hold them back from progress towards the EU accession process. The regional approach was seen as being opposed to the merit principle, while regional co-operation has been seen as a substitute for EU integration. The EU has constantly been reiterating that regional co-operation is not an aim in itself, drawing attention to its own example: “The EU is built on a foundation of regional co-operation... Integration with the EU is only possible if future members can demonstrate that they are willing and able to interact with their neighbours as EU Member States do”.<sup>90</sup> Yet, the bilateral framework of integration with the EU has clearly prevailed<sup>91</sup>, thus reducing the leverage and impetus for regional co-operation. The fact that regional co-operation overall was not a decisive condition for making progress in the EU integration process, and that the externalisation of EU member states’ interests in the process was more important than the normative and inherent value of regional co-operation, undermined the basic positive message. Also, the

89 Regional Cooperation Council, Strategic Outlook at the Priority Areas of Cooperation in South East Europe, Supporting Document to the Strategic Work Programme of the Regional Cooperation Council, Pomorje, 20 May 2008

90 Brussels, 03.04.2002, COM(2002) 163 final, Report from the Commission, The Stabilisation and Association Process for South East Europe, First Annual Report

91 Delevic, M., Regional Cooperation in the Western Balkans, Chaillot Paper No. 104, July 2007



fact that a country is more advanced in the integration process, gives more “weight” and real power to the country to exert its pressures and externalise its own interests and impose its positions and conditions on the other countries in the region, and this is a reality that not all the political elites in the countries in the region have accepted and, therefore have not adjusted their strategies accordingly.

What has not been accentuated and perceived sufficiently as grounds for sound regional co-operation is the fact that regional co-operation is a need of the countries of the regions themselves, and that regardless of their stage of integration to the EU or NATO, sound bilateral relations with the countries in the region and a consistent framework for co-operation is indispensable to their national interest.

The review of the main actors and circumstances that marked the environment for regional co-operation in South Eastern Europe shows that the field was rather crowded and competitive, with states and international organisations (including regional organisations) interacting in a rather confusing, sometimes anarchic fashion. While two actors are predominant (the EU and the US), the influence of other states, especially the big EU member states, as well as EU member states from the region or neighbouring the region, has been substantial, particularly when taking into account the traditional alliances on different axes – religious, historic, economic, etc., which resulted in specific ties and influences in the regional playground. The field becomes even more complicated if alliances of these states are taken into account and the influence of separate states individually or through international organisations depending on the leverage they had in different organisations. While the role of Russia is not to be underestimated in the region, its participation and leverage at a regional multilateral level has not been strong, with the divergence of the policies of the West and Russia over the Kosovo issue dominating this relationship. Yet, Russia has participated in a number of regional initiatives and missions.<sup>92</sup>

Regional co-operation has also been hampered by the complicated frameworks that “the international community” has been applying in the region. The diversity of strategies by multiple actors, competing for “a piece of the cake” has in most cases neither been understandable for state agents in the region, nor transparent for citizens. Confused about who is who, and where the co-operation is leading, the political elites tended to accept the overwhelming multitude of initiatives, trying to be politically correct and show their commitment to regional co-operation. In an environment of securitisation, struggle for leverage by different international actors and competing regional initiatives, none of the countries of the region had the capacity to appraise these initiatives and establish their own interest in them, which is especially valid for the first phase of regional co-operation. The divided political elites and the damaged administrations were preoccupied with basic institutional issues and the urge for reform at the national level. As the positions of international actors towards the region became more convergent, the countries of the region were in a more favourable position to establish themselves as actors and owners. Yet, this process of transformation from pure “receivers” of security, aid and advice to actors of regional co-operation suffers from inherited “loyalism” and lack of capacity both of the political circles and the administration to embrace what is offered as a chance for sound regional co-operation. When speaking of regional co-operation in terms how complementary it is to the EU accession process and reforms in general, the countries in the region have failed overall to perceive and intrinsically connect internal reforms with regional co-operation. While international actors have increasingly aligned their support with the objectives of reform, the countries of the region, as recipient countries, are still far from reaching this objective in terms of their national priorities and alignment of policies.

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92 Russia has been a member of the Royamount Process, of the RACVIAC (Regional Arms Control and Verification Centre) and other initiatives.

In the pursuit of reaching the set objectives of regional co-operation, the phenomenon of creating a “counter-elite” by international actors – personalities who are “attractive” for the foreign public and international agenda-setters, but with no real power and leverage on the domestic level and therefore no potential to exert change - has rightfully been pinpointed as one of the specific phenomena in the Balkans.<sup>93</sup> Accordingly, while it might be justified to exclude in different ways some political actors as a sanction for non-compliance (but only in extreme cases of non-compliance with international law), it is not at all justified to avoid communication, dialogue and hard work with relevant political actors with real political power on the ground and in regional terms.

Preoccupied with regional co-operation in the EU framework, as a condition and as having imposed grouping, the countries in the region have not yet seized the opportunities for a wider pan-European co-operation and regional co-operation beyond the EU area to develop wider networks. Therefore, it is a valid point that the countries in the region need to up-grade their regional co-operation to a truly pan-European level.<sup>94</sup>

## Conclusions

The region of the Western Balkans is a non-existent, artificial region, created for the purposes of the EU strategy and the wider geo-political considerations of the international actors. We would rather agree with Vladimir Gligorov that “the Balkans is a region of overlapping regions”<sup>95</sup>. Therefore, in our opinion, the perspective of regional co-operation lies within the wider South East European framework.

The foundations and main directions of regional co-operation have so far been either exclusively (in the first phase 1996-2000) or predominantly (in the second phase 2000-2007) established by the “international community”, which had a rather diversified and non-congruent approach to the region, expressing the diversity of their interests and leverage.

Through the years of development of regional co-operation and attending the “training grounds” set-up by external actors, the awareness of the genuine need for regional co-operation, based on the national interests of all the states of the region has been raised, but has not yet been transformed into consistent action. This process is seriously hampered by the competitive nature of EU and NATO integration. The risk, that the region becomes an arena for exerting influence by individual internal and external actors, and that divisive and competitive ratios prevail, still exists and is under-estimated. Another risk is a still strong perception that regional co-operation is only a means to join the EU, which leads to the conclusion that once a country becomes a member, regional co-operation is superfluous.

Transforming the region into a prosperous part of Europe does not primarily depend on the normative insistence on the values of regional co-operation nor in its pure instrumentalisation in the process of integration, but on the capacity of the states in the region to realistically perceive and embrace regional co-operation and integration as the basic interest of their states and adapt their actions accordingly.

With the agreement on the creation of the Regional Co-operation Council and the definition of its priorities, the region has entered a third and decisive stage of transformation of ownership. It is still a transitional stage, since the leverage of international institutions at

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93 Weichert, M. How to Make them Do, in: *The Balkan Prism, a Retrospective by Policy-Makers and Analysis*, Edited by Johanna Deimel and Wilm van Meurs (eds), Verlag Otto Sagner, 2007

94 Solioz, C, Rethinking south-eastern Europe through a pan European perspective, *South East Europe Review for Labour and Social Affairs SEER* issue: 02 / 2007, pages: 6780

95 Gligorov, V. “Trade and Investment in the Balkans”, in Vladimir Gligorov and Hermine Vidović (eds.), *On the Way to Normality — The States on the Territory of Former Yugoslavia in the Postwar Period*, (Vienna: wiiw paper, no. 250, 1998), p. 2.

this starting point is stronger than that of the countries in the region. The actual support by the political elites of the countries concerned to this unique regional institution will be of crucial importance for the prospects of regional co-operation and the extent to which it would mirror the authentic and articulated interests of the region.

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*"Everybody knows that the dice are loaded; everybody rolls with their fingers crossed.  
Everybody knows that the war is over; everybody knows that the good guys lost..."*  
Leonard Cohen (from the Song "Everybody knows")

## The New Initiative – a New Paradigm? Prospect of a New Balkan Regionalism. The New Initiative for an Old Problem

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### Introduction

At the last year's Berlin Film Festival an exceptionally interesting movie named „Corridor 8“ was shown, which more scenically and clearly than any of the professional studies illustrated the importance of better regional co-operation in the Balkans and South Eastern Europe, revealing the key internal and external weaknesses of the so-called region-oriented mainstream. The movie shows that, apart from roads and railways, the Balkans needs corridors in people's minds to help them overcome the centuries old prejudices and deceptions. The movie gives an overview of ten years of attempts of the international community to build bridges of trust among the people through numerous regional initiatives, and to bring about peace, stability and prosperity in the Balkans. The bridges of trust may have been built through dozens of regional initiatives, which more or less intensively existed in the Balkans, but they failed to "bridge" the fact that there are still no railway links between Albania and Macedonia, nor is there a railway connection between Bulgaria and Macedonia. Ironically, it was the Germans who, back in 1941 started connecting the remaining 600 meters of railway tracks between the Bulgarian city of Gyueshevo, and the first border settlement in Macedonia, but they have not moved any further from digging a tunnel. They failed to finish the job due to well known reasons, but what is even more striking is the fact that this portion of railway has not been completed even 63 years after WW II. There are no railway tracks passing through the tunnel, instead, the local people grow mushrooms in it from both sides. In the interview made for the purpose of movie, the Macedonians, Bulgarians and Albanians do not hide their prejudice against one another. What's more, they are emphasising it as strongly as their pessimism regarding the chances of the EU corridor connecting something that has been separated by centuries of wars and hatred. What 600 meters of railway is for the Bulgarians and Macedonians, that is 19 square kilometres of the Gulf of Piran for the Slovenians and Croatians or a few hundred meters of bridge across the island of Pelješac towards the port of Ploče for the Bosnians and Croatians, etc. Many bilateral issues still remain unsettled.

Thus, «Corridor 8» is used here as a metaphorical highway on which we are to probe our assumptions and conclusions about the success of the Stability Pact for South Eastern Europe, the Regional Co-operation Council (RCC) and the future of ideas for a better and more successful regional co-operation as a paradigm of "consolidation of a disintegrated Balkan region into a more efficient whole, capable of handling challenges of globalisation and thereby European integration" (Ćurak, 2006, pp 1).

The small Balkans with its multiple nationalisms that have been corroding it from the inside for centuries, sometimes provoked but also controlled by an international factor, failed to impose themselves as a relevant economic and geo-strategic entity in the new global order due to its disintegration and disconnection. All the regional initiatives, including the latest transformation of the Stability Pact into the Regional Co-operation Council (RCC), were either directly or indirectly launched by the EU or a group of external parties, which are nowadays popularly called the international community. This approach certainly does not lack good intentions, for in globalisation, which is all about big numbers and territories, regionalisation is a completely comprehensible excuse for the Balkans and the South East European (SEE) countries to try and build a so-called regional supra-identity. This is about regionalism as a “force which re-establishes European normality, the same one that existed in pre-nationalist Europe” (Ćurak, 2006, pp 1). Historically, the Balkans had the misfortune of making its trajectory only through joining one or another block in war-torn Europe and they were always collateral damage as a result of bad estimates, wrong alliances and peace agreements written by winners. But in fact it always had plenty of internal conflicts itself. Regional integration is offered to the Balkans as an idea for the first time, the basic principles of which are already tested within the EU itself.

Moreover, this concept has the potential to ease many of the problems that have led to wars in the Balkans in the past. Let alone the fact that some countries in the Balkans are still facing a dilemma concerning which alliance to join, the Russian or European, this study is more focused on the answers to major questions: are the SEE countries strong enough and courageous enough to accept this challenge? Is the approach of the international community, based on the reshuffling of regional structures, appropriate? Can we expect and find indications for a clear will of the governments to co-operate or is the RCC faced with a weakening of political commitment to co-operation? Even so there seem to be many elements that speak in favour of regional co-operation - geographical proximity, shared communist experience and difficult transition etc. regional co-operation (and the region itself) is still predominantly defined by the obstacles rather than by potentials and opportunities. We tried at least to portray this discrepancy between the main elements for co-operation and the main factors of non-compliance.

In our contribution firstly we will review the Stability Pact (lessons learned) and the transformation towards the Regional Co-operation Council; secondly we will evaluate the challenges and opportunities and place the implications for the future perspective of the Regional Co-operation Council and regional ownership within the current situation of EU integration and regional co-operation, and thirdly, in the last part (conclusions), we will focus on key issues of regional co-operation that could be used as a long-term strategic framework.

In our fieldwork we have focused on assessing perceptions of local stakeholders based on specifically commissioned Foreign Policy Country Reports from Albania, Croatia, Serbia, Montenegro, Macedonia, Kosovo and Bosnia and Herzegovina.<sup>96</sup> The present report includes also the results of interviews and relevant literature on regional co-operation in the Western Balkans. Furthermore, we have tackled the situation experienced in everyday life on the ground, highlighting some aspects of regional integration such as the road and rail links. In the preparation for this work we have even watched a very interesting documentary film, searching for a colourful paradigm of what regional integration is all about.

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<sup>96</sup> As part of the FES regional project “International Intervention and regional/local ownership” Foreign Policy Country Reports were produced (end of 2007) on Serbia, Montenegro, Kosovo, Macedonia, Croatia, Albania and Bosnia and Herzegovina.

## Balkan Regionalism as a new paradigm - lessons learned from the Stability Pact

To start with, we can take a look from this angle: IKEA is not present in the territory of former Yugoslavia, neither in Albania nor Bulgaria. How is it possible that a market of 30 million people inhabiting 375,383 square meters has not been of interest to this giant of the globalisation process? We had the opportunity to talk to representatives of this company who, using very simple and rational arguments explained their absence from the Balkans in the following way: fragmented, incoherent and still unsafe for investments. Although overstated and certainly not an official position of IKEA, this statement can serve as a good illustration of the attitude of global capital towards the fragmented Balkans. This logical argument of global capital has been applied for a long time and consistently by international politics, treating the Western Balkans as a post-war entity that needs to be pacified, stabilised, and thereby prepared for an appropriate upgrade that comes along with investments and the European integration process. Still, the problem is not in the methodology of its stabilisation, but rather in the overstated danger of the Balkans for the stability of Europe due to which investors are very reluctant and still wait for the signal of the EU and the USA in the form of the signing of Stabilisation and Accession Agreements or membership in NATO. All countries of the Western Balkans and areas covered by the South East European Co-operation Process (SEECP), are - except for Serbia, Bosnia and Herzegovina and Montenegro - either member states or are invited to NATO membership, and through the SAA they are all contractually linked to the EU. This is a clear enough sign that the region should step out from the phase of post-conflict stabilisation and enter into the phase of self-sustainability and EU integration.

So, is the approach of the international community the appropriate one? The Stability Pact for SEE (Stability Pact), established at the 1999 Sarajevo Summit, was the most symbolic and maybe the most coherent manoeuvre of the international community aimed at conflict prevention. Its symbolism was manifested in the fact that Sarajevo was chosen as the venue for its adoption and that the idea was launched by Germany, which after years of foreign policy passivity came out with a new and more dynamic foreign policy.<sup>97</sup> The coherence of the Stability Pact is manifested in nearly ten years of active work on democratisation, economic reconstruction and security. It takes credit for promoting good regional co-operation among neighbouring countries, which is one of the key preconditions for membership in both the EU and NATO. Therefore the paradigm of regionalism has been deprived of the popular thought that there is a hidden agenda behind regionalism aimed at establishing new/old communities, the same ones whose collapse led to the war. The EU Summit in Thessaloniki in June 2003 in a way institutionalised this idea by turning it into a clearly pronounced commitment of the EU to work more diligently on the integration of the Western Balkans into the EU. Psychologically, there was no dilemma that regionalisation of the Balkans is not a purpose in itself but rather a comprehensive preparation for the transition of the region towards EU integration. From this perspective - and we will talk about it more in the second part - one can say that the Stability Pact did not achieve equal results in all segments of its work, but it did certainly justify the means and efforts invested.

Setting prejudices on fire, not flags and symbols

Democratisation is certainly an area in which one can hardly quantify the success. Even without the Stability Pact the post-Communist societies went through a degree of democratic transformation, but the question is how deep that change would go if it was not for additional

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97 ([www.stabilitypact.org](http://www.stabilitypact.org)). See also: "New German Foreign Policy- Western Balkans in the context of global responsibility", Foreign Policy Initiative, Issue 2, October 2007.

incentives. In some countries that change remained rather symbolic while in others the change, in particular on normative and essential levels, was very visible. The more the country progressed towards EU integration, the higher the level of the genuine individual-oriented democratisation in the country was— however, it is still not complete.

When it comes to the economy, it seems that the Stability Pact was oriented towards a wide range of “stabilisation” issues and regulatory standardisation in the area of energy, environmental protection, trade liberalisation, and the building of infrastructure in order to prepare the region as much as possible for accepting numerous EU directives and regulations. The Energy Community Treaty between the EU and SEE, in particular in Annexes 1 and 2 underlines the necessity of the adoption and implementation of EC directives to which the member states committed themselves. But what the countries in region really need, apart from regulations, is huge investment in energy, infrastructural and environmental projects, which the Stability Pact did not and could not offer even partially. According to a joint study of the World Bank and the EU, in the next 15 years some 12,5 billion EUROS are required for significant repairs of the existing power plants in SEE, plus 8,5 billion EUROS for transmission and a distribution network. If we add to this an estimate of 16 billion EUROS<sup>98</sup> for the upgrade of existing networks of road and railway corridors, the question is whether the countries in the region can really take out big enough loans to achieve this and what power do regional integrations have to mitigate the evident disproportion.

The inclusion of the remaining eight countries of SEE into the Central Europe Free Trade Agreement (CEFTA) is a significant step towards the preparation for membership of the remaining countries of the region in the World Trade Organisation (WTO), and subsequently its integration into the internal market of the EU. The agreement on receiving Albania, Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia and Moldova into CEFTA at the moment when some original members of CEFTA, namely Hungary, Poland, Czech Republic, Slovakia, Romania, Bulgaria and Slovenia transferred into “a higher free-trade league”, is one of the most significant results of the seven years of work of the Stability Pact. Through the trade provisions of the SAAs, CEFTA actually links the internal market of the EU with the eight countries, 30 million inhabitants living on 298,148 square meters. If we add to that the fact that the nominal GDP per capita in the CEFTA zone is around US \$7,400 (if observed individually, GDP per capita is a few times lower than this common average), the representatives of IKEA could then maybe reconsider their estimates. As far as the Balkans is concerned, CEFTA is still a good idea, the success of which yet needs to be confirmed in practice. Activities of the Stability Pact conducted as part of Working Table 3 dedicated to Security, demonstrated the complexity of the approach, its huge bureaucracy and whole set of task forces and sub-committees. Eleven initiatives (task forces), each with its own mechanism and management structure completely covered the security aspect. Starting with Regional Arms Control Verification and the Implementation Assistance Centre (RACVIAC), Disaster Preparedness and Prevention Initiative (DPPI), over Migration, Asylum, the Refugees Regional Initiative (MARRI), to the Stability Pact Initiative against Organised Crime (SPOC) and the Regional Anti-corruption Initiative (RAI).

Although the number of initiatives in the region far exceeds the number of critical analyses on them, we could say that the international community took a good strategic course towards the long-term preparation of SEE countries for membership in the EU. Priority fields (democratisation, economy and security) were well detected and sufficient attention was paid and funding allocated to operations of numerous organisational forms in the field. Lack of funding and significant overlapping of regional initiatives, particularly SEECP, as the only regional initiative with local ownership and the Stability Pact, are certainly some of

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98 Data taken from Fact Sheet on Stability Pact EU/South-Eastern Europe Energy Community Treaty.

the weaknesses of this approach (Kapetanović, Latinović, September 2005, 77-84). Therefore, it is extremely important to make specific transition comprising two very important components: essential transfer to regional ownership and continuous activities in all three strategic segments (democratisation, security and economy). On top of that, certain shifts should be made on the symbolic level. When speaking about errors of the international approach in the past to the so-called Balkans regionalism, one could with good reason mention over-emphasised political manoeuvring of the EU. Thanks to the perspective of future EU membership offered by the EU, many processes in the Balkans were facilitated. The policy of conditionality produced certain results, but the policy of uneven conditionality, compromising European principles for the benefit of short-term political manoeuvres and gains confused the region.

“The only way for each of the countries, in particular for B&H to reach a safe port and push divisions into the background is to start negotiations for membership in the EU. Without these, new “great nationalist ideas” keep emerging. One needs to keep prime ministers busy. Unless you keep them busy with negotiations with the EU, which require regular discussions on issues of the reform of the economy, police, etc.... they start digging out the past” (Svilanović Goran, Dnevni Avaz, June 2008).

This statement, which we fully agree with, calls not only for a change of regional concept but also for a change of doctrine. Nobody aims for non-compliance with EU standards, but the past regional integration processes pointed out a very important fact – the EU perspective helped the Balkans to slowly break free of the chains of nationalism. If that is the case, then this perspective should be additionally reinforced and there is no better way to do it than through starting negotiations on EU membership for all the countries in the region. Liberalisation and annulment of visas for “citizens of the region” would be an additional stimulation in that regard. Is Serbia not a good example of that? Voting for pro-European forces at the elections suggests that they considered very thoroughly whether to incline towards liberalisation of visas, signing the SAA and final integration into the EU or a retrograde demagoguery leading to isolation. This, of course, does not mean a full decontamination from nationalism and radicalism, not only in Serbia but also throughout the Western Balkans.

Taking ownership by the countries in the region is the final phase of stabilisation test prior to accession. The Stability Pact started its mission in Sarajevo in 1999 and nine years later in the same place it reintegrated into the SEECP, i.e. Regional Cooperation Council (RCC), an executive body for co-operation in SEE composed of eleven countries plus UNMIK/Kosovo and in addition a number of partners from the international community (can be found on the website of the RCC).

Is there a strength and willingness among the SEE countries to take advantage of the kindly offered idea of regionalisation, economic and any other consolidation of SEE as a transitional phase towards a merger with the European identity? If rhetoric were the only measure, the answer would be undoubtedly positive.

## **Examining the future of Regional Cooperation in the framework of the Regional Cooperation Council**

For some time the international community has been working on the transfer of responsibility and competences to local actors. The fundamental aim and motivation for the establishment of the Regional Co-operation Council was to ensure full regional ownership over the regional co-operation process. Transition to regional ownership was to be achieved through the transformation of the Stability Pact for SEE into the Regional Co-operation Council with its Secretariat in Sarajevo.

In May 2006 it was decided that in the future the countries of South Eastern Europe acting



within the framework of the Regional Co-operation Council (RCC) should chair the process themselves. The Regional Co-operation Council (RCC) was founded at the Zagreb Summit (May 11, 2007) by the decision of the Heads of States and Governments of the South East European Cooperation Process (SEECP). The final meeting of the Stability Pact Regional Table took place in Sofia on 27 February 2008, marking the final step in the transformation of the Stability Pact into the new regionally owned co-operation framework, the Regional Co-operation Council.<sup>99</sup>

## The Regional Cooperation Council: Task and priority areas

The change of the name is linked with a series of other essential changes. From an international forum, which mostly treated the region as a working object, especially throughout the first years after the establishment, the Stability Pact gradually built a partnership relation with the regional players during this year when the region in both, political and operational sense, gained the role of the main subject within the new framework of the Regional Cooperation Council. The region itself defines the scope, objectives, methods and instruments of cooperation through a team, exclusively consisting of representatives from the region and with equal financial contribution of South East European countries together with the European Commission and other donors. Regional ownership implies not only expertise and funds provided by the region, but also guidance and leadership.

In line with the Stability Pact experience the task of the RCC is similar (to that of the Stability Pact): to facilitate regional co-operation as a means of managing the challenges SEE is facing as well as supporting the EU and Euro-Atlantic integration of the region. In addition, the RCC provides the SEECP with operational capacities through its Secretariat and task forces.<sup>100</sup> The main difference is that the RCC is led politically by the countries of the Region. The RCC Secretariat is largely staffed by personnel from the region and financed – at least partially – by SEE governments.<sup>101</sup> Such a solution would provide for an increasing degree of ownership by the countries of the region, politically, personally and financially. Furthermore, with a more focused membership base the countries would have a stronger voice in the RCC.<sup>102</sup> The RCC Liaison office in Brussels represents the RCC Secretariat with regular contacts and consultations with European and Euro-Atlantic Institutions.

There are five priority areas for regional co-operation a) Economic and Social Development, b) Infrastructure, c) Justice and Home Affairs, d) Security Co-operation, and e) Building Human Capital which – following extensive consultations with the SEE governments – the Stability Pact and, subsequently the RCC, it was decided that these were essential to allow the SEE countries to converge over time with the EU countries. The RCC secretariat is structured to these priority areas accordingly. Parliamentary Co-operation as an overarching theme will be another key element for successful implementation of the above five priority areas. Getting the parliaments on board will play an important role in ensuring that national legislation is

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99 “The Joint Declaration on the Establishment of the RCC was adopted at this meeting, marking the formal handover from the Stability Pact for South Eastern Europe to the RCC”, Regional Ownership and Beyond – Setting up the Regional Cooperation Council, Concept paper prepared by the Secretary General of the Regional Cooperation Council, Mr. Hido Bišćević, p.12, Pomorie, 20 May 2008.

100 Ibid, p. 16.

101 The Secretariat comprises of the Secretary General and 25 officials and is internally divided in the Expert Pool (Head of Expert Pool, five Senior Experts in priority areas, four Experts, two Assistants). Furthermore, the RCC Liaison Office in Brussels comprises of 7 staff. Regional Ownership and Beyond – Setting up the Regional Cooperation Council, Concept paper prepared by the Secretary General of the Regional Cooperation Council, Mr. Hido Bišćević, p.18, Pomorie, 20 May 2008

102 “There are now 28 members and the EU (represented by the Troika composed of the Presidency of the Council of the European Union, the European Commission and the Secretariat of the Council of the European Union) which are members of the RCC Board. The members have pledged themselves to contribute financially to the budget of the RCC Secretariat in Sarajevo. The RCC itself consists of 46 members, including countries, international organizations and international financial institutions”, *ibid*, p. 15

harmonised with EU legislation as the countries move closer to EU accession.

With the promotion of “regional ownership” within the framework of the Regional Cooperation Council there might be a very good reason to believe that such regional development could provide the region with a set of new opportunities. For the first time the region has the chance to create its own agenda for co-operation and practically “own” its regional co-operation process. Now the countries in the region have the opportunity to decide what co-operation will be based on; either on existing structures or on those that might emerge with increased regional ownership. The transfer of ownership allows the region also to consider questions of a global dimension, “a dimension that the insistence on the European perspective fails to capture” (Monastiriotis, Vasilis, 2007, pp.23).

## EU Integration and Regional cooperation - Expectations and Realities

In the case of the Stability Pact no regional mechanism pre-existed and the EU carried out most of the strategic, conceptual and managerial bulk of the work. The EU has been the engine for regional co-operation, defining priorities and the scope of the co-operation. (Bechev, Dimitar, 2006, Vol.8 Nr.1). Dušan Reljić sees that until now, “the one and only guiding model for the political future of these countries has been the membership perspective in the EU” (Reljić, Dušan, 2007, pp. 18). The prospect of joining the EU seems to be the only bond that keeps the countries on the path of reforms. Regional co-operation is primarily approached in the context of European integration rather than having a value of its own.<sup>103</sup> All actors participating in regional co-operation are united in supporting the work for different reasons and expecting different pay-offs from regional co-operation (Delević, Milica, 2007, pp. 46).

In the last few years the political climate for further enlargement has dramatically changed. In spite of reform efforts the Western Balkans’ countries face a difficult period because of confusion over the future development of the EU itself. With the “NO” results in the French and Dutch referenda on the European Constitution in 2005 and the “NO” result in the Irish referendum on the Lisbon treaty, further enlargement appears less forthcoming than in 2003 when the EU declared that “the future of the Balkans is within the European Union”. In 2006 the EU strategy marked a significant shift in policy. EU accession will be determined not only by the readiness of the accession countries, but also by the so-called “absorption capacity” of the EU. At this point EU accession is tied to the internal dynamics, willingness, and political decision of the EU. In other words, negotiations are an open-ended process and the EU has refrained from announcing a time frame for eventual accession of the Western Balkan countries.

As a result of the so called “enlargement fatigue” EU accession became a questionable political perspective. EU membership has turned into a moving target difficult to aim at. Over the past decade EU accession has projected and deeply nurtured expectations for a more prosperous future among the citizens in the Western Balkans. Even so the EU remains committed to the accession of the Western Balkan countries but any further enlargement is dependent upon institutional reform of the EU. In this context, the EU strategy lacked a driving force and a clear roadmap towards membership as it was developed during the previous wave of enlargement.

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103 “Thus, only 46% of all respondents believe strongly that regional cooperation is a route to national and regional stability, at the same time, the percentage of those who are less supportive of this view is higher. In contrast, the view of regional cooperation as a springboard to European Integration is overwhelming, some 86% of the respondents believe that regional cooperation is fostering their countries prospects of joining the EU”, in: Othon Anastasakis/Vesna Bojičić-Dželilović, “Balkan Regional Cooperation and European Integration”, p 56, The London School of Economics and Political Science, July 2002.



The French and Dutch rejection of the European Constitution demonstrated that political will for further enlargement has been limited. As observed by the Foreign Policy Country papers, although still committed to EU membership of the region on a declaratory level, the credibility of the EU promise has weakened from the regional perspective leading citizens across the region to question the prospect of membership promised by the EU. With the absence of a specific timeframe for the next wave of enlargement and the shift towards promoting “regional ownership” in the form of the newly created Regional Co-operation Council this presents both a challenge and an opportunity for the countries of the region. In addition, there is a concern throughout the region that without the ultimate prospect of full EU membership, the progress of reforms in the Western Balkan countries could slow down. Without the incentive of full membership it would become difficult for the governments of the region to push for reforms as demanded by the EU.

In addition, the EU approach to regionalisation has been received by the countries as quite controversial. EU Integration and regional co-operation as two processes were difficult to connect in the minds of the political elites. Balkan regional co-operation has been a threat to the final goal of European Integration to some countries. The diversity in EU bilateral relations with individual countries and the regions heterogeneity presents serious challenges to the future regional strategy. Keeping the balance between the regional approach and bilateralism proved to be difficult.<sup>104</sup> In this sense, the EU approach miscalculated the expectation of the regional countries that clearly and evidently is membership of the EU.

Based on the findings of the Foreign Policy Country reports there is a common fear among parts of the political elite that regional co-operation might be promoted by the EU as an alternative to European Integration and even more that regional co-operation could be a hindrance to European Integration. Until now, the political elite is still overwhelmingly in favour of EU membership and regional co-operation as the best way to stabilise the region in the long term. The EU should therefore still preserve its existing “controlling and stimulating mechanism” in the region (Foreign Policy Country Report, 2007). Therefore the EU should forcefully promote the issue of regional co-operation as one of the cornerstones of its strategy for the Western Balkans (Foreign Policy Dialogue, 2007, Issue 23, pp. 28).

## Unsolved Bilateral issues – a difficult start for the RCC

Promotion of regional co-operation and good neighbourly relations are basic priorities of all Balkan countries.<sup>105</sup> Yet in the shadow of different foreign policy priorities regional co-operation failed to gain a significant place. On the whole, regional co-operation in the Balkans has been vulnerable due to serious obstacles that could be linked to inadequate democracies, ethnic nationalism, and delayed state-building (in the former Yugoslav states). Ethnic nationalism and tension still remains a big obstacle to the deepening of regional ties. In addition, the institutional weakness of the countries is still a major constraint to policy harmonisation within the region. Parallel to the “reform fatigue” that characterises governance and the structural reform process of most of the Western Balkan countries, aggressive nationalism has received a fresh impetus and is affecting the domestic division in most of the countries.

The transformation from the Stability Pact to the RCC took place during a challenging

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104 “Once basic stabilization was achieved, the development of relations with the EU took precedence. The result has been somewhat perverse – the Western Balkans region, itself created by grouping the states that lagged behind in the EU integration process, is constantly subject to fracture as certain regional countries progress faster towards the EU”, Milica Delević, Regional cooperation in the Western Balkans, p. 28, Chaillot Paper, Nr. 104, July 2007.

105 Enhancement of bilateral and multilateral forms of cooperation with the countries in the region of the Western Balkans ranks second out of the four most important areas of the foreign policy of the countries represented in the studies.

period of newly inflamed political confrontations in Kosovo, Bosnia and Herzegovina, and Macedonia. There is hardly an SEE country that does not face bilateral problems. From this perspective we have to ask what are the chances and challenges facing the Regional Co-operation Council? Given the observation of the Foreign Policy Country reports, the RCC may face many problems in attempting to harmonise the foreign policy cacophony in the region.

Numerous cross-border problems and the real lack of political willingness still keep the possibilities for intensive development of regional cooperation low. Regional leaders faced strong disapproval from Serbia following the recognition of Kosovo's independence. Serbia's Foreign Minister warned the neighbouring countries of serious (although not specified) consequences in bilateral relations with countries not respecting the fact that Kosovo is considered a part of Serbia. Conservative political circles in Belgrade had already voiced strong opposition towards eventual membership in the EU and demanded the rethinking of Serbia's geopolitical position calling for a new strategic partnership with Putin's Russia, which they considered to be the only ally in the fight to defend Kosovo. Serbia's refusal to take part in regional meetings if a representative of independent Kosovo is present could easily sour bilateral contacts and at the same time mark a difficult start for the RCC (Delević, Milica, 2007, pp. 79).

As a result, Bosnia's stability has been crucially jeopardized by the spillover effects of the Kosovo crisis. Priština's unilateral declaration of independence without Serbian agreement contributed to the rising tension in Bosnia and Herzegovina. Milorad Dodik, Prime Minister of the Republika Srpska, warned that any move by Sarajevo towards recognising the independence of Kosovo would be blocked by the entity and could lead towards a referendum that would enable this part of Bosnia and Herzegovina to join Serbia. Bilateral relations between Macedonia and Greece are in a stalemate position due to the heating debate over the so-called "name issue".

The region still suffers from structural problems, constitutional uncertainty, unfinished state building and many open questions with a potential for destabilisation. Competing visions underline the inconsistency of government policies regarding regional co-operation. According to the Foreign Policy Country Reports the Balkan countries face "numerous problems relating to the absence of adequate institutional capacities needed for the execution of obligations originating from the existing regional initiatives. This is accompanied by the absence of co-ordination between certain ministries, lack of budgetary resources and the over proportionate administration apparatus". This again is consistent with other weaknesses of the administrative apparatus. Some of these are low capacity to communicate, distance vis-à-vis independent experts and public opinion and little capacity to adapt to changing circumstances.

Such a lack leads to a simplified understanding of crucial processes currently in progress in the region. Inconsistency in foreign policy behaviour produced more uncertainty in the countries in the region and the capacity for regional processes. Furthermore critics point out that the countries trapped in their rhetoric reduce regional co-operation to a functionalist tool for the Europeanization of the region and unfortunately fail to see the potentially instrumental role for regional development.

## Conclusions

Even so, the transformation process from the Stability Pact to the Regional Co-operation Council (RCC) indicates a major step towards more regional ownership, it will be easily seen if regional co-operation can be preserved or even strengthened against the background of the many outstanding conflict-ridden issues. Until recently regional co-operation was often perceived and conducted only because it was required from the outside. In assessing the Foreign Policy Country reports we have realised that this impact from the local stakeholders does not seem likely in the near future. There are more than obvious reasons that the regional political elite and institutions do not possess the capacity to create a “critical mass” to support its own regional development. They are not perceived to be genuinely interested in regional co-operation. At the same time there seems to be little trust in their ability to foster regional co-operation within the region. This rather gloomy conclusion is partly derived from very useful references, comparisons, and conclusions that have been made in the Foreign Policy Country Paper of above-mentioned countries.

How the RCC will develop is still an open question. Some see the Regional Co-operation Council as a “waiting room” for the next wave of EU enlargement. Other see its mission as more than justified and that it will meet EU expectations more than the Stability Pact and will bring about a new momentum in regional co-operation.<sup>106</sup> Yet, the prospects of deepening regional co-operation are far from clear. The progress made in particular issues does not unwrap the general tendency towards more bilateralism in relations with the EU. Therefore we see the drift towards more bilateralism unlikely to change for some time even under the Regional Co-operation Council. At the same time the countries of the region will have to accelerate reforms. As events are showing, the Western Balkan countries are moving ahead at a different pace towards their European and Euro-Atlantic integration goals. So far they were not tempted to work together to attain these goals. They were working on their own and not through common efforts. One of the important tasks of the Regional Co-operation Council will be to develop the platform to build a synergy of these interests.

We conclude that the creation and the future success of the Regional Co-operation Council will be reflecting: a) the internal political consensus over key issues of regional co-operation; and b) favourable external conditions as essential factors for fruitful regional co-operation. The Regional Co-operation Council therefore represents a test case for the success of new regional thinking at a time where circumstances appear more controversial in many aspects and less favourable for the development of regional co-operation in the Western Balkans.

In order to make this transition successful, driven by lessons learned and a goal-oriented approach, the proper trajectory has to be chosen. Literally, a new highway that connects what has been detached, both physically and mentally has to be built. SEE and the Western Balkans, as Maria Todorova rightly pointed out in her marvellous book “Imagining the Balkans”, is always wrongly perceived within a predominantly negative context, sometimes premature conclusions, and sometimes big expectations. This part of the world, fairly complex, with its myths that have quite often become a driving-force politically, has to be dealt with not only as a potential troublemaker, but also as a contributor. Not only as a potential threat, but also as a potential solution to what many people in the EU nowadays are afraid of. That is why we see a new regionalism in SEE not as a goal per se, but rather as a transition phase towards the ultimate goal of a bigger and richer EU identity. That is a kind of identity where the Western European ratio will meet and embrace the impulsive and highly emotional imagination of

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106 “There are two essential processes with tremendously positive significance, going parallel: the reshaping of regional cooperation schemes – in close connection with the need to increase regional ownership – and the steps towards more institutionalized relationship with the EU”, speech by Mr. Mihai-Razvan Ungureazu, Minister of Foreign Affairs at the International Conference, Regional Cooperation Challenges 2007-2008, Zagreb, 9 September 2006.

the South – like the human brain with its two cortexes. It will take more time than any of us believe, but that is a worthwhile effort. In that respect we see the following steps as a good strategy for bringing about the change in the doctrine of Change by Rapprochement:

- In order to bring about a real change into the region, the international community should not turn its back on the Balkans and the page of a new Balkan Chapter alike, just because everybody feels that time for Ownership has finally come.
- The timing for real regional ownership is not, and could not be prescribed as it is done when one intends to cultivate a vineyard. It has to come from within, but it has to be upheld through a coherent approach from the EU.
- The RCC is a very good idea for taking over regional responsibility, but it is still an idea that needs to be tested in real life. A combination of the lessons-learned from the Stability Pact and more self-reliability could be a starting point.
- A precondition for the RCC to become successful in the regional arena is a more precise definition of the strategic interests of the countries and the creation of an overall strategy for implementation. The RCC is expected to contribute significantly to a greater level of regional co-operation and increased responsibility for regional development. As noted by the Foreign Policy Country Papers a precondition for the successful transfer is capacity building – capacity for ownership.<sup>107</sup>
- The formation of the Regional Co-operation Council could send out the strong signal that the Western Balkan countries are moving from a so called “policy taker” to a pro active “policy maker”. Yet, having in mind current regional difficulties, the Regional Co-operation Council will have to prove that it can be a forum where bilateral and multilateral problems of the region can be discussed and which might encourage a stronger feeling of ownership of regional processes. Such processes, as recommended by various experts, must be accompanied by different actors in society, in order to create a wider consensus and stability in the region.<sup>108</sup> In this context one of the priority areas (as set forth by the RCC agenda) the RCC will have to give special attention to broad public support and to the involvement of civil society.<sup>109</sup> Broad public support will be essential for the success of regional co-operation.
- The concept of regional co-operation, as a matter of fact, was never really seriously advertised nor was it externally promoted. It was not, so to speak, CNNable enough, to be a regular topic in the media. One explanation could be that the countries concerned were overwhelmed by internal problems which weakened awareness of regional issues. The establishment of the RCC in Sarajevo was a unique opportunity to promote a BiH Foreign policy success story. Instead, the decision for the RCC in Sarajevo went unnoticed among the wider public.
- The RCC needs to take a lead in communicating effectively the regional co-operation processes and in particular the benefits that it offers to the countries and its citizens. It will be necessary to disseminate information and develop a wider understanding of the role of regional co-operation. In this respect, the Media and, in particular, the civil society (network) could play a critical role. In the context of the Regional Co-operation Council the increasing role of the RCC requires greater regional input also in terms of policy capacity. They are the ones that are able to raise awareness of the potentials of regional co-operation and provide the RCC with valid recommendations, analysis, and evaluation in particular fields as well as a regional policy agenda for the future.

<sup>107</sup> Foreign Policy Country Reports.

<sup>108</sup> Foreign Policy Country Reports.

<sup>109</sup> Regional Ownership and Beyond – Setting up the Regional Cooperation Council, Concept paper prepared by the Secretary General of the Regional Cooperation Council, Mr. Hido Bišćević, p.16, Pomorie, 20 May 2008.

- The most active in the regional co-operation process are NGOs, academics, professional associations, and the business community that see the potential and must be acknowledged as an important asset for the project of the Regional Co-operation Council. Thus, a systematic pressure/presence by civil society improves the chances of enhanced co-operation even if many national governments pay only lip service to regional co-operation. It will be necessary to raise interest and mobilise professional capacities of national administration, political structures, business community and research institutions, as well as Media and the civil society to actively contribute to the successful implementation of core regional projects.

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# Development of Regional Cooperation in the Western Balkans and EU Integration

## Lessons Learned: Conclusions and Recommendations

*Mirza Kušljagić*

*Tuzla*

Regional co-operation in SEE in the past decade, especially activities involving the countries of the Western Balkans, have been evolving from a post-war reconstruction and political-security stabilisation phase to the current phase of functional democratic transformation and NATO and EU integration. From the perspective of ownership, the local actors have undergone a transformation from passive participants in the first phase to active partners in the latter phase. The critical moments in this evolution of ownership came with the establishment of the Stability Pact in 1999 and finally with its transformation to the Regional Cooperation Council (RCC) between 2006 and 2008. If the ultimate goal is genuine ownership of the regional co-operation process then the region has entered a decisive stage of transformation to full ownership of this process with the creation of the RCC. The current phase of local ownership could be described as a “transitional stage”, since the leverage of international institutions at this starting point of RCC activities is still stronger than that of the countries in the region. As it was concluded in this chapter success of this transformation process to full local ownership will depend on “the actual support from the political elites of the countries concerned to this unique regional institution” and “the extent to which it would mirror the authentic and articulated interests of the region”.

Based on the analyses presented in this chapter, a number of key findings from the perspective of regional ownership can be drawn together with some “lessons learned” and recommendations, which should facilitate transformation to genuine local ownership of the regional co-operation process.

## Conclusions

EU and NATO integration processes have been identified as the key drivers for the security, political and economic transformation of the region. These integration processes are the main factors in fostering regional co-operation as well. It was clearly indicated in the analyses that it is critical to keep momentum in the integration processes, especially in the SAP, in order to provide clear incentives to local political stakeholders to engage in genuine regional co-operation.

A common strategy and co-ordinated and focused action by the international actors have proved to be critical success factors in the development of regional co-operation. Competing and conflicting objectives and strategies of key international actors, in particular the EU, the US and Russia, could seriously hamper further stabilisation and development in SEE. Since integration into the EU is the main strategic objective of all governments in the region, the EU has become the most influential international actor and should take leadership for the development of a comprehensive strategy for the region. This strategy should have less focus on stabilisation and more on association through transformation. At stake is not only the future of the region but also the EU bid for more influence in world politics, especially in the conflict prevention and resolution arena.

The prospect of EU membership is not only the best hope for stabilisation and transformation of the region but for development of regional co-operation as well. However, the already identified potential conflict between the bilateral approach (SAP) and multilateral approach (SP and RCC) should be overcome. A clear prospect for membership for all countries in the region, indicating that the EU enlargement will not erect new barriers in the region, will create momentum for regional co-operation too. Only with a firm perspective for EU membership will pro-European local political elites be able to build the broad social consensus necessary both for democratic transformation and regional co-operation.

Even though in the above analyses most importance is given to NATO and EU integration processes, the focus on Euro-Atlantic integration should not override the equally important priority of regional co-operation in solving common regional problems. Regional co-operation as a training ground for EU integration is an important factor in the development of deeper links among the countries of the region. However, through the development of regional co-operation the awareness of the genuine need for regional co-operation, based on the national interests of all the individual states of the region, have to be identified and transformed into consistent action. Only then will bilateral and multilateral approaches not be competing but will be complementary instead.

Different areas for regional co-operation have already been identified and it is obvious that co-operation could bring economic, political and security benefits to all participating countries. However, regional political and security benefits are competing with internal priorities related to sovereignty, territorial integrity and internal cohesion in some countries. Therefore the economic arena for co-operation through actions which are more technical in nature, such as CEFTA and the Energy Community Treaty initiatives described in detail in Chapter 3, as well as different regional infrastructure projects, hold the best chances for success in the mid-term. These projects gain more support both from public and state actors since they are perceived in the region as *de facto* integration with the EU even before formal EU membership.

Regional co-operation in SEE has mainly been based on the participation of state actors. In order to develop ownership of this process much wider involvement of non-state actors (i.e. civil society organisations, universities, media, professional associations and regional networks of independent experts) is required. The concept of the broad participation of non-state actors, described in the context of new regionalism outlined in Chapter 1, provides the theoretical framework for such participation.

The real long-term test of ownership of regional co-operation will come with the challenge of genuine reconciliation, dialogue and the practical aspects of confidence building. While mid-term priorities of prosecuting the war criminals and co-operation with the ICTY is predominantly the responsibility of state actors, the process of facing up to the past with a common view of recent history usually begins with the activities of non-state actors. However, genuine ownership of a reconciliation process could be based only on the full participation of state institutions.

## Recommendations

Taking into account that the clear perspective of EU membership represents the strategic goal of all countries of the Western Balkans, thus providing ground for the commitment of local political elites to the necessary reforms for a sincere transformation of the region, development of a comprehensive EU enlargement strategy for the region becomes the main priority. Genuine local ownership of the regional co-operation process could be realised only if the association to the EU of all countries in the region continues. Here we recommend

speeding up the process of the association with all the countries of the region, upgrading their status as soon as possible. When all countries in the region achieve the same status of candidate country, it will be easier to harmonise the bilateral SAA process with multilateral RCC programmes.

The first visible sign of the commitment of the EU to the region regarding the prospect for full membership would be to grant a free visa regime to all countries. This will increase travel both within the region and with the EU countries thus enabling mobility of people and cultural exchanges, which are so important for wide participation in regional co-operation too.

Based on the new regionalism concept, it is necessary to start develop a wide participation of non-state actors to encourage the bottom-up development of local ownership of regional co-operation. In general the RCC should design programmes and organisational structures, which will involve more “new regionalism actors”, representatives of societies such as parliamentarians, local government representatives, NGOs, professional associations, independent expert networks, media and universities. The new regionalism approach provides the basis for supporting the establishment and facilitating activities of “regional networks of national networks” of non-state actors.

Sustainable regional co-operation needs dedicated organisations and institutions to facilitate and support the different processes. In this respect the RCC is a key institution. The challenge for the RCC, among other things, is how to organise new regionalism non-state actors with long term regional issues, clear goals and strategies and firm though flexible organisational structures.

Numerous networks among universities in the region have already been established, mainly as a result of participation in international projects (i.e. EU Tempus and the Framework Programme). The challenge is to find sustainable regionally based organisational structures which will further develop established links and networks. It is recommended to the international donor community, especially to the EU, to allocate separate funds for regional projects in education and research aiming to develop regional structures.

The potential role model for the development of a flexible, though firm organisational structure of a network of non-state actors might be the ongoing evolution of a networking initiative of experts in the energy sector called “The Western Balkans Energy Policy Forum”. The idea for this organisational structure was formulated during several workshops in the process of writing this study. Later, an initially small group of independent experts from different countries of the region further developed the concept and during a kick-off meeting nine experts from different energy sectors defined the mission, vision, strategic goals and organisational structure of the Forum. Currently the Forum is in the process of enlarging its membership to more than 25 independent experts from all countries of the Western Balkans. A key component of the Forums strategy is the regional approach to solving the problems of the energy sector in the Western Balkans. This approach is in line with the declared strategy of the Energy Community. The establishment of the Forum is an example of a local bottom-up initiative of non-state actors which emerged from genuine regional ownership. The strategic objective of the different activities of the Forum is to provoke similar regionally based initiatives approaching national stakeholders and decision makers in the sector, which at the moment is not the case. A detailed description of the Energy Community Treaty and its potential for ownership is presented in the following chapter.

Another positive example of networking by non-state actors in the region is the coordinated action of three foundations: The Friedrich Ebert Stiftung, the Heinrich Boell Stiftung and the Open Society Foundation, aimed at organised and harmonised activities of NGOs in

the region in the areas of energy and environmental protection. In a series of conferences and meetings a group of local NGOs from countries of SEE have been developing common positions regarding regional projects in energy and the environment and designing joint projects and activities. At this stage the establishment of a coordinating body of local NGOs is under consideration. Initial links have also been established with the above-described Energy Policy Forum thus providing much needed interaction between the expert and NGO communities. With these activities a pilot project focused on establishing networks of networks of non-state actors in the region has already been implemented.

Regional co-operation faces different obstacles in its development. Major ones are: the effect of Kosovo's independence on regional stability and co-operation, the Serbian foreign policy dilemma, the structural state building problems in Bosnia and Herzegovina as well as Macedonia, internal cohesion problems in many countries and weak state structures in Albania. In spite of the potential negative effects of these obstacles it is recommended to continue building "networks and bridges between networks" of non-state actors. Based on the experience of other regions it is expected that genuine regional co-operation will develop after the accession to the EU and NATO, when countries of the region will have to determine and promote specific common interests in a wider Euro-Atlantic framework. We believe that after full integration with the EU genuine regional ownership in SEE will not only be visible during the voting process for the EUROSONG contest.

## **Part 3**

Sectoral Case Studies – Trade, Energy, Social Cohesion and  
Human Resources



## The three case studies – Introduction

The third section of this book seeks to provide a clear and comprehensive overview of the specifics of regional co-operation in three sectoral case studies – trade; energy; and social policy. In the first case, the central concern is explicitly institutional, in terms of the new CEFTA, in the context of the wider role played by the Stability Pact in encouraging and extending bi- and multi-lateral free trade agreements. The case is of particular interest in terms of the need for different nation states and territories to balance short-term and longer-term economic and political interests. The second case presents a more general discussion on the political economy of energy in the Western Balkans, focusing on the complex and competing institutional interests involved in the formation of the South East European Energy Community. Here, there is a more explicit focus on the concept of regional ownership in the context of both the Stability Pact (and now the Regional Co-operation Council) and the European Community driving the process. The third case study looks at social and labour market policies, arguing that neither the Stability Pact nor the Regional Co-operation Council has prioritized social protection and social inclusion, so that a gap exists between EU models and processes and regional processes.

The three cases were chosen, in part, to reflect the interests and expertise of members of the working group. They also represent, however, three different kinds of cases, as a sort of continuum from an institutional ‘take-over’ at one end (CEFTA), through a complex competing arena in the middle (energy), to a rather absent presence at the other end (social policy). Other issues could have added greater depth to the discussion of course, including transport, the broad field of security (including justice and defence), infrastructure, as well as ‘softer’ kinds of democratization and governance initiatives.

It should also be noted that, in a sense, all three cases focus much more on the ‘top down’ dimensions of regionalism at the expense of ‘bottom up’ or grassroots regionalisms through the mobilization of actors in civil society. The cases reflect, more or less, a situation in which political elites and, most importantly, governments in the region came to take over – or not in the case of social policy – a set of technicised objectives from external or hybrid extra- and inter-regional initiatives. In the process, a process of technical integration appears to have contributed to economic integration if not to further political integration.

The case studies, thus, form an important additional dimension to the institutional and political overviews provided in parts 1 and 2 of this book. They show how regions are made through a variable geometry of interlinkages with different sectors proceeding at different speeds and according to different logics but all framed, to an extent, within the meta-themes of globalization and Europeanisation. Questions of ownership in this context relate to whether there is a common interest and, more importantly, whether that common interest is recognized as such by key players and deemed important enough to over-ride issues where there are conflictual interests. The case studies relate to a rather partial and incomplete shift from traditional forms of governance to more open networked forms of policy making. Whilst strong in terms of political economy and institutional foci, and in terms of describing key players, the case studies are, perhaps, less secure when it comes to making recommendations on future forms of co-operation which can be more regionally owned, perhaps unsurprising given the impossibility of bracketing off broader geo-political power structures from the analysis.

Viewed in this context, future work will, perhaps, need to be less sectorally focused and more concerned with situating the Western Balkans within a new regionalism characterised by multi-dimensionality, fluidity and non-conformity, involving a variety of state and non-state actors entering into informal multi-actor coalitions. In this, the clash between visions of the region and, in particular, between political and technical imperatives, may become even more acute. Questions of ownership will, therefore, become less about elite structures and more about the creation of regional public spheres and spaces for the exercise of true participation within them.





# CEFTA 2006 – Limits and Opportunities

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## Brief Overview of CEFTA

At the beginning of the 1990s, the EU encouraged the Central and Eastern European countries to respectively establish free trade zones – CEFTA (The Central European Free Trade Area) and BFTA (The Baltic Free Trade Area). Namely, the EU assessed that the countries were not at that time ready for accession to the EU, and that they should first build closer political and economic relations among themselves, especially in terms of trade.

Research on the functioning of CEFTA showed that the achievements exceeded expectations of the CEFTA signatories despite the fact that the complete liberalisation of trade with agro-industrial products failed. Stable growth and significant increase of mutual trade among the CEFTA countries was the most important proof of their efficient economic integration, as well as of the strengthening of their trade connections due to the liberalisation. Improved trade conditions resulted from the liberalisation of trade in industrial products and, to a certain degree, in agricultural products. This was also accompanied by a significant increase of FDI, as the establishment and the functioning of CEFTA additionally encouraged foreign investors.

Another significant effect of the functioning of CEFTA was that the signatory countries gained experience in multilateral co-operation and prepared for participation in structures such as those of the EU. More than 14 years of the existence of CEFTA proves that CEFTA was a stable and positive factor that shaped the trade and economic relations between member states. CEFTA countries have made reforms, which also included agriculture to a considerable extent. It contributed to the increase of productivity and competitiveness of many products. Results indicated that a certain period of time is required for an FTA to yield positive results. Autonomous factors were very important for expanding bilateral trade flows, apart from the reduction in tariff rates. Autonomous factors (e.g. domestic demand for particular import goods) usually have an immediate effect after the implementation of the agreement, while reduction in tariff rates becomes effective only 2 or 3 years after the implementation. This results in an immediate expansion of imports of important products after implementation of the agreement, while other products require time for establishing new business connections.

## Trade Liberalization in the SEE Region

Part of the work of the Stability Pact for South East Europe was dedicated to the acceleration of the process of normalisation of relations and post-conflict recovery through trade liberalisation. As part of this, the Stability Pact designed a two-stage trade liberalisation process. During the first stage, the SEE countries were to remove administrative barriers, suspend the introduction of new trade barriers and reduce all trade barriers in a coordinated way. During the second stage, the SEE countries would join the WTO and establish a free trade area.

Among the activities within the Stability Pact, a Memorandum of Understanding was signed on trade liberalisation and facilitation (27 June 2001 in Brussels).<sup>110</sup> However, at that time the political will to move towards the establishment of a multilateral free trade area was still lacking, and the SEE countries therefore decided to develop a network of bilateral agreements instead, seeing this as a less risky option.

In parallel with the fulfilment of its obligations within the Stability Pact, the EU initiated the Stabilisation and Association Process and signed Stabilisation and Association Agreements with most of the SEE countries which, like the earlier Europe agreements with the Central and Eastern European countries, provided an institutional framework for integration into the EU structures. Prior to signing the relevant SAAs, the EU had already granted the SEE countries greater access to the EU market.

A total of 32 bilateral free trade agreements were signed among SEE countries and UNMIK/Kosovo, but the results of such a regime proved insufficient for all signatories. Results of analyses<sup>111</sup> with respect to the bilateral free trade agreements with the SEE countries can be summarized as follows:

The bilateral approach proved to be problematic. Each bilateral agreement can potentially be different, so that it can create rather complicated relations in trade.

In efforts to harmonise agreements, some important segments remained unregulated, such as public procurements, services, investments, intellectual property rights, etc.

More recent bilateral agreements are rather similar in terms of general provisions, in contrast to the agreements that were signed prior to the Memorandum of Understanding.

The free trade agreements do not cover all relevant issues, for example, countries that are not WTO members fail to regulate key issues such as services, intellectual property rights, public procurements, etc. The same criticism applied to CEFTA at the beginning of its implementation.

In the Action Plan for 2005 and at the sessions of the Stability Pact Trade Working Group (TWG) it was decided that the network of 32 bilateral agreements should be replaced by a single regional free trade agreement and that CEFTA could serve as a good basis for such an agreement. The significance of political and other reasons which set in motion the establishment of the network of bilateral free trade agreements in SEE was diminished. The multilateral agreement among SEE countries was an innovated and improved version of the existing CEFTA agreement. Substantial discussions led to an agreement on extending CEFTA membership to those on the road to meeting the conditions, i.e. membership in the WTO and signed SAA agreements with the EU.

After several rounds of negotiations, the network of bilateral free trade agreements was transformed into a single regional free trade agreement (the new CEFTA 2006), which was signed on 19 December 2006 in Bucharest by the SEE countries.

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110 Protocols of agreement were signed by: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania and Serbia and Montenegro

111 Messerlin P., Miroudut S, 'Trade Liberalisation in SEE: A First View on Eighteen FTA's, unpublished mimeo, 2003; Adam A. S. Kosma T. and McHugh, Trade Liberalisation Strategies: What Could South Eastern Europe Learn from CEFTA and BFTA, Working Paper, IMF European I Departmental Seminar, 2003.

The main principles and characteristics of CEFTA 2006 are as follows:

- It covers all countries / territories of the Western Balkans and Moldova;
- It is harmonised with the WTO – respect of WTO provisions also for non-member countries (Serbia, Montenegro, B&H);
- It maintains the already achieved level of trade liberalisation in industrial and agricultural products, as well as concessions;
- It introduces new areas and envisages a gradual liberalisation (trade in services, investments, intellectual property, public procurements);
- The already existing areas are defined in more detail;
- It is simple in terms of implementation and administration;
- It enables diagonal cumulation of origin, firstly within the region, and subsequently with the EU;
- It forms the Common Committee with significant prerogatives, which supervise the implementation of the agreement with assistance from the newly created Secretariat;
- It establishes the new mechanism for solving disputes – consultations, engagement of mediators, arbitration;
- As of 1 May 2010 it introduces full compliance with the rules of competition and non-discrimination.<sup>112</sup>

Reforms in the domain of the regional trade regime and the relevant harmonisation of national trade regimes are not sufficient to bring about an increase of trade and investments. It is necessary to continue and accelerate reforms, especially through structural changes, so that the countries of the region become viable for the competition in the global market and especially in the EU market. Besides, an important function of this trade agreement is that its wide promotion and implementation contribute to the political stability and reconciliation in the region.

According to the perception of the business people in the region<sup>113</sup> implementation of a single FTA in the Western Balkans will contribute to simplification of the procedures and thus facilitate and encourage domestic and foreign investors to increase investment in the region. It is expected that a single agreement, i.e. creation of a free trade area, will encourage increased trade and promotion of co-operation through more complex tools, such as joint ventures, exchange of staff, technical innovations and joint appearance on third markets. The competent institutions in the signatory countries need to work efficiently to create conditions for diagonal cumulation of origin, and to ensure its consistent application. It is expected that the application of diagonal cumulation will increase production and export capacities of the countries in the region and that it will constitute a cohesive element of the regional economy. Mutual visa liberalisation for business people is of vital importance for the efficient functioning of the free trade area in the Balkans.

It has been stated in numerous studies and analyses that non-tariff barriers are a big obstacle to trade liberalisation. They are evident and recognised, but their removal is mainly slow and inefficient. All the participants in this process are expected to make maximum efforts

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112 Lopandić D., Jedinstveni sporazum o slobodnoj trgovini u regionu JIE (CEFTA 2006), mimeo, Ministarstvo za ekonomske odnose sa inostranstvom Srbije, Beograd, 2007.

113 Zubić-Petrović S. Minić J. and Đukanović N. eds. Zona slobodne trgovine u Jugoistočnoj Evropi, Background analysis and conclusions of the IV International Business Forum „Free Trade Zone – A Step Forward” (28 March 2006, Belgrade), Serbia and Montenegro European Integration Office, Belgrade 2006, p. 70.

to remove the barriers, so that the free trade area can function without obstacles. To that effect, direct and constant co-operation of the chambers of commerce and industry and the focal points for defining the barriers, hosted by the ministries of the countries in the region, is indispensable.

Without a good infrastructure network, even the exceptional position of the countries in the region on Corridors IV, V, VII, IX and X, cannot have a full effect. That is why governments are expected to create an environment to attract foreign investors and use the available local funds to make all corridors appropriate for intensified transport. It is necessary to bear in mind that all the corridors, by themselves, are generators of business activities and instruments for increased employment, as well as an integration factor in the region. Private – public partnerships have a clear advantage in this sector. In general, more attention should be attached in the future to co-operation in the field of services, which is considered as one of the comparative advantages of the SEE.

Chambers of commerce, as active participants in trade liberalisation and intra-regional co-operation, are expected to offer up all of their capacities and become strategic partners to the Governments, EU and regional structures and initiatives, in order to support the liberalisation process further. CEFTA 2006 has received important support from the European Commission, SEE Stability Pact, World Trade Organization and the World Bank, as well as several assisting countries, since its negotiating phase.

Development of regional co-operation is an integral part of the Western Balkans' European agenda. In that context, CEFTA 2006 has been considered as one of the main achievements. It is also a part of the transition process from the Stability Pact to a more regionally owned co-operation framework. The Commission supports the RCC and other cooperation frameworks, including CEFTA, the Energy Community Treaty, and the Agreement on a European Common Aviation Area and prepares the negotiations on the Western Balkans Transport Community Treaty.<sup>114</sup>

## New CEFTA – Theoretical Expectations

By reason of a relatively small industrial base, and a high level of export limitations (prior to the liberalisation of trade), the effects of the integration of undeveloped countries are likely to be negative. Usually, these effects are determined empirically since industrial output, due to the effect of economies of scale, tends to be concentrated in the largest or most developed country or a group of integrating countries, negatively affecting other participants in the integration process. This is also probably the main reason why most regional economic integrations among undeveloped countries were relatively short-lived and eventually failed.

In his analysis of the implementation of free trade agreements between developing countries, Venables<sup>115</sup> highlights examples where integration promotes divergence. Probably the best-documented example for this is the process of industry concentration in the East African common market. Uganda and Tanzania came to realise that Kenya, producing more than 70% of their manufacturing industry and exporting an increasing percentage of these products, was the one who benefited most from the East African Community compared to its relatively smaller partners. The EAC collapsed in 1977, as it could not live up to the poorer members' expectations of getting an even piece of the pie.

More recent examples include concentration of industry, trade and services in and around Guatemala City and San Salvador in the Central American Common Market (CACM), and Abidjan and Dakar in the Economic Community of West African States (ECOWAS). In the CACM, Guatemala and El Salvador now account for more than 80% of the value added in

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114 Commission of the European Communities, Western Balkans: Enhancing the European perspective, COM /2008/ 127, Brussels. p.22.

115 Venables A. J, Regional Integration Agreements: a force for convergence or divergence, World Bank WP 2260, 1999, p.3.

manufacturing versus 68% back in 1980. The share of Ivory Coast and Senegal in the value added in the ECOWAS manufacturing also increased – from 55% in 1972 to 71% in 1997.

Venables argues that regional economic integration agreements among low-income countries lead to divergence of per capita income levels among their members for at least two reasons:

(1) It is usually the FTA member whose comparative advantages are farthest from the world average that is exposed to the largest risk from the re-channelling of trade flows. Therefore, if a group of low-income countries enter into a free trade agreement (FTA), members with the lowest income levels are likely to suffer a real income loss due to the re-channeling of trade;

(2) Agglomeration forces tend to encourage industry to cluster geographically. Agglomeration of economic activities will be more pronounced in low-income country FTAs than in the developed country FTAs. Agglomeration will give an additional boost to divergence in income levels for FTAs among developing countries, with relatively better-off members thriving at the expense of the poorer ones.

The process of divergence in income levels is put in place as a result of agglomeration economies and should be temporary in character. Forward and backward linkages are sufficiently strong, and, as a rule, companies in low-income countries decide to form clusters with each other.<sup>116</sup>

As suggested by theoretical and empirical studies, as well as data on the relative significance of Western Balkan countries, Croatia is the country that will benefit most from the implementation of the new Central European Free Trade Agreement. Its relative significance is “dominant” (more than a 40% share in all selected economic parameters). Consequently, it will be easiest for Croatian companies to make the best of the free trade arrangements in the common market.

Table 1: Relative significance of Western Balkan countries<sup>117</sup>, in % (Western Balkans=100)

	GDP			SDI Stock		Exports of goods		Imports of goods	
	Population	2000	2006	2000	2006	2000	2006	2000	2006
Croatia	21.2	45.8	42.1	55.0	59.0	51.3	45.3	43.1	43.9
Serbia	35.5	24.8	31.6	15.9	22.3	18.0	25.8	18.2	26.6
B&H	18.7	11.2	11.4	11.8	10.5	12.4	14.9	21.3	15.5
Albania	14.9	9.2	8.8	8.9	2.8	3.0	3.5	6.0	6.2
Macedonia	9.7	8.9	6.2	8.4	5.4	15.3	10.5	11.4	7.7

Source: *World Economic Outlook Database (IMF)*, *World Investment Report 2007 (UNCTAD)*, *UNCTAD Handbook of Statistics 2006-07*

On the other hand, Serbia’s share in all Western Balkan economic indicators rose from 2000 to 2006. Considering that it has the largest population and a central geographic position,<sup>118</sup> Serbia could possibly benefit a lot from the regional economic integration provided, providing that it attracts FDI in the industrial sector.

Other Western Balkan countries (Bosnia and Herzegovina, Albania, Macedonia, Montenegro and Kosovo) are relatively small, no matter what economic parameters they are measured by, and earlier political crises only serve to confirm their sensitivity to external shocks.

We believe that the turmoil surrounding the status of Kosovo will have a destabilising effect on the political and economic situation in most of the region, and that potential benefits from operating in the common market will be mainly garnered by Croatia-based companies.

116 Puga D., Venables A.J., Trading Arrangements and Industrial Development, Discussion Paper No. 319, CEPR 2006.

117 Excluding data for Montenegro and Kosovo and Metohija.

118 Although it occupies the central geographic position, Bosnia and Herzegovina is not the central country of the region economy-wise due to bad transport infrastructure.

## New CEFTA – Economic Results

The Western Balkan countries have a population of 23.5 million and a total GDP of around 100 billion Euros at current exchange rates. As such, they are comparable with the economic size of only one EU member – Romania. According to standard economic analyses, individually they represent relatively unattractive “mini” markets.

Foreign direct investments in Western Balkan countries are mainly industrial investments into highly protected areas such as cigarettes, beverages, cement, and similar, where the level of customs protection and transport costs is prohibitive for exports from other locations. The largest portion of FDI is oriented towards the sector of services. This is taken as an unfavourable indicator both from the aspect of potential for economic growth and the possible outbreak of a balance of payments crisis amid huge current account deficits<sup>119</sup>

Table 2: Main economic indicators 2007 for Western Balkans

	Serbia	Albania	Macedonia	B&H	Croatia	Monte-negro	Kosovo UNMIK	Total
Population	7,435	3,150	2,045	3,846	4,440	625	2,000	23,541
GDP, EUR mn	30,527	7,846	5,525	10,430	37,254	2,200	2,000	95,782
GDP per capita, EUR at PPP	8,950	5,350	7,250	6,010	13,180	8,180	1,500	7,985
Annual inflation, %	7.0	2.9	2.3	1.5	2.9	4.2	...	
Unemployment rate, LFS, avg., %	21.0	14.0	35.2	29.0	10.0	30.0		
Current account, % GDP	-15.7	-8.9	-0.9	-13.4	-7.5	-39.5		
FDI net, EUR mn	900	400	150	1,630	3,000	800		6,880

Source: WIIW, data on Kosovo – author’s estimate based on available statistics

All Western Balkan countries have a high unemployment rate - ranging from 10% (Croatia) to 35.2% (FYR Macedonia). Together with earlier inter-ethnic conflicts, high unemployment represents one of the key determinants of internal political instabilities.

With the exception of Croatia, all Western Balkan countries exhibit below average indicators of socioeconomic development. Croatia boasts several times higher per capita indicators of participation in the international economy than other Western Balkan countries (Table 3).

Table 3: Selected indicators for CEFTA members and the world, per capita, in USD, 2006

Per capita	World	Albania	B&H	Croatia	Macedonia	Serbia
GDP PPP	10,334	5,702	8,543	14,368	7,707	6,805
FDI	1,867	409.6	1,211	6,040	1,197	1,360
Exports of goods	1,876	253	871	2,338	1,179	792
Imports of goods	1,907	975	1,936	4,841	1,848	1,748
Exports of services	420	424	261	2,840	281	352
Imports of services	407	490	100	776	269	330

Note: GDP PPP differentials for some countries relative to Table 3 are attributable to different sources of data, as well as the fact that computations were made in two currencies (US dollar and euro).

Source: World Economic Outlook Database (IMF), World Investment Report 2007 (UNCTAD), UNCTAD Handbook of Statistics 2006-07

119 P. Sorsa, et al. Vulnerabilities in Emerging Southeastern Europe – How Much Cause for Concern? IMF Working Paper 07/236



Political changes in Serbia in late 2000 paved the way for a strong economic upswing of all countries in the region, the inflow of FDI, the development of industry and foreign trade. Due to the 2001 inter-ethnic conflicts, Macedonia was the only exception to the upward trend at the time. As a result, all countries in the region recorded higher than world average GDP growth rates (except Macedonia), as well as higher growth rate of FDI stock and trade (except Macedonia and Croatia in terms of exports).

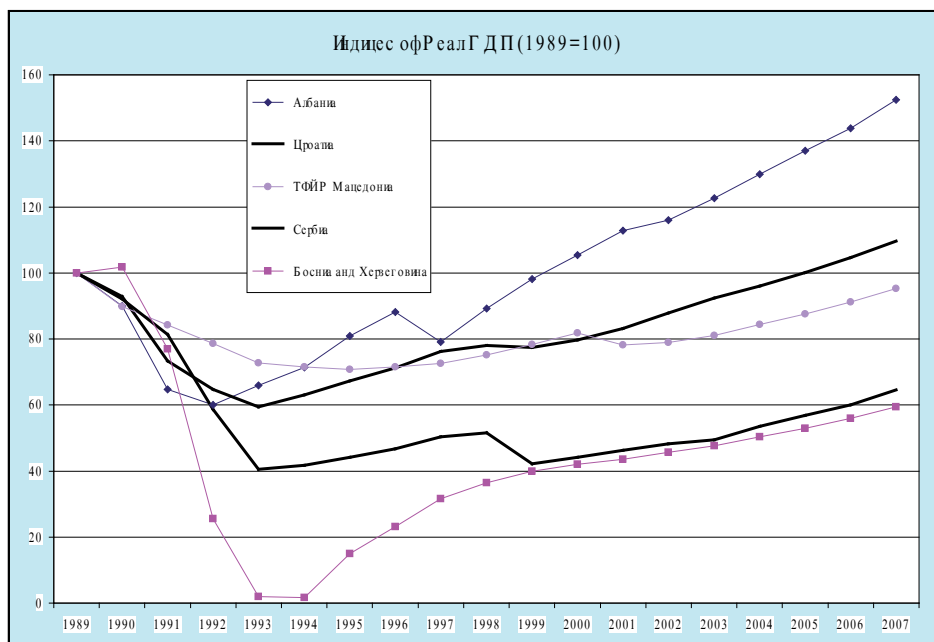
Table 4: Selected indicators for CEFTA members and the world, growth rates, 2000-2006

Per capita	World	Albania	Bosnia and Herzeg.	Croatia	Macedonia	Serbia
GDP PPP	4.2	5.3	4.9	4.8	1.7	5.3
FDI Indices 2000=100	206.5	226.1	627.7	762.2	451.6	767.7
Export of goods	16.6	20.6	21.4	15.2	10.4	24.9
Imports of goods	16.6	18.8	11.8	18.2	10.3	25.5

Source: World Economic Outlook Database (IMF)

1989, which seems a very long time ago, has remained in people's memory as the year of the highest GDP levels before the onset of transition. Only Albania and Croatia have managed to outperform that level, while other countries in the region are lagging much behind.

Diagram 1



Source: World Economic Outlook Database (IMF)

## Intra-regional Trade

### a) Trade trends

The network of 32 bilateral agreements in the region of the SE Europe has improved trade in the region despite the fact that the ratification of these agreements lasted only until the end of 2004. It is certain that results of intra-regional trade would be even better once the new multilateral free trade agreement for the SEE (CEFTA 2006) became fully functional. It is planned that the SEE free trade zone should become complete by 31 December 2010. Hereupon it is interesting to make small reference concerning intraregional trade in the SEE countries in the period 2000-2005.

Table 5: The shares of intraregional trade in overall trade of the SEE countries (%)

	2000	2001	2002	2003	2004	2005
Albania	11.4	11.2	11.1	9.3	9.7	9.7
B & H	59.1	58.9	67.4	62.1	70.1	67.8
Bulgaria	17.6	13.2	12.4	13.2	13.3	15.5
Croatia	18.1	19.6	22.6	23.5	25.3	28.3
Macedonia	51.3	51.8	56.2	56.7	67.8	65.4
Moldova	26.4	20.7	20.6	21.9	18.3	18.6
Romania	7.7	6.1	4.8	5.8	4.8	6.3
S & M	52.7	42.3	41.9	40.5	47.1	53.4

Source: IMF Direction of Trade Statistics

The relative importance of intraregional trade is variable, but several principal features remain mostly unchanged over the period under review. Presented data show that Albania and Romania were the least regionally integrated countries regarding mutual trade within the rest of SEE. Bulgaria and Moldova have a relatively low share in mutual trade within the rest of SEE. The lower orientation of Romanian and Bulgarian trade to the SEE countries was a result of the intensive process of accession and preparations for EU membership, resulting in increased trade and economic co-operation with EU partners.

On the other hand, the four countries originating from former Yugoslavia – Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro, have registered stable and high shares of intraregional trade, in both exports and imports from the other SEE countries. This indicates that regional trade co-operation has remained quite important for the four successor states of former Yugoslavia. Due to the potentials for increasing trade among the SEE countries, further increase of intra-SEE trade in the forthcoming period can be expected.

Large trade deficits in the total visible trade of all SEE countries are a consequence of transition processes (privatisation, restructuring, liberalization, etc.) and the relatively low level of economic development of these countries, as they are dependent on the import of technology, equipment and other more sophisticated products from the EU and other highly developed countries.

### b) Export supply similarity indices

Potential benefits from the common market depend on the current map of industrial producer locations and any potential changes in the production map caused by an inflow of FDIs aiming to serve all countries in the region.

In terms of the current map of industrial producer locations, Croatia and Serbia are singled out as countries with the most diverse industrial structures, while other smaller countries boast highly specialised industries oriented chiefly towards the exports of resource- and labour-intensive products into the EU. Croatia has a positive balance of trade with Serbia, and the two of them are recording surplus in trading with all other countries in the region. This means that these two countries have a good starting position and all the chances of benefiting from the common market by increasing the efficiency of their enterprises through economies of scale.

**Table 6: Similarity indices of export supply of SEE countries and CEFTA 5 countries and the import demands from EU**

	2000	2001	2002	2003	2004	2005
SEE - 7	59.8	60	61.4	60.5	62.7	63.8
Croatia	58.2	59.1	62.1	62	63	64.8
Bulgaria	57.5	57.1	58.4	59.7	59.6	61.1
Rumania	52.5	52.9	55	54	56	58
Serbia	55.2	57.2	57.3	56.6	55.6	54.3
B&H	...	...	...	43.5	45.1	40.1
Macedonia	40.5	39.3	39.5	39.9	39.9	36.6
Albania	29.9	31.5	25.5	30.7	32.5	28.5
CEFTA - 5	76.6	77.1	77.2	75.5	75.1	74.7
Poland	68.6	70	69.7	70.3	69.6	70.1
Slovakia	69.3	71	69.6	65.4	68.2	66.9
Hungary	71	72.3	71.3	68.5	67.3	66.6
Czech Rep.	71.1	69.7	68	67.2	66.7	68.8
Slovenia	66.2	67.7	68.2	67.1	65.7	64.4

Source: [www.intracen.org](http://www.intracen.org)

Table 6 shows that the Croatian economy is the best adapted to the EU import demand, owing to a highly diversified structure of its industry and exports. The Serbian economy is comparable with that of Bulgaria and Romania. The possibility of investing in the EU increases the possibility of investing in other Western Balkan countries. By contrast, smaller countries in the region are mainly EU export-oriented and have little products to offer in the common Western Balkan market.

Changes of production locations (through FDI inflow and relocation of existing enterprises) are dictated by the attractiveness of individual locations (reflected, for instance, in the labour quality and costs), as well as by the cost of transport, which is yet another limiting factor. There are slim chances of Montenegro, Macedonia and Albania becoming the best places for locating production industries aspiring to serve the entire Western Balkan market. However, they already are the countries specialising in the export of a smaller number of products into the EU market. Although they may overcome high transport costs through a large economy of scale by exporting footwear, clothes, woods, aluminium, iron and steel into the large EU market, they cannot do the same with other products oriented towards the relatively small Western Balkan market. Croatia and Serbia on the other side have the possibility of offering a location that could ensure the achievement of both goals (EU and regional market).

**Table 7: Complementarity indices of export supply between Western Balkan countries, 2005**

Exports	Imports						
		Serbia	Croatia	Macedonia	B&H	Albania	Average
	Serbia		56	56.7	59.4	61.6	58.4
	Croatia	64.1		57.4	67.0	67.5	64.0
	Macedonia	37.5	37.8		44.1	48.2	41.9
	B&H	41.5	42	41		43.5	42.0
	Albania	30.4	30.2	29	33.1		30.7

Source: WTO/UNCTAD [www.intracen.org](http://www.intracen.org), personal calculations

The aggregate regional similarity index for SEE-7 is significantly lower than that of CEFTA-5, meaning that it will take 10 to 15 years for these countries to adjust their export offer to the demands of the big European market. The index is increasing, and the greatest increase in the period under review was achieved by Croatia. This is not surprising, as Croatia also has the highest per capita income in the region.

Serbia has a medium index in the region, which is also an expected indicator. Serbia has a bigger economy than B&H, Macedonia and Albania, so it should approach the EU with a more diversified export offer. It is a concern that in the meantime there has not been an increase of this index, as it was expected in the context of liberalised access to the EU market.

The indices of similarity of export offers for former CEFTA-5 countries, which are considerably higher in comparison with SEE-7, and the higher values of their indices relative to the import demand in the EU, is an indication that the countries in the region over the coming years must undergo a process of significant industrial restructuring in order to adjust to the needs of the European market. A strong inflow of foreign direct investments since 2000 in the SEE region could facilitate this adjustment.

## Positive and negative effects of regional trade liberalisation (CEFTA 2006)

What could be emphasised in terms of positive and negative effects and future prospects of regional trade liberalisation in the SEE?

Firstly, CEFTA will contribute to the political stability of the region and create conditions for balanced development and enhanced solidarity within the region. Also, the single free trade agreement is an important step in preparation for EU membership. The free trade area in SEE will doubtless contribute to the expansion of regional trade, which would strengthen the SEE countries and prepare them for competition with the developed countries, including the EU, resulting in more balanced foreign trade relations and partnerships.

Briefly, the future benefits of CEFTA (2006) can be summarised as follows:

- Free access to markets under competitive conditions has the potential to decrease prices for the consumers and boost intraregional trade, economic growth, new employment and reduce unemployment;
- Apart from removing custom duties, CEFTA also implies the removal of non-tariff barriers (co-operation on technical obstacles to trade, standards, sanitary and phytosanitary measures, co-operation of customs and other cross-border authorities, etc.), liberalisation of public procurements, etc.

- Trade liberalisation and consolidation of the SEE market and development of attractive and stable conditions for business will attract more FDI to the region through uniform rules and greater security for investors which guarantees to the most privileged treatment, greater transparency and uniformity, less administration, simplified government), etc.
- Further increase of competitiveness and specialisation of export sectors, as well as increased efficiency, productivity and economy of scale;
- Growth in exports would contribute to positive effects on current balances;
- Regional co-operation in trade and other areas of the economy will assist countries that are not WTO members in preparing for their membership as well as in preparing all the SEE countries for EU membership. Also, free trade in the region is one of the conditions of the SAA, and several sections of the CEFTA are directly related to the implementation of the EU rules;
- Consumers in SEE will be able to purchase cheaper and better quality products;
- Greater specialisation within the region will contribute to efficient allocation of resources;
- Diagonal cumulation of origin will stimulate the development of cross-border joint production, which will facilitate non-customs treatment of products during import to the EU and other countries and will increase the export and the investment capacity of the region and also contribute to the increase of its technological equipment and competitiveness;
- Decrease of smuggling, corruption and related organised crime;
- Lower transport and administrative expenditures in trade, etc.
- Improved mechanisms for resolution of disputes, which is a new feature and a factor of higher security of trade liberalisation in the region;

The potential negative effects of trade liberalisation could include:

- The removal of customs leading to pressures on import increase, trade and balance of payments as well as reduced revenues from customs and taxes;
- Operating conditions for some enterprises becoming more difficult due to stronger competition;
- Decrease of income in less competitive sectors and phasing out of enterprises that have not developed their competitive potential;
- Unemployment growth due to the bankruptcy of non-competitive companies.

The potential negative effects could be partially alleviated by EU measures for SEE countries – measures on trade liberalisation combined with measures supporting the economic development of SEE countries.<sup>120</sup>

Trade liberalisation, regional co-operation and deeper integration with the EU are certainly a priority for each SEE country. However, the majority of them need to rely on development based on trade ("export-driven growth") because trade could serve as an engine of economic development. In addition to that, trade and FDI have the potential of generating employment in export sectors.

<sup>120</sup> Uvalić M. "Transition and Development in Southeastern Europe", in *The Balkan Prism – A Retrospective by Policy – Makers and Analysts*, J. Deimel and Wim van Meurs (eds.), Verlag O. Sagner, Munchen 2007.

The multilateral free trade agreement will, among other things, enable SEE countries not only to increase the scope of foreign trade, but also to improve their export and import structures, as well as to become more attractive for foreign investors. The latter depends, to a great extent, on whether individual countries are going to create conditions and an environment attractive for foreign capital, investments into R&D in companies, stimulation of innovative processes and creation of new products, linking the economy and scientific institutions, etc. It would also encourage capital-deepening and moving it towards sectors with high productivity where capital would be more efficient.

Joining the competition on larger markets would force domestic firms to increase productivity and reduce the prices of capital and other goods. Sectors that were previously significantly export-oriented and exposed to competition would not experience difficulties so much, since, as a rule, they easily adjust. On the other hand, sectors that were highly protected would have to make a lot of effort in order to adjust and become more efficient and more competitive. Such sectors are the agro-industrial complex, automobile industry, construction, traffic, insurance, banking, and especially public enterprises with a great number of employees. Relatively easier adjustment can be expected in sectors such as financial services, tourism, etc. Just as trade in goods can boost the Serbian economy, so can the opening up of services. For example, an adequate offer of banking services with different incentives may help attract investments, if local savings were turned into local investment and enabled small businesses to get credit, etc.

## Conclusion

After the 1990s economic distress caused by the wars, sanctions and unstable political circumstances, Western Balkan countries emerged from a stagnant period and began to make progress towards a strong economic recovery. Political changes in Serbia and Croatia at the turn of the millennium paved the way for regional economic integration. This was largely encouraged by the signing of 32 bilateral free trade agreements and a multilateral agreement in 2006. Finally, in 2007 a common economic area was created based on the model of CEFTA – former organization of East European countries now members of the EU.

Key goals of the regional economic integration were:

1. to prepare Western Balkan countries for a more successful economic integration into the European Union through monitoring of the free trade rules and development of political and economic institutions;
2. to foster intra-regional trade and integrate the region into the global trading environment;
3. to attract, through the establishment of a single market, export-oriented FDI that could cover the entire Western Balkan market and be efficient enough to enable export expansion in the EU market.

While achieving the first goal is at the same time a kind of «political training» for the ruling elite, the second one has significant economic implications. Namely, the experience of East European countries, former CEFTA members, now members of the European Union (Poland, Czech Republic, Hungary, Slovakia, Slovenia, Bulgaria, and Romania) shows that their industry and exports experienced a shift from labour-intensive to technology- and knowledge-intensive products. The share of mutual trade among these countries gradually declined, though to a lesser extent than it would have been the case had it not been for the preferential treatment granted by CEFTA which managed to partly offset a major re-channelling of trade flows towards the EU. Owing to the inflow of foreign direct investments, oriented towards the EU market, all CEFTA members enjoyed some benefits. Depending on the level of their

economic development, these countries became new members of the European Union in the two enlargement episodes of 2004 and 2007.

Compared to the above group of countries, Western Balkan countries vary widely in terms of the level of their economic development. Economy-wise, Croatia is even more advanced than the new EU member states – Bulgaria and Romania, while other countries, dependent on EU assistance and sensitive to political shocks in the region, rank lowest in Europe. As the potential political destabilization, caused by the unilateral declaration of independence by Kosovo, could send ripple effects to all countries except Croatia, the expected benefits from the free trade zone established under CEFTA 2006 could fail to materialize.

Based on theoretical expectations, confirmed by a number of empirical studies, and core statistical data on economic development, Croatia should get higher than proportionate benefits from the new CEFTA 2006. With a central position in the region, Serbia is also expected to benefit from the common market. However, political instability caused by the Kosovo unilateral declaration of independence will significantly diminish Serbia's chances of getting higher than proportionate benefits from the new CEFTA in the near future. The longer the period of political instability, the slimmer the chances of capitalizing on the opportunities fostered by the increased common market. If the Serbian government decides to introduce economic sanctions and impose limitations on trade flows with Kosovo, Serbia itself will lose the most as the disrupted trade flows will inevitably lead to the substitution of Serbian products with alternative products made in the region or elsewhere in the world.

CEFTA 2006 is an inclusive, modern and ambitious agreement. It can contribute greatly to economic and political development in SEE but it will test the administrative capacity and political will in the region. At the end of this process of enhancing regional ownership and streamlining the task forces and initiatives established under the auspices of the Stability Pact, the leadership and management of many processes has passed into the hands of regional bodies, several of which have been created for this specific task. The fact that the countries of the region have shown such willingness and enthusiasm for regional co-operation processes across a range of key areas illustrates the extent to which the value of regional co-operation processes has been recognized and accepted not only for their contribution to the European and Euro-Atlantic integration but also because of their inherent value to the political, economic, social and security environment in the region. Identifying common problems and agreeing shared solutions provides many practical benefits.<sup>121</sup>

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121 Stability Pact for SEE, Final Report of the Special Co-coordinator on Regional Ownership and Streamlining of Stability Pact Task Forces and Initiatives, Sofia, 2008, p11-19.



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# Traditional Solutions in the Traditional Sector – (Un)expected Outcomes? Energy Sector in the SEE

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## Introduction

The aim of this chapter is to outline energy policies in the Western Balkans. It also identifies regional issues that create either potential for promoting regional cooperation or its obstacles.

Based on the analysis of the goals and achievements of the Energy Community and the Regional Cooperation Council (RCC) we argue that regional organisations have not yet managed to identify and advocate true regional interests. The role of regional institutions and organisations is limited to balancing interests of various stakeholders, such as those of the EU, international financial institutions (e.g. the World Bank, the EBRD), industries, representatives of civil society and governments. Thus, the region (or regional organisations and institutions) is not a stakeholder.<sup>122</sup>

The focus is on the Energy Community and the RCC. The Energy Community is considered as a key element of the energy sector reform effort in the Western Balkans (IEA, 2008). The Regional Cooperation Council is intended „to sustain focused regional cooperation in South Eastern Europe through a regionally owned and led framework that also supports European and Euro-Atlantic integration” (RCC, 2008).

The stakeholders’ analysis includes the most active partners of the Stability Pact and participants of the Athens Process, which led to the creation of the Energy Community (c.f. Boromisa, 2006).

## Key events and recent developments

The development of the integration process in Europe has shown that energy policies may play a leading role in maintaining peace and stability. The European Coal and Steel Community, established in 1951 was a success story. In addition to achieving its original goal to prevent further war between France and Germany, the ECSC served as a foundation for the European Union.

After the end of the Cold War, a comparable initiative was launched by the Energy Charter process. The creation of a European Energy Community was initiated in the early 1990s as a new form of cooperation between the East and West in the energy field. The plan aimed at furthering political and economic integration and cooperation in Europe and at reducing its energy dependence. The central idea of the Charter was to find a political framework in which East-West co-operation can develop in the energy sector with a view to expanding energy trade; making the optimum use of energy; obtaining adequate environmental protection; promoting the transfer of technology and investment. As the Charter was a political initiative, it was followed by a Treaty in order to be put into practice. The Treaty, whose main provisions

<sup>122</sup> Regionally owned and led framework in this chapter means that the policies are formulated within the region and for the region, by governments of the countries of the region. The regional organisation of the industry, NGOs and other stakeholders are considered as interest groups. Despite the fact that they might have an important role in the creation of regional identity, we consider that they cannot represent a regionally owned and led framework.

relate to the protection of foreign investments, non-discriminatory conditions for trade and transit, the dispute resolution and the promotion of energy efficiency, was signed in 1994. Russia has partially liberalised trade and investments in the energy sector and has not ratified the Treaty.

After the end of the war in the Western Balkans, the Athens Process was launched for regional energy cooperation. The first political memorandum (on the electricity market) was signed in 2002. The second memorandum on the gas market followed in 2003. The Treaty was signed in 2005 and by the end of 2006 all signatories had ratified it. The Energy Community Treaty provides for the extension of EU rules in South-East Europe. The task of the Energy Community is to organise the relations between the parties and create a legal and economic framework in relation to network energy in order to attract investment, facilitate trade, enhance the security of supply, improve the environmental situation and develop the energy market (c.f. Article 2 of the Treaty).

Thus, although it is claimed that the ECSC is a model for the Energy Community<sup>123</sup>, it also has some similarities with the less successful Energy Charter.

The three initiatives (ECSC, the Energy Charter and the Energy Community) have several common features: they are focused on the energy sector and were launched after the war, trying to enhance co-operation among previous enemies. The main differences among the three relate to „ownership” issues and institutions. The ECSC was first proposed by French foreign minister, Robert Schuman, as an initiative relevant primarily for France and Germany. Part of the proposal was the creation of the supranational High Authority that should control production of coal and steel in Germany. The ECSC, which found substantial public support, was established and gained strong majority votes in all eleven chambers of the parliaments of the Six, as well as approval from associations and European public opinion.

The Energy Charter, initiated by Dutch Prime Minister Ruud Lubbers, was attractive to the West but not to Russia. Russia accepted a vaguely worded statement supporting the Charter's principles at the G8 summit in 2007, but it refuses to give foreign investors greater access to oil and gas reserves and export pipelines. The EU has not offered comparable value in order to make the Charter look more appealing to Russia.

In the process of the creation of the Energy Community, potential EU membership has served as an incentive to join it. The EU, which launched the idea, has had sufficient means to ensure participation, at least at a formal level. The implementation, however, requires significant commitment and capacity.

## Regional Ownership Issues and Interests

### The Energy Community

In the EU's documents, the Energy Community is recognised as one of its international energy policy priorities. According to the European Commission, the Energy Community Treaty already acts as the basis for an emerging regional energy market, and should seek to gradually extend beyond the EU and the Western Balkans to incorporate neighbours like Moldova, Norway, Turkey and Ukraine. Still, Norway is likely to have special treatment and tailor-made relations (European Commission, 2007. p. 24).

The Energy Community is developed within the EU's strategy for energy in the South East Europe. The EU has identified three formal arguments for launching the process: improving and sustaining economic development in South Eastern Europe; diversifying the supply

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<sup>123</sup> E.g. [www.energy-community.org](http://www.energy-community.org), accessed on 2 June 2008

of gas and electricity and enhancing the security of the supply of the European Union and improving the security of private citizens in the SEE. Among these, only the first one serves the interests of the region (c.f. Boromisa, 2006). Next, the Treaty identifies that the European Commission serves as a co-ordinator of the activities of the Energy Community i.e. the European Commission co-ordinates (i) the implementation of the *acquis* in SEE countries, (ii) the setting up of a specific regulatory framework, including the creation of a single mechanism for the cross-border transmission and/or transportation of Network Energy, and the supervision of unilateral safeguard measures and (iii) the creation of an internal market with a view to achieving a common external energy trade policy. The European Commission has its representatives in all the Energy Community institutions. Thus, the process of balancing regional interest within the framework of the Energy Community is strongly influenced by the European Commission. The Commission should, by definition (Treaty on European Union; Art. 3), ensure the consistency and the continuity of the activities carried out in order to attain the objectives of the Union while respecting and building upon the *acquis communautaire*. The Commission is (with Council) responsible for ensuring the consistency of the EU's external activities in the context of its external relations, security, economic and development policies. The engagement of the Commission in the Energy Community is primarily part of the EU's external relations policy, security policy and its economic and development policies. These policies might or might not coincide with the regional interests of the Western Balkans' countries.

Next, financial institutions, the World Bank, the EBRD and the EIB, as well as development agencies (USAID, SIDA) through their financing strategies<sup>124</sup> have a say in developing projects of regional interest. The EU has identified projects of common interest, for which co-operation of Western Balkans countries is necessary.<sup>125</sup> Thus, the co-ordinating role of the European Commission can help the EU to improve its negotiation position towards individual Western Balkans countries in order to build the necessary energy infrastructure.

On the other hand, improving energy infrastructure is important for all Western Balkans countries. In order to define regional priorities different from those proposed by the EU, the countries of the Western Balkans should be able to discuss them before harmonising their priorities and negotiating their position vis-à-vis the EU. This requires increased cooperation (as opposed to competition) and a forum where such issues could be agreed. By terms of the Energy Community Treaty, in addition to the coordinating role of the Commission, any EU member state may be represented in the Ministerial Council, the Permanent High Level Group and the Regulatory Board and participate in the discussions. This privilege is used by Austria, Bulgaria, Cyprus, Czech Republic, France, Germany, Hungary, Italy, Romania, Slovenia, Slovakia and UK. Thus, the meetings of the Energy Community institutions can not be used as an appropriate place for harmonising the negotiating position among the Western Balkans states in order to improve their negotiating position towards the EU.

In this respect, the Regional Cooperation Council whose mission is to promote mutual cooperation and European and Euro-Atlantic integration of South Eastern Europe in order to reinvigorate economic and social development in the region to the benefit of its people, might be a better place.

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<sup>124</sup> Such as Energy Operations Policy of the EBRD (EBRD, 2006)

<sup>125</sup> E.g. new natural gas pipeline networks to the European Union from new sources, including Greece — Slovenia — Austria (via the western Balkans) natural gas pipeline.

## The Regional Cooperation Council

According to the Joint Declaration on the Establishment of the Regional Co-operation, the Council (RCC) is intended to sustain focused regional cooperation in South Eastern Europe through a regionally owned and led framework that also supports European and Euro-Atlantic integration.

Infrastructure and energy are among the RCC's priority areas, as they are considered as „the most important prerequisites for the overall economic, social and environmental development, stability and prosperity of the region”.<sup>126</sup>

The Statute of the RCC, which is intended to be the foundation of RCC operations, does not enable development of the RCC as a key player in formulating and advocating regional interests. Its purpose is to provide political guidance and receive substantive input from relevant regional task forces and initiatives active in specific thematic areas of regional cooperation. As regards the Energy Community, the RCC „will monitor the implementation by the Contracting Parties of the *Treaty establishing the Energy Community* and politically support the overcoming of bottlenecks in its implementation.” In other words, the RCC will receive substantial input from the Energy Community, which makes decisions at the ministerial level. Despite the fact that the parties have given some of the authority to the regional institutions, i.e. Ministerial Council, in each of the countries concerned, energy policy issues are dealt with by a ministry (Energy Community Secretariat, 2007). As ministers are decision makers at a national and regional level, there should be a high level of coherence between national and regional views. Thus, the role of the RCC, which will provide political guidance to the countries in the region based on the instructions from policy-makers, can be regarded as communication, promotion and/or lobbying for decisions that have already been adopted at a high political level. The RCC, therefore, is not more regionally owned than the Energy Community.

In addition, the EU has also a role in the RCC. The membership of the RCC consists of countries of South East Europe (Albania, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, Croatia and Kosovo/UNMIK, Turkey), EU member states (Greece, Romania, Bulgaria), the European Union (represented by the Troika: the EU Presidency, the European Commission and the Council Secretariat), donor countries, international organisations and international financial institutions actively and substantially engaged in support of regional co-operation in the SEE. The operational guidance and supervision of the RCC is provided by the RCC Board. The RCC Board comprises of those RCC members contributing to the budget of the RCC Secretariat (at least 50.000 Euros) as well as the EU, represented by the Troika. The annual budget of the RCC Secretariat is set at 3 million Euros, 1/3 being the contribution of the region, 1/3 from the European Commission and the remaining 1/3 from other RCC participants and international partners. Thus, up to 60 different stakeholders (as well as the region and the EC) can have a say in the Board. This indicates that RCC is not entirely regionally owned and led framework. However, regional ownership in the RCC is significantly stronger than in the case of the Energy Community, at least in terms of contribution to the budget (33.3% compared to 5.1%), or to put it bluntly, whoever is the paying customer.

While in the Energy Community the EU co-ordinates donors and provides for budget, in the RCC all parties that have sufficient interest can participate and provide guidance. In order to make the RCC attractive to participate in, it should have tangible results.

Here, we examine the potential of the RCC to develop into a truly regionally led framework, as opposed to an organisation which represents various stakeholders' interests. The starting

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<sup>126</sup> [http://www.rcc.int/index.php?action=page&id=6&link\\_id=13](http://www.rcc.int/index.php?action=page&id=6&link_id=13), accessed on 4 June 2008



point is that the potential to develop into an important regional organisation is related to its political significance for the governments of the region.

In the priority areas the RCC serves as a facilitator and promoter. Thus, the results cannot be directly and primarily linked to the RCC's activities. The RCC also promotes Euro-Atlantic integration. The EU and NATO membership are considered to be the result of compliance of individual countries with pre-defined criteria. Participation in regional organisations is in these processes regarded as a necessity, but it is not sufficient. In this respect, success in Euro-Atlantic integration cannot be seen as a motivation for participation in regional initiatives, nor can the achievements in these areas improve visibility of the RCC. Thus, the goals of the RCC do not help to increase its importance for the governments in the region. As a result, it is not likely that the governments would be willing to contribute more to the budget in order to enable the functioning of the RCC without support (and impact in the Board) from the participants and international partners.

The South East Europe Co-operation Process (SEEC) might be important for the development of regional ownership within the RCC. A special characteristic of the SEEC is that it is an original form of co-operation among the countries in the region launched on their own initiative, and not on the initiative of some other international organisations or countries. In this respect, the SEEC seeks to define itself as an authentic voice of the SEE, complementary to the Stability Pact, SECI or the Stabilisation and Association Process.

The RCC annual meeting is held back to back with the SEEC summit. Linking the SEEC with the RCC might be regarded as a new impetus for the RCC, balancing truly regional interests and initiatives with the external hub, the EU. On the other hand, this can be regarded as the loss of the only purely regional initiative that can help in defining regional identity and as a forum for designing regional interests and negotiating one's position towards other organisations and regions, such as the EU. However, such an approach implies a divide between the EU and the SEE countries. Having in mind that all the countries of the region strive towards the EU, connecting the SEEC with the RCC might be regarded as recognition that the SEE countries are integrating towards the EU at a different pace, but that their regional identity remains and should be further defined. In this respect the RCC might be compared with the EU's Northern Dimension i.e. the RCC might be regarded as a common project of its participants, the European Union, SEEC countries and international organisations, who recognise that their cooperation framework can only be driven by a spirit of partnership and based on shared confidence (as opposed to exclusive clubs, without participation of partners outside the region). If this is the case, all the participants should share responsibility for the prosperity of the Western Balkans, its sustainable development and the well-being of its population. Geographic proximity, economic interdependence, and common cultural heritage should be recognised as values which facilitate cooperation on the basis of good neighbourliness, equal partnership, common responsibility and transparency, as well as being committed to facing common challenges. However, current challenges, such as those related to the recognition of Kosovo, prevent participation of all the countries in the region in the single forum. Thus, anchorage outside the region or some kind of external intervention is necessary in bringing together the representatives of the governments. Under present circumstances it is not likely that the governments in the region will participate in a forum and try to harmonise their views towards the „external” organisation. As a result, it is not likely that SEE governments will take a more active part in the RCC.

On the other hand, the lobbying role of the RCC and links with governments and regional institutions might be interesting for industry and financial institutions. Hence, their share in financing and impact on providing guidance might increase over time. Promoting regional initiatives in the business community will be of particular significance taking into account that the region is facing an important investment challenge to improve the energy and

transport infrastructure. According to the RCC web pages, „the RCC will encourage the regional countries in coordinating their efforts to better use available support for regional cooperation processes, primarily the multi-beneficiary programme in the EC Instrument for Pre-Accession Assistance”. Also, „participation in the International Financial Institutions (IFI) Advisory Group and its technical working groups will enable the RCC to serve as an interface between policy-makers, the IFIs, business community and social partners, as well as an instrument for information exchange for both the South Eastern Europe countries and the IFIs. The RCC will play an important role in the process of the identification of projects eligible for the Infrastructure Projects Facility support, launched by the EC Directorate General for Enlargement, and its subsequent implementation. The identification will primarily be based on Trans European Networks (TEN) criteria, economic and environmental viability and the completed as well as ongoing and planned regional studies.<sup>127</sup>

In other words, the RCC will try to lobby for support in order to implement existing EU priority plans. It means that regional priorities are coordinated within the scope or the nascent EU external energy policy.

Infrastructure development, among which the most important project at the European level is the development of trans-European energy networks is of considerable significance for future energy policy. Networks with Central and Eastern Europe are founded as a part of the pre-accession strategy, so the energy policies' role in integration is undeniable.

The implementation of these projects depends on comprehensive support and general acceptance. The RCC will foster the dialogue with social partners and civil society actors and facilitate the adoption of social action plans linked to infrastructure restructuring and the affordability of its products and services. The RCC will also try to get support from social partners and business community for the projects defined by policy-makers and IFIs. Hence, the RCC implements communication strategy of the relevant task forces and initiatives, and tries to alleviate possible negative impacts of the restructuring.

## Energy Sector in the SEE

Here we present the current state of the energy sector in the SEE as viewed from the EU's perspective. We rely on the EU documents because comprehensive reports on the energy policies in SEE countries are not available from their respective ministries.<sup>128</sup>

The overview presented here serves as a starting point to identify the role of the EU, the Energy Community and regional initiatives in formulating and implementing energy policies in the SEE.

Presented issues are identified by screening reports, progress reports, accession and European partnerships.<sup>129</sup> Within the accession negotiations, 2 negotiating chapters: Chapter 15 Energy and Chapter 21 Trans-European Networks deal with issues relevant for the development of energy policies and infrastructure. Since 2002 the European Commission regularly reports to the Council and the Parliament on progress made by the countries of the Western Balkans region within the Stabilisation and Association Process. All progress reports have a chapter on energy. Treatment of infrastructure is not uniform: some progress reports have separate chapter on trans-European networks, while others deal with the infrastructure issue in the framework of economic criteria or within the energy chapter.

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<sup>127</sup> [www.rcc.int](http://www.rcc.int)

<sup>128</sup> In Croatia, for instance, statistics are available (Energy in Croatia), as well as financial reports of the industry, financial and narrative report from the regulator, but there is no comprehensive policy report.

<sup>129</sup> The Energy Community also provides benchmarking and implementation reports, which are focused on the implementation of the energy acquis. [http://www.energy-community.org/portal/page/portal/ENC\\_HOME/SEARCH](http://www.energy-community.org/portal/page/portal/ENC_HOME/SEARCH)

The alignment process requires that the countries aspiring towards EU membership accept the goals of the EU energy policy, the energy acquis (including international obligation), and issues related to competitiveness, security of supply and sustainability. As regards international agreements relevant for energy trade, market access and cross border transit, the screening report identifies the importance of the Energy Charter Treaty (ECT) and related protocols and amendments.<sup>130</sup>

Membership in the Energy Community Treaty is regarded as an issue that reinforces commitment to apply energy acquis, with a special timetable on market opening.

Part of the trans-European network chapter related to energy networks covers the transport and storage facilities of gas as well as electricity transmission. Within the EU, priority trans-European Energy Network (TEN-E) respond to the growing importance for securing and diversifying the Community's energy supplies, incorporating the energy networks of the member states and candidate countries, and ensuring the coordinated operation of the energy networks in the Community and in neighbouring countries. The security of energy supply and the functioning of the internal energy market are key policy goals.<sup>131</sup> These policy goals are also included in the energy chapter of the accession negotiations. Implementation instruments in the energy chapter are primarily legal and institutional, while in TEN they relate to infrastructure.

The EU has identified priority projects and projects of common interest. Alignment with the EU priority projects is relevant for completion of negotiations in the chapter on TEN. As for trans-European networks, regional cooperation is necessary and the Energy Community could be regarded as „a sound basis for the opening of the energy market and promoting the interconnection of the (...) networks with its neighbouring countries.” The development of the energy networks can be seen as a significant step needed to ensure the transit of energy sources through Europe. Although the participation in the Energy Community is formally not regarded as a criterion that a candidate has to comply with, implementation of the provision is. The screening reports reveal the importance of the alignment with the EU priority projects before accession. In the report on Croatia, the reference to the Energy Community is made, while the report on Turkey stipulates individual interconnection projects and projects under development that are in line with the TEN-E as progress towards alignment with Chapter 21 – Trans-European networks.<sup>132</sup>

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130 Croatia screening report, [http://ec.europa.eu/enlargement/pdf/croatia/screening\\_reports/screening\\_report\\_15\\_hr\\_internet\\_en.pdf](http://ec.europa.eu/enlargement/pdf/croatia/screening_reports/screening_report_15_hr_internet_en.pdf), accessed on 9 June 2008, and Screening report for Turkey published at [http://www.abgs.gov.tr/files/tarama/tarama\\_files/15/screening\\_report\\_15\\_tr\\_internet\\_en.pdf](http://www.abgs.gov.tr/files/tarama/tarama_files/15/screening_report_15_tr_internet_en.pdf) The screening report on Energy Chapter for Turkey is not available [http://ec.europa.eu/enlargement/candidate-countire/turkey/screening\\_reports\\_en.htm](http://ec.europa.eu/enlargement/candidate-countire/turkey/screening_reports_en.htm)

131 For Croatia, [http://ec.europa.eu/enlargement/pdf/croatia/screening\\_reports/screening\\_report\\_21\\_hr\\_internet\\_en.pdf](http://ec.europa.eu/enlargement/pdf/croatia/screening_reports/screening_report_21_hr_internet_en.pdf) and for Turkey, <http://abm.tobb.org.tr/haberler/TARAMA%20RAPORU%20I%20VE%20II%20BOLUMLER.doc>

132 These are, for electricity, axes n°4 and n°9 aiming at developing infrastructures to connect Greece to its neighbours and increase interconnectivity in Mediterranean countries. The project “Philippi (Greece) Hamidabad (Turkey)” is a Turkish priority, as well as a “project of European interest”. In the gas sector, these projects aiming at improving interconnections and extending the gas network. For Turkey and the EU are relevant axes n°3 and n°6 of TEN-E aiming at developing the gas supply from the Caspian Sea and the Middle East and connecting Mediterranean networks: the gas pipeline projects Turkey-Greece-Italy (gas from the Caspian Sea, the Middle East and North Africa) and Turkey-Austria (NABUCCO project gas from the Caspian Sea and the Middle East) are both considered as priorities for Turkey and are defined as “EU priority projects”. In addition Turkey considers that the Arab Gas Pipeline (AGP) Turkey interconnector project is contributing to the objective of the “EU priority project for increasing the natural gas pipeline capacities between the Mediterranean countries. Turkey also mentioned other existing gas pipeline projects at various stages of advancement, such as Baku-Tbilisi-Erzurum, Trans-Caspian and Iraq-Turkey. [http://ec.europa.eu/enlargement/pdf/turkey/screening\\_reports/screening\\_report\\_21\\_tr\\_internet\\_en.pdf](http://ec.europa.eu/enlargement/pdf/turkey/screening_reports/screening_report_21_tr_internet_en.pdf), June 2007. Accessed in March 2009

Box 1 provides more details on the Commission's view on the energy sector in the SEE.

## Box 1. The EU's view on energy sector in SEE

Albania The Progress Report identifies that Albania has not been able to ensure the security of its electricity supply, and has continued to experience severe problems in the supply of power. The contract for the construction of a new thermal power plant in Vlora has been recognised as a step towards improving the security of supply, as well as the planned projects to further increase electricity generation and interconnection capacity. The Commission estimates that the energy sector is still in a critical situation which is hampering the social and economic development of the country.<sup>133</sup> Among short term priorities in the energy sector, as identified by the European Partnership is the approval and implementation of the revised national energy strategy. Upgrading the country's energy infrastructure in order to strengthen the competitiveness of the economy at large is among the economic criteria.<sup>134</sup>

Among the issues relevant for the energy sector in Bosnia and Herzegovina, the European Commission identifies the positions taken by Republika Srpska as obstacles for implementation of the Energy Community Treaty and lack of a comprehensive energy strategy.<sup>135</sup> These are also short-term priorities of the European partnership, while in the medium term the reform of energy utilities should be accelerated.<sup>136</sup>

According to the screening reports on energy and TEN chapters, the 2007 Progress Report and Accession Partnership, Croatia has made good progress. The need for the strengthening of the administrative capacity, as a condition for proper implementation and enforcement of the *acquis*, is identified.<sup>137</sup>

In Kosovo, preparatory steps towards the future liberalisation of the network and electricity-producing industries were taken. The unbundling of electricity generation and distribution continued. The electricity supply remains precarious and unreliable in Kosovo, especially in remote areas. Power cuts are still frequent. UNMIK, on behalf of Kosovo, is a signatory of the Energy Community Treaty. Kosovo is therefore bound to apply the relevant EU energy *acquis*, except for the provisions on market opening to which a specific timetable applies.

In 2007, Kosovo Energy Corporation (KEK) started implementing a new action plan aimed at increasing revenue collection and strengthening the policy of disconnection for illegal consumers. Disconnection measures mainly target commercial consumers. Namely, about two thirds of the electricity put into the grid is not paid for. On average, KEK loses about € 13-14 million per month. The accumulated debt to KEK, because of unpaid electricity bills is estimated at about € 250 million. Continuing efforts are still required to increase electricity billing and collection rates and to gradually introduce electricity prices that reflect costs.

Preparations for the development of the new Kosovo C power plant (Lignite Power Development Project), including the opening of a new lignite mine and the probable rehabilitation of selected units of the existing Kosovo A plant, are continuing. The World Bank and the European Commission support the design of the project by providing technical assistance. There are still concerns about the financial viability of the Kosovo C project in a long-term perspective and about environmental impact aspects. For the new project, Kosovo will need to comply fully with the provisions of the Energy Community Treaty that relate to the EU *acquis* for new power generation projects (i.e. in the energy, environmental and competition fields).

133 [http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/albania\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/albania_progress_reports_en.pdf)

134 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:080:0001:0017:EN:PDF>

135 [http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/bosnia\\_herzegovina\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/bosnia_herzegovina_progress_reports_en.pdf)

136 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:080:0018:0031:EN:PDF>

137 [http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/croatia\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/croatia_progress_reports_en.pdf)

There is a lack of adequate infrastructure development and investment in the distribution.

Macedonia has made good progress in some parts of the energy sector, but implementation is lagging behind. The Commission considers that the administrative capacity to enforce energy efficiency and radiation protection regulations is not sufficient and the level of independence of the energy regulator remains inadequate. Overall, the country is not sufficiently prepared.<sup>138</sup>

In Montenegro discussion on a comprehensive energy strategy delayed the decisions on the privatisation of the thermal power plant. The draft Energy Development Strategy presented for public consultation in September 2007 has not fully reflected the commitments taken in the framework of the Energy Community Treaty. As a result, European Partnership identifies the need to implement the commitments and ensure law enforcement and transparency.<sup>139</sup>

Serbia has made some, although uneven, progress in the energy sector. The Commission considers that Serbia is moderately advanced in terms of meeting European standards. The administrative capacity of the Ministry of Mining and Energy requires strengthening. Substantial changes are still needed in order to meet the requirements of the Energy Community Treaty. In the short term, Serbia should fulfil the obligations arising from the Energy Community Treaty, continue environmental audits on energy plants, addressing the worst polluters, ensure unbundling with a view to restructuring and opening up the market and make further progress towards a regional energy market, in particular by improving interconnectivity with neighbouring countries; accede to the relevant international conventions relating to nuclear safety and set up the appropriate regulatory body, continue the dismantling of the Vinca research reactor and strengthen the administrative capacity within the relevant ministries. In long term, strategy for an environmentally sustainable energy policy should be adopted and implemented, and regional and international commitments in this area with a view to establishing a competitive regional energy market should continue.<sup>140</sup>

*Source: Compiled from progress reports, European Partnership and Accession Partnership.*

The progress towards European standards, as presented in Box 1, reveals the following:

All the SEE countries have committed themselves to implementing the EU policy goals. However, most of them do not have appropriate administration, capable of ensuring implementation. In addition, several countries do not have national energy strategy, or the strategy is not integrated with other relevant policies (e.g. privatisation policy, protection of the environment and/or international obligations). Hence, it seems that in some of the SEE countries national ownership over the energy policy, planning and implementing is lacking.

In addition, Albania and Kosovo face severe problems concerning security of supply.

Under these circumstances linking the national and regional markets and policies, or harmonisation of regional interests without intervention seems to be beyond the capacity of the countries of the region.

At the same time, the liberalisation of the energy sector should increase the influence of market forces i.e. energy policies should be determined by market forces and energy questions should be separated from political factors. Ultimately, energy policies should be left to the industry. As the interests and preferences of domestic actors are crucial to shaping energy policy, privatisation and investment policies could have a significant role in determining future energy policies in the region.

According to the Energy Community “the South East European region needed a framework

138 [http://ec.europa.eu/enlargement/pdf/key\\_documents/2007/nov/fyrom\\_progress\\_reports\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/fyrom_progress_reports_en.pdf)

139 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:020:0016:0031:EN:PDF>

140 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:080:0046:0070:EN:PDF>



in which it could cooperate on rebuilding its energy networks, ensure the stability vital for investment, and create the conditions in which its economies could be rebuilt effectively. A regional approach to energy security offers significant advantages both in terms of the improved utilisation of existing supply and production capacities as well as optimising future investments. The *raison d'être* of the Energy Community is to facilitate this process. Ultimately it will also support the integration of the region into the internal energy market of the European Community.”<sup>141</sup>

Integration of the SEE in the Energy Community should be regarded as a learning experience. The candidates and potential candidates practice their role on policy-making and co-ordination at a regional level. The more countries of the SEE are ready to formulate national policies and harmonise regional priorities with national policies, the better they will be prepared for the EU membership. The EU tries to develop new external policies and enhance European governance structure.<sup>142</sup>

## Final remarks

Given the complexity of accession negotiations and internal EU issues, especially after the Irish referendum, the EU cannot offer a clear membership perspective to the candidates and potential candidates. This makes the enlargement process less motivating for the implementation of reforms. As a result, the enlargement policy as the most effective foreign policy tool is about to reach its limits. New solutions are needed, that might include redesigned policies towards regions.

The energy policy can be quite interesting in this respect. The EU offered an integration model for the SEE, based on the ECSC. The model should serve for exporting institutional solutions and speed up capacity building in the SEE that should promote a climate for investment and implementation of projects of European interest. However, whether the projects of interest to Europe are the projects of interest to the Western Balkans countries needs to be analysed in more detail. The RCC could have a role in this respect, as it is “expected to contribute to the creation of a political climate susceptible to implementing projects of a wider, regional character, to the benefit of each individual country”. (RCC, 2008)

Thus, although not initiated or owned by the region, the integration in the energy sector could serve the best interests of the countries concerned, through capacity building for policy making at a national and regional level and through making use of infrastructure.

At the moment, not all the SEE countries have been able to identify national strategies. It is thus not likely that they will be able to identify regional interests without strong intervention from the most important stakeholders. As we do not expect that national governments would be interested in more active regional arrangements, it is likely that industries (including financial) would take the leading role in formulating policies, at a national and regional level. Thus, the importance of the RCC in balancing political and economic interests in the context of national energy and security policies in the SEE and the external energy policy of the EU might increase over time.

The strategic and geopolitical importance of the SEE in providing access to energy sources and diversifying routes could, with time, serve as a basis for defining and promoting regional interests. Harmonisation of position towards different partners might enable the creation of a „Balkan dimension” that is not a purely transitory arrangement, an EU waiting room,

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141 [http://www.energy-community.org/portal/page/portal/ENC\\_HOME/ENERGY\\_COMMUNITY](http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY)

142 Establishment of the High Level Group on Competitiveness, Energy and the Environment that includes representatives from EU member states, private companies and European institutions is regarded as an attempt to enhance the traditionally weak European Governance structures in the field of energy and thus overcome national modes of policy formation, leading to a stronger regard for common European interest in long run.

but a regionally-owned policy whose value can be recognised in the region, regardless of institutional ties with the EU. However, it is necessary that a legal and economic framework, provided by the Energy Community becomes operational. As the motivation for the EU is likely to fade, the motivation for the implementation of the *acquis* should primarily be economic. As industries in the region are too small, they are not likely to create regional economic interest. Thus, global industries (including Russian ones), that take part in a privatisation process, could have a significant role in formulating national energy policies and regional policies. Such development makes it difficult to formulate regional ownership, but can be regarded as a shortcut to a globalised economy.



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# A Missed Opportunity?

## Social and Labour Market Policies in the Western Balkans

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### INTRODUCTION

This chapter explores the development of social and labour market policies (social policy for short) in the countries and territories of the Western Balkans. It argues that in-country tendencies to see social protection as a residual category and as a burden on public expenditures, and to seek to flexibilise and activate labour markets, have been reproduced by a number of international organisations, and flexible consultants forming trans-national knowledge networks, whose interventions play a crucial role in restructuring welfare arrangements. It points to the increasing importance of supra-national, particularly regional, scales in social policy and explores the, rather limited, role of the Stability Pact for South East Europe and its successor the Regional Co-operation Council in developing any coherent, progressive approach to social policy questions. The chapter concludes by outlining ways in which these bodies could act as a kind of 'bridge' to the wider regional processes associated with membership of the Council of Europe and, even more crucially, processes of association with and accession to, the European Union.

### RE-SCALING SOCIAL POLICIES IN THE NEW REGIONALISM

The nation state is still an important, but by no means the only important, scale in contemporary social policy. The rise of what Hettne has termed 'new regionalism' (Hettne, 1999) locates multi-faceted regionalisms as a response to processes of globalisation in which groups of states seek to address collectively some aspects of their economic, political, social and cultural arrangements. The diversity of the 'new regionalism', not least in terms of the role played by 'bottom up' or 'internal' drivers, is contrasted with an 'old regionalism' dominated by imposed structures in the interests of one or other 'superpower'. Regionalisms throughout the world now have a much more complex geometry of interlocking networks, variable reach of different spheres, and multiple nodal points. In terms of social policy, regional groupings of countries sharing similar traditions, legacies and developmental paths appear able to develop a degree of co-operation which can resist some of the more negative social impacts of globalisation. Regional groupings can develop new connections between the social and the economic, and between the public and the private, thus avoiding a „race to the welfare bottom“ (Deacon, Ortiz and Zelenev, 2007) in which states “reduced their welfare commitments for fear of losing capital investments” (Deacon, 2007; 9).

Operating in a space between national and cross-border policies on the one hand, and a mere subordination to global forces and organisations on the other, new regions are seen as able to construct more appropriate mechanisms of redistribution, for securing rights and social justice, and for regulating markets, institutions and social structures, involving risk pooling and economies of scale. They are also able to speak with a more coherent and influential voice in international arenas. A regional approach can strengthen learning, through a sharing of best practice and, even, the establishment of regional standards, in 'traditional' social policy spheres such as in employment protection and labour markets, health services, social protection (income maintenance and social services), and the empowerment of vulnerable

groups as well as in education, housing, migration and conflict prevention which are less often discussed as 'core' social policy questions. Regional social movements, linked to but not reducible to 'non-governmental organisations', are also seen as able to construct new forms of solidarity and advocate for more inclusive, supra-national, forms of citizenship and rights for migrants (Deacon, 2007; 175).

South Eastern Europe, a term used here broadly interchangeably with the concept of the Western Balkans<sup>143</sup>, does not fit easily or securely into this idea of a new regionalism. Crucially, South East Europe is, at best, an emergent sub-regional space, still largely ascribed by outside forces rather than achieved from within. Indeed, regional co-operation is frequently put forward by these forces, and often accepted by politicians in the region, as a conditionality making possible the ultimately more important goals of EU accession and NATO membership rather than as an end in itself. The wars and conflicts since 1991, and the re-constitution of various states, mini-states and territories with a rather complex relationship to each other, indicate how political, social, cultural, economic and institutional arrangements have been profoundly destabilised, and sub-national, national and regional scales and their inter-relationships are still heavily contested (cf. Deacon and Stubbs, 2007; Clarke, 2008). Even where the articulation of narrowly conceived 'national interests' appear to coincide with broader regional interests, this has been expressed much more clearly in the sphere of economics and trade where an existing sub-regional arrangement CEFTA was readily available (cf. Bajić and Zdravković, this volume) than in the sphere of social policy. The region has experienced a period of a complex de- and re-territorialisation of welfare visible in terms of the existence of refugee and displaced populations and a complex pattern of forced migration and uneven return; contiguous and other diasporas involved in sending significant remittances home; various kinds of 'enclave welfare' and all manner of cross-border claims and entitlements. In addition, the wars, ethnicised nationalisms and painful restructurings have had highly significant social consequences which have impacted on the region as a whole, albeit differently in different sub-regions, which represent, if not countered and alleviated, a significant problem for the region as a whole.

## LOST IN TRANSITION?: SOCIAL CONDITIONS AND SOCIAL POLICIES IN THE WESTERN BALKANS

With the exception of Albania, the countries and territories known as the Western Balkans were all part of the Socialist Federal Republic of Yugoslavia (SFRY) from 1945 until 1991. This is an important common legacy, notwithstanding significant and, indeed, growing inequalities between the constituent republics in this period. From the late 1950s onwards, the introduction of socialist self-management, the recognition of the existence of social problems within a planned economy, and the institutionalisation of the employment of University- educated social workers and other professions in deconcentrated state Centres for Social Work (CSWs), represents a very different legacy from that in much of Central and Eastern Europe within the sphere of influence of the Soviet Union. CSWs were particularly important, charged with "analysing social problems in the municipality, suggesting measures to solve them, undertaking professional guardianship work, and solving other social problems" (Šućur, 2003; 8). Other legacies, notably rapid urbanisation after 1945, the development of a dual social welfare structure privileging industrial workers at the expense of the rural population, but also mass literacy and universal education and health for all, have a relevance in the contemporary period.

Whilst, of course, the wars of the Yugoslav succession and the turbulence in Albania in

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143 Broadly speaking, the post-Yugoslav states and territories plus Albania minus Slovenia.

the 1990s undermined and eroded welfare legacies, it can also be argued that it situated the region more within a humanitarian, security and human rights discourse than a neo-liberal structural adjustment or shock therapy discourse. By the time the World Bank and the International Monetary Fund came to advise on restructuring, the dominance of rapid shock therapy privatisation had, to some extent, been challenged by a concern to ensure that safety nets meant that no one ‘fell through the net’. Nevertheless, in this context war was itself a particularly dramatic shock, reflected in rapid erosion of well-being and human security which left many people with few resources to meet subsequent shocks. In addition, external advisors rarely understood, much less tried to rebuild, the interesting hybrid of Bismarckian and solidaristic welfare arrangements.

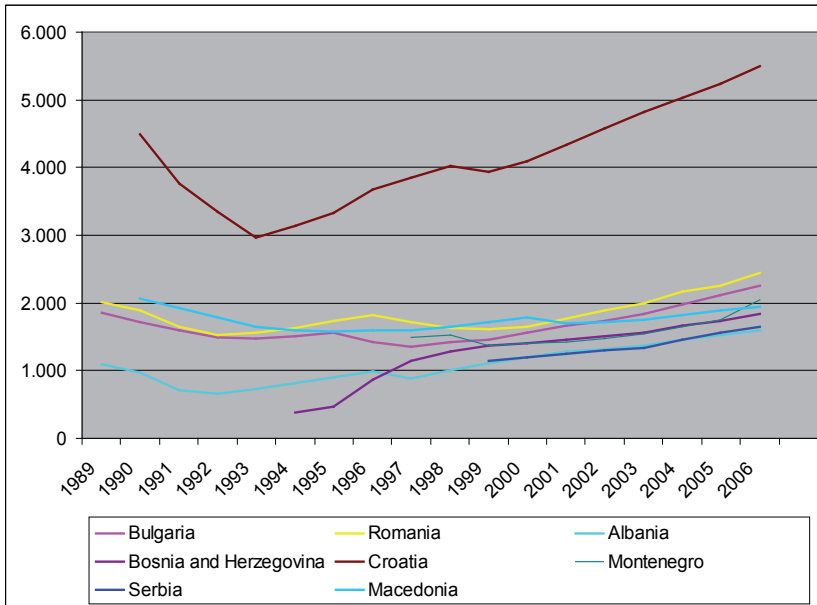
Notwithstanding the fact that data is incomplete and unreliable for much of the region, in the absence of recent reliable census data for example, here we outline broad socio-economic trends and the state of social welfare today in the region.

**Table 1: Western Balkans Main Indicators**

	GNI p.c \$ ATLAS <sup>1</sup>	Population m. <sup>2</sup>	HDI Rank <sup>3</sup>	LFS Unemp % <sup>4</sup>	Under 5 mortality per 1,000 <sup>5</sup>	Poverty \$PPP2.15 p.day % <sup>6</sup>	Poverty \$PPP4.30 p.day %
Year	2006	2006	2007/8	2006	2006	2002/4	2002/4
Albania	2930	3.2	68	10.0 <sup>7</sup>	12.1	24	71
Bosnia-H	3230	3.9	66	n.a.	8.6	4	35
Croatia	9310	4.4	47	10.5	6.1	0	4
Macedonia	3070	2.0	69	36.0	12.9	4	24
Kosovo	1600	2.0	n.a.	n.a.	n.a.	n.a.	n.a.
Montenegro	4130	0.6	n.a.	29.6	12.3	n.a.	n.a.
Serbia	4030	7.4	n.a.	20.9	8.7	6 <sup>8</sup>	42 <sup>9</sup>
Bulgaria	3990	7.7	53	8.9	11.6	4	33
Romania	4830	21.6	60	7	16.4	12	58
Slovenia	18660	2.0	27	5.9	3.9	n.a.	n.a.

*Source: see footnotes. Essentially the Table is an updated and amended version of Deacon and Stubbs (2007); 12.*

Figure 1: GDP per capita at 2000 \$ constant prices.



Source: TransMONEE (2008).

Table One shows best estimates of key dimensions of socio-economic progress in the region, with Bulgaria, Romania and Slovenia included for comparative purposes. Poverty rates are absolute rates expressed in terms of international purchasing power parity (PPP) rates in USD, and do not reflect either official poverty lines, where they exist, nor consumption basket poverty lines from poverty surveys<sup>144</sup>. In addition, in the context of continued growth in the last five years (see Figure One), current rates are probably, in all cases, lower although of greater relevance is the need, noted below, to move towards more European concepts of relative poverty statistics which are, still, not gathered systematically throughout the region. Perhaps even more importantly, national aggregate statistics do not show the significant and increasing regional disparities. Indeed, it has been argued that:

*“Poverty is concentrated in a distinct band encompassing Kosovo and its immediate surroundings: north and northeast Albania, southern Serbia and northern Macedonia (as well as) ... Western Serbia and, within Bosnia & Herzegovina, Republika Srpska.” (DFID, 2004; 4).*

As the report notes, these areas have traditionally lagged behind and, it could be added, benefit least from the fruits of recent economic growth. It is in these regions where traditional rural poverty is now joined by new urban poverty and by poverty in war affected areas. Vulnerable groups are consistent throughout the region, including: lone parent households; refugees and displaced persons; minorities particularly Roma; larger families; people with disabilities not resulting from war; and, albeit rather more unevenly, older people. Unemployment tends to be long-term and also has a gender, age and ethnic dimension, with levels of unemployment amongst young people particularly high.

Indeed, discussing the region in terms of leading and lagging sub-regions would avoid

<sup>144</sup> A recent report for the Council of Europe cites World Bank figures for national poverty lines but neither sources nor dates his data. He appears to mean consumption basket poverty lines. The rates are Serbia and Montenegro 10%; Croatia 11%; Bosnia-Herzegovina 18%; Albania 25.4%; FYR Macedonia 30.2%; Kosovo 37%. (Sansier, 2006; 9).



rather simplistic discussion of the phenomenon of 'jobless growth' or, indeed, rather crude generalisations that the period of jobless growth has now ended with countries in the Western Balkans experiencing labour shortages (Havlik et al, 2008). Instead, what appears to be happening through uneven restructuring is the multiplication of labour markets and the hardening of disincentives to mobility between them. An extensive review by the European Training Foundation highlights two recent trends: a clear shift to services and deindustrialisation and an increasing share of the private sector in the economy, although with a lack of progress in terms of restructuring of some state owned enterprises (ETF, 2007; 8). The report points to a division between high skilled transition in Croatia and, to an extent they argue, Serbia, and a low-skill development path elsewhere. Crucially, the report notes the unreliability and lack of analytical capacity of "standard labour market indicators" (ETF, 2007; 10) in the context of an increasing reliance on, or a return to, subsistence farming, informal employment, and self-employment, with a high degree of instability and precarity.

In the context of lack of prospects at home and a tradition of labour migration to Western Europe, many parts of the region are heavily reliant on remittances from abroad, with the latest World Bank estimates for the proportion of GDP from official remittances in 2006, likely to significantly understate the true picture, being: 17.2% for Bosnia-Herzegovina; 14.9% for Albania; and 13.8% for (then) Serbia and Montenegro (World Bank, 2008). Adding sizeable grey economies, estimated recently to be between 25% and 35% for the region as a whole (ETF, 2007; 7) to these figures suggest that, in parts of the region, the formal economy accounts for less than 50% of GDP.

With the exception of the Albanian communities in Albania, Kosovo, and FYR Macedonia, the region is marked by rather dramatic demographic ageing of the population. When this is combined with high unemployment, low activity rates and low rates of contributions as a result of the grey economy and the number of workers registered as receiving only minimum wages, there is a significant erosion of contributory insurance-based welfare systems including health services, pensions, unemployment insurance and other forms of social security. As noted below, these basic problems have been compounded by the advice from key international actors which tend to marketise, residualise and projectise provision, further undermining insurance-based risk pooling.

In terms of health systems, again with the partial exception of Albania, the legacy of well-developed, if over-medicalised, universal health systems in the context of high public expectations of 'health for all', have actually heightened the funding crisis as systems have been unevenly affected as a result of 'locked in' expenditures, particularly in terms of hospitals and medical technologies. Emerging evidence from surveys points to increasing inequalities in access to health care facilities, to treatment, to appropriate medicines, and to quality care, by income, by region and by ethnicity. Research in Croatia, showing trends which may well be common throughout the region, suggests that lower income groups, the unemployed, returnees, those in rural areas, and Roma minorities have significantly worse health outcomes, live further from the nearest health facility, and use fewer preventive services than the rest of the population (Šućur and Zrinščak, 2007; Vončina et al, 2007; Skarić-Jurić et al, 2007; Mesić and Bagić, 2007). In addition, informal marketisation throughout the region and the increasing use of out of pocket payments, also seems to affect poor and excluded groups more than others, who are also over-represented in the small but important, group of people who for one reason or another lack basic health insurance (cf. Jurlina-Alibegović et al, 2006). Reform agendas, discussed in more detail below, have overwhelmingly concentrated on cost containment targeting headline figures of the proportion of GDP spent on health care by the state. In this regard, the post-Yugoslav countries have maintained expenditures between about 5% and 7% of GDP, with Albania spending only 1.8% according to 2002/4 figures (UNICEF IRC, 2006; 22)<sup>145</sup>, but, with the exception of Croatia (with a rate of \$701) per capita

145 Sansier gives very different figures ranging from 3% in Albania and Serbia, through 5.3% in Macedonia and 5.6% in Kosovo to around 12% in BiH and Croatia (Sansier, 2006; 24).

spending in PPP\$ in the region is low, \$153 in Albania; \$166 in Bosnia-Herzegovina; \$283 in (then) Serbia and Montenegro; and \$329 in Macedonia (ibid), with private expenditures accounting for 58% of total health expenditures in Albania and 49% in Bosnia-Herzegovina (ibid; 23).

Pensions systems are, perhaps, the most vulnerable to demographic changes and employment and contribution crises and all of the region has implemented, or is in the process of implementing, some kind of multi-pillar pension reform with all seeking to secure a sustainable Pay-as-you-go (PAYG) pillar in the face of employee:pensioner ratios which range between 1.4 and 2.0 (Sansier, 2006; 16) and high and rising old age dependency ratios<sup>146</sup> (except for Albania) of between 16% and 24% (ibid). Throughout the region reforms have led to a tightening of pension conditionality and an increase in retirement age to 65 for men and between 60 and 65 for women (Sansier, 2006; 17) and a lowering of replacement rates, basically average pension expressed as a percentage of average earnings, in some cases to levels below the internationally acceptable standard of 40% (Table 2). Kosovo has a rather unusual pension scheme deriving from its particular circumstances, namely the difficulty of accessing contributions records, so that all residents over 65 receive a basic 'social' pension (cf. Gubbels et al, 2007). Table Two shows current replacement rates in the Western Balkan region. Average pensions, with the exception of Kosovo where it is set at a flat-rate €40, are said to range between €80 and €135 in the region (Sansier, 2006; 14).

**Table 2: Pension Replacement Rates, 2005**

COUNTRY	RATE
ALBANIA	47% <sup>10</sup>
BOSNIA-HERZEGOVINA	43%
CROATIA	42%
FYR MACEDONIA	72%
MONTENEGRO	57% <sup>11</sup>
SERBIA	60% <sup>12</sup>
KOSOVO	n.k. <sup>13</sup>

*Source: European Commission studies on Social Protection and Social Inclusion in W Balkans*

Whilst many of the countries in the region have legally established minimum pensions, there are large numbers of older people in the region not in receipt of pensions, some of whom do receive rather low social assistance benefits but some of whom appear to receive nothing. In Macedonia, those without pensions has been estimated to include up to 70,000 people or 31% of over 65s (Donevska et al, 2007; 122) and in Croatia some 20% of the same age group appear not to receive pensions (UNDP, 2006). Throughout the region, this group appears to be made up of those reliant on subsistence agriculture; those with interrupted contribution records; ethnic minorities, particularly Roma; and women. It may also include older returnees who are in receipt of pensions from abroad, however.

Disability pensions are important throughout the region, with pension related to a medical assessment of injury but also its cause, with those with industrial injuries and, particularly, war-related injuries tending to receive higher pensions than other persons with disabilities. The issue of disability pensions is complex, relating to large numbers of persons in some countries who were at one time able to receive a medical judgement that they were not fit for work, and the vexed question of 'merit pensions' particularly for war veterans and their

<sup>146</sup> Those over 65 expressed as a percentage of those between 15 and 65 years old.

families which have led to notions that social policy has been 'captured' by certain groups (Stubbs and Zrinščak, 2007).

Overall, not unlike health care, the concern of key international actors has been more on the financial sustainability of pension schemes and less on issues of coverage and adequacy. In addition, reform models have been promoted based on rather doubtful assumptions which, in any case, will not benefit anyone for many years, will not help those pensioners at greatest risk of exclusion, and may divert attention, funding and trust away from the urgent task of building a sustainable and adequate basic pension system.

Whilst unemployment benefits have been introduced throughout the region, except in Kosovo, they are very limited in coverage, duration, and amount, with many groups of workers explicitly or implicitly excluded. Most of those unemployed have to rely on social assistance which is means-tested and for those capable of work, increasingly tied to some kind of engagement in public works or retraining. Notwithstanding emerging evidence that child benefits can be a useful contribution to the fight against poverty, neither Albania nor Kosovo have child benefit schemes, although one of Kosovo's social assistance schemes is available only to those capable of work if they have young children. Elsewhere, the trend has been towards means-tested rather than universal benefits with coverage and rates varying considerably. Social assistance schemes are mainly administered by social workers in CSWs or local officials and do not perform well in terms of poverty alleviation with low coverage, with Sansier (2006; 42) estimating between 5% of the population in Croatia to 15% in Kosovo, low benefit levels and some errors of inclusion. Low levels of benefit relate to the influence, again, of key international organisations and a fear of creating disincentives to take low paid work. Less often discussed are social services which, again with the exception of Albania and partly Kosovo are still too weighted towards residential care at the expense of community-based services provided by non-state actors. Residential care is problematic less in terms of absolute rates, which are much lower than those in Bulgaria and Romania, and more in terms of quality and appropriateness of care which is too often long-term and remote from centres of population. The general exclusion of people with disabilities in the region, problems faced by children with disabilities in accessing mainstream education, and the lack of access to formal labour markets are also pronounced. In addition, true social planning and the provision of adequate social casework services is missing in the region, with Centres for Social Work in need of reform and modernisation of skills. In Bosnia-Herzegovina, municipalities and, to an extent in the Federation of Bosnia-Herzegovina, cantons are the only actors involved in financing social protection leading to huge disparities of benefits. Strategic documents, often produced with support of international actors are uneven, sometimes contradictory and overlapping, with poor horizontal and vertical co-ordination and extremely poor monitoring and evaluation.

There has been little work done on the cross-border and regional dimensions of social policy although a number of issues are clearly important in this regard, including social rights of refugees and returnees, ensuring reciprocity in pension arrangements, residents in institutions from neighbouring countries, and liaison regarding contribution records. Furthermore, as the drivers of social exclusion are similar in the region (cf. Groves, 2006; 44), a regional approach would seem to have merits.

## A CROWDED PLAYGROUND?: INTERNATIONAL ACTORS AND THE MAKING OF SOCIAL POLICY IN THE WESTERN BALKANS

A bewildering array of international actors and their representatives, likened to a 'crowded playground' (Arandarenko and Golicin, 2007; 182 ) some of whom wear more than one face, all compete to shape the social policy of the region. This has major implications for transparency and ownership with some countries' social affairs ministries confused and disempowered in these processes (Deacon, Lendvai and Stubbs, 2007; 226). Indeed, it is not unknown for different donors to be working with different ministries on similar themes, from divergent perspectives, at the same time. Notably, social policy choices can be somewhat accidental, if not idiosyncratic and arbitrary, with significant policy shifts depending on a particular constellation of external consultants and Ministers working in the absence of any public political discourse or concern about social policy choices. Whilst this is particularly visible in protectorates or semi-protectorates such as Kosovo and Bosnia-Herzegovina, it has a wider relevance.

In addition to the presence of the World Bank, the EU, and the UN agencies including the UNDP, ILO and UNICEF, the region is marked by a proliferation of actors, some of which are completely new and largely incomparable with any other bodies elsewhere, and all of which contribute, explicitly or implicitly, to a complex arena of policy advice, project implementation, and strategic alliance-building in social policy. Bilateral agencies, notably the UK's Department for International Development (DFID), the Swedish Aid Agency SIDA and USAID have also been involved. All work through international consultants who form interlocking trans-national knowledge networks. What all of this often means is that the real centre of social policy development is determined within the fiscal envelopes of the Ministry of Finance, much constrained by the conditionalities of the IMF and, in particular, the World Bank.

The World Bank's strong and often pervasive 'structural adjustment' framework dominates in projects and programmes of reform in social protection, labour markets, pensions and, to an extent, health. Low interest loans tied to conditionalities cement the influence of the International Financial Institutions, of course. Of perhaps greater importance, however, is the World Bank's early involvement and investment in strategic alliances with policy makers, researchers, local think tanks and other key policy brokers schooled in the World Bank's methods, statistical techniques and broad policy orthodoxies. As such it is the classic, and certainly primary 'transnational expertised institution' since "the legitimacy and credibility of the Bank's expertise is drawn through a circular process between the knowledge it produces and the audiences that legitimise that knowledge" (St. Clair, 2006; 77). The role of 'liberal' think-tanks and researchers, including G17+ and the Centre for Liberal Democratic Studies in Serbia, the Institute for Public Finance in Croatia and the Institute for Strategic Studies and Prognoses in Montenegro, should also be noted.

In each reform field, however, the picture is rather more complex and uneven than one which suggests the smooth reproduction of neo-liberalism. Whilst South East Europe, after Latin America and Central and Eastern Europe were key sites for the implementation of pension reform based on a transnational coalition including the World Bank, USAID, and Chilean economists (cf. Orenstein, 2005), it was the rather more 'mixed' Argentinean-type reform model which tended to be introduced, beginning in Croatia and now, it appears, in Montenegro. Only Kosovo, through the involvement of USAID consultants, introduced a substitutive private scheme but, as noted earlier, this runs alongside a basic 'social' pension. In addition, Slovenia and Bosnia-Herzegovina have resisted such reforms thus far, in part through politically organised opposition based on evidence regarding the high transition

costs of reform. Elsewhere, as noted in regard to Croatia, 'expert led' reforms were introduced with almost no political debate (Stubbs and Zrinščak, 2007). Crucially, until recently, again as noted below, the only European Union interest in pension reform was framed in terms of public expenditure so that the EU was largely absent from these debates or even implicitly supported reforms.

In terms of labour markets, it is possible to trace a broad reform model of flexibilisation although, even here, the process has been uneven and far from a fundamental shift 'from welfare to workfare' (Bornarova et al, 2007). There has certainly been reform of legislation, aided by international consultants, in terms of flexibilising labour laws and introducing active labour market programmes "encouraged time and again by the World Bank across the region" (Arandarenko, 2004; 41) but there has been some alternative advice, notably from the ILO and, crucially, the impacts of policies has been much less than was expected or advertised. In part, this could be a result of organised opposition but, more likely, it is a result of the difficulty of re-designing labour market institutions based on some kind of 'ideal type' ideological model. Increasingly, an agenda on those who are 'hard to reach' has led to a rather punitive conditionality for certain welfare recipients capable of work that they should engage in public works and yet, overall, expenditures on such programmes are limited and evidence of improving employability sparse.

It is, perhaps, in health care reforms where the largest gap between a reform agenda intent on creating a modern and fiscally sustainable health care system and the realities on the ground are the greatest. Many countries in the region have had a series of World Bank led reform projects which are judged as 'successful' only for new projects to develop essentially targeting the same core issues. Not unlike labour market institutions, health systems are not easy reform targets, given the adherence by very powerful doctors' lobbies to over-medicalised approaches throughout the region. A reform agenda supportive of privatisation has been steered in the interests of doctors who, in much of the region, are able to operate private practices within state hospitals. A conditionality which, simply, targets reductions in overall public health expenditures, to which many governments in the region have signed up to, has proved extraordinarily difficult in practice, leading to a rather inequitable mixture of informal marketisation and a dual track health system. In addition, of course, ideas of 'health for all' and of universal public health services remain attractive to voters and difficult to dismantle.

In many parts of the region, the scale of social protection activities changed, with leading reformers tending to decentralise services and, in some cases, benefits. Increased discretion for local governments was rarely combined with increased funding so that in these countries, decentralization tended to fuel poverty and increase discrimination against so-called 'undeserving' families. Elsewhere, the complexity of different forms of decentralisation has mitigated against rational social planning (Bošnjak and Stubbs, 2007), or led to 'parallel' central and local state provisions, both tending to be captured by vested interests (Stubbs and Zrinščak, 2007). World Bank-led 'safety net' approaches are now being refined with an emphasis on 'conditional cash transfer schemes' which tie transfers to supposedly 'human capital' building behavioural change and represent, as in a proposed scheme in Macedonia, the latest importation of models from elsewhere and a new 'experiment' which is highly selective in terms of the 'evidence' marshalled to justify its introduction. It is hard to find any social protection reform programme in the region which does not have some World Bank involvement, often in partnership with DFID. Whilst the Bank's leverage is greatest in those lower income countries where Poverty Reduction Strategies are in place, it is active also in middle-income countries. Its expertise is still more focused on cash benefits and poverty targeting, however, than on integrated social protection programmes, and its support for strategic approaches has not had the desired results either.



## PROMOTING SOCIAL COHESION?: FROM THE STABILITY PACT TO THE REGIONAL CO-OPERATION COUNCIL

In terms of actors at the regional level, the most important of these has been the Stability Pact for South Eastern Europe, established in 1999. After sustained lobbying by a range of actors, including the ILO, Trades Unions, and some bilaterals, an Initiative for Social Cohesion (ISC) was established in 2000 within Working Table II on Economic Reconstruction, Development and Co-operation. Its overall objective was “to address social issues that affect the daily lives of citizens of the countries of SEE through regional approaches in the field of health, social protection, employment policy and vocational training, social dialogue and housing” (ISC, 2002). Its initial priorities included: improving health policy; strengthening social protection systems; developing social dialogue; enhancing employability; stimulating new housing policies; and monitoring and co-ordinating social policy development related projects (ISC 2002). Leading roles were taken by the ILO, the Council of Europe, the European Trade Union Confederation, and the World Health Organisation, with funding from a range of donors, including most prominently Switzerland and the Council of Europe. The Initiative’s work, some way away from citizens’ daily lives, focused on inter-Ministerial dialogue, capacity building, assessment, and networking and dialogue.

As other chapters explore in greater detail, the Stability Pact announced its transition to a more regionally owned and focused Regional Cooperation Council, linked to the political South East Europe Cooperation Process (SEECp), with a secretariat in Sarajevo, and with funding from external donors and from Governments in the region (the Western Balkans, Bulgaria, Romania and Moldova), operational from May 2008. Lobbying from within the ISC appears to have led to a rather belated, and somewhat half-hearted, recognition that one priority would be ‘Economic and Social Development’ rather than merely ‘Economic Development’. Whilst it is too early to say with certainty how the RCC will fare, it is now possible to reflect on the achievements of the ISC and on how to take social cohesion issues forward, based on the ISC’s own deliberations from about mid-2006 onwards. This does little to challenge a view of the ISC as an initiative which has “gone largely unnoticed and ha(s) had little impact outside of a small circle of cognoscenti” (Deacon, Lendvai and Stubbs, 2007; 225). The ISC claims to have maintained a number of ‘thematic networks’ and to have run over a dozen ‘regional projects’ in the areas of employment, health, social dialogue, social protection and housing.<sup>147</sup>

Of these, it appears that the employment focus has been linked to trade and investment and is now continued under ‘promoting human capital’ in the RCC rather more than in terms of the social policy dimension. However, in the ISC’s own review, much is made of a series of Ministerial declarations, known as „Bucharest Process“, beginning with a conference of Ministers of Employment and Social Policy in October 2003<sup>148</sup>, whose closing statement is so vague as to be virtually meaningless, noting labour mobility, training, social dialogue, the employment of vulnerable groups, and the impact of high unemployment on poverty and social cohesion. Indeed, in those countries where employment and social policy issues are divided between Ministries, the process placed employment ministries in first place. The ISC did introduce a policy review process which was also referred to in the conclusions of the follow-up conference in Sofia in October 2005 which set five priorities:

1. to implement the recommendations of the policy reviews;
2. to seek to further improve the national employment policies, in order to pursue

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<sup>147</sup> <http://www.stabilitypact.org/soc-cohesion/default.asp> (accessed 30 May 2008).

<sup>148</sup> <http://www.stabilitypact.org/soc-cohesion/documents/BucharestDeclaration.TIF> (accessed 30 May 2008).

economic growth, social cohesion and regional stability with high and productive employment;

3. to promote adaptability and employability in the labour market through active and passive labour market policies. Special attention should be given to facilitating access to employment by vulnerable groups;
4. to promote gender equality in national employment strategies and to use specific policies targeting labour market gender inequality and gender mainstreaming as strategies to achieve this goal;
5. to seek further improvement in the effectiveness and coverage of public employment services, drawing on the experience of the region and best practices of the Member States of the European Union.<sup>149</sup>

The Montenegro Conclusions, from a conference in October 2007, places discussion more squarely in terms of the ILO's 'Decent Work' agenda, and notes common challenges facing the region, noting social protection deficits and issues of access to employment for young people and women. Apart from adding 'Occupational Safety and Health' to the range of priorities, the commitments made remain vague noting activation strategies, benefit reviews, and inclusive labour markets, amongst others. The RCC commits to promoting the country review process which has had little impact and even less added value, and to maintain a project on Occupational Health which appears to have been fairly opportunistic.

The establishment of an SEE Health Network has also had little impact, although through this network and through the Dubrovnik Pledge of 2001 and the Skopje Pledge of November 2005, both the Council of Europe and the World Health Organisation have played a role in capacity building for Ministries of Health in the region. The Dubrovnik pledge is very strange since its headline commitment to meet the health needs of vulnerable populations, mobilising "human and financial resources to the extent possible", is hardly matched by the actual commitments, namely to:

- increase citizens' access to appropriate, affordable and high-quality health care services;
- intensify social cohesion by strengthening community mental health services;
- increase the quality of and regional self-sufficiency in the provision of safe blood and blood products;
- develop integrated emergency health care services that are offered free of charge to the user;
- strengthen the surveillance and control of communicable diseases;
- strengthen institutional capacity and intersectoral collaboration for access to affordable and safe food products; and
- establish regional networks and systems for the collection and exchange of social and health information.<sup>150</sup>

The Skopje Pledge, following a November 2005 meeting, which sees the active sponsoring role of Council of Europe Development Bank, is more detailed in terms of establishing the Statute of the SEE Health Network, establishing a health programme officer within the ISC

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149 <http://www.stabilitypact.org/soc-cohesion/SofiaConclusionsEmployment.asp> (accessed 30 May 2008)

150 <http://www.stabilitypact.org/soc-cohesion/dubrovnikpledge.doc> (accessed 30 May 2008)



secretariat and working under rotating six-month presidencies<sup>151</sup>. The network apparently includes 21 health experts and some 100 policy makers and civil servants. There appears to be little linkage between the project-based work of the network, on issues such as tobacco control, mental health, and maternal health and the analytical work such as the extensive 'Health and Economic Development in South East Europe' report (SEE Health Network, 2006). The ISC, in the end, opted to phase out the secretariat, seek a 'sustainable hub' for the network in the region, and seek greater involvement by the European Commission and other European actors.<sup>152</sup> The Network will continue, it appears, itself transitioning to regional ownership, with some kind of Secretariat to be linked to the RCC, overseeing projects on public health. This may offer a more coherent linkage between analysis and networking, and in the future, has the potential to challenge an almost exclusive focus on the economics of health in the region.

In terms of social protection, one spin off from the ISC is the Social Institutions Support Programme, with a main office in Skopje. It is meant to support the modernisation of social policies and institutions, and to promote regional social security coordination. This programme is mainly funded by the European Commission, and co-funded and managed by the Council of Europe. The Programme has contributed to the creation of a network of social security professionals and has set the basis for regional cooperation in the field of social security. However, the Zagreb declaration following a Ministerial Conference on Social Security Co-ordination in the Western Balkans (Social Institutions Support Programme, 2006) has had little impact. Indeed, not unlike the ISC, it has been noted that the activities of the Centre are "by and large of academic or/and networking character, thus having no, or at least very negligible, general impact" (Gerovska Mitev, 2007; 145).

Earlier work on pensions, a partnership between the Governments of Slovenia and France, the ILO and the Council of Europe did make an important intellectual intervention regarding pension reforms, warning about high costs likely to be incurred in privatisation in the absence of well-developed financial markets. The Ljubljana note from this period can still be found on the ISC web page<sup>153</sup>, but it has fallen far short of being a framework for regional co-operation as originally anticipated. Virtually no reference is made to the social protection strand in RCC commitments, with it being left to other international organisations to pick up the issues.

Overall, then, the Stability Pact is of sociological interest insofar as it reflected a new working model of donor-regional co-operation which encouraged an innovative kind of policy entrepreneurship. Social policy issues were quite marginal and appeared to be heavily dependent on particular steering by external agencies or individuals, and to be reliant on rather ad hoc project funding. In the end, apart from projects, little is left besides signed documents committing ministers to very little. The RCC seems more top-down and more economic in its commitments than even the Stability Pact was. It will maintain an employment focus but within a broader emphasis on free trade, investment, transport and security. It may become a regional hub for work on social dialogue and on housing issues but little else in the social policy arena. At the moment, it does not offer much in the way of acting as a vehicle or bridge to promote European Union and Council of Europe commitments on social protection, social inclusion and social cohesion in any coherent fashion into workable policies and programmes.

An important exception, in a sense, showing how a focus on 'the social impacts of other policies' may become a kind of substitute for serious treatment of social policy directly, is the

151 <http://www.stabilitypact.org/soc-cohesion/54634-kmi%20Skopje%20pledge.pdf> (accessed 30 May 2008)

152 <http://www.stabilitypact.org/soc-cohesion/ISC%20Strategy.pdf> (accessed 30 May 2008).

153 <http://www.stabilitypact.org/soc-cohesion/documents/PM12002M21NoteLjublj4-5Nov.pdf> (accessed 30 November 2008)

social dimension of the work of the Energy Community (see Boromisa, this volume). Clearly, there has been significant recognition of the fact that “the restructuring of energy utilities has a significant social dimension” (Boromisa, 2006; 115), both in terms of job losses and the impact of price increases on vulnerable households. The Governments of the South East European Energy Community signed a Memorandum of Understanding on Social Issues in the Context of the Energy Community on 18 October 2007<sup>154</sup>, signifying a political intent to take account of the social dimension of the Energy Community treaty, and seeking to balance consumer social protection with a commitment to “a sustainable and competitive market”. Instead of employment protection, the MoU focuses on ‘management of change’ and improving the adaptability of workers who lose their jobs in the restructuring process. A key part of the MoU envisages country specific Social Action Plans drawn up in close co-operation with social partners, and an agreement to assess the need for a Social Forum to consider the social impacts of energy market reform.

The European Federation of Public Service Unions have criticised the lack of action since the MoU<sup>155</sup>, although the first Social Forum took place in November 2008 in Tirana. In particular, work on Social Action Plans appears to have not yet started, so that it is difficult to judge precisely what will emerge from this new linkage between regional co-operation and social and labour market policies. Interestingly, the European Commission appears to have a high profile in some of these discussions so that the social impacts of energy restructuring could, indeed, form a bridge between the social dimension of the EU and existing regional co-operation processes in the future.

## A NEW EUROPEANISATION OF SOCIAL POLICIES?

Europeanisation can be seen as “a process where ‘national social policy’ frameworks are reconfigured, reframed and re-coupled” (Lendvai, 2007: 31) in the light of a still developing, and in many senses, contradictory, ‘European social model’ which, despite its ‘uncertain future’ and uneven application, does represent a set of common core values (cf. Vaughan-Whitehead, 2003; 4). Crucially, this model is as much related to the Council of Europe and its Social Charter as it is to the process of accession to and association with the European Union. All of the countries of the region are members of the Council of Europe, with the exception of Kosovo, so that regular reporting on obligations arising from the charter, and responses from the Council’s Committee of Experts, are a useful and yet largely under-emphasised aspect of aligning social policy processes in South East Europe with broader European values and perspectives. Thus far, there has been little explicit reinforcement, through sub-regional structures, of these processes, however.

For much of the Western Balkans, the EU’s external assistance agenda, and its various aid and reconstruction programmes, bear at best only a passing connection to social policy issues. The EU’s relationship to much of the region is still dominated by a reconstruction and development agenda, heavily bureaucratised and delayed in its implementation, in which social policy concerns are rarely or haphazardly stressed. This is the case with the CARDS programme in the Western Balkans (cf. Stubbs 2004) and appears to be the case within the specific context of the European Agency for Reconstruction which is responsible for the main assistance programmes in Serbia and Montenegro, Kosovo and Macedonia. There are several grounds for optimism, however.

Firstly, the recent communication from the European Commission on the “urgent need for a comprehensive EU strategy to increase the scale and effectiveness of EU commitments to improve the situation of children globally and to demonstrate real political will at the highest

154 <http://www.energy-community.org/pls/portal/docs/36242.PDF> (accessed 22 July 2008).

155 <http://www.epsu.org/a/3834> (accessed 22 July 2008)

possible level to ensure that the promotion and protection of children's rights get the place they merit on the EU's agenda" (European Commission, 2006; 6) is important in terms of the possibility of a comprehensive children's rights strategy reflected in EU strategic support, programming and funding in the Western Balkans which is much needed.

Secondly, those countries which have candidate status with the European Union, i.e. Macedonia and Croatia, have an obligation to prepare, sign, and implement, prior to membership, a Joint Inclusion Memorandum (JIM) on Social Inclusion. Preparation of Macedonia's JIM is still ongoing whereas Croatia's JIM was signed by the Government of Croatia and the EU Commissioner for Employment and Social Affairs in March 2007. The JIM process represents a dialogue between the Commission and the Croatian Government and relevant stakeholders, which seeks to learn lessons from the previous set of JIMs with the New Member States, not least in terms of more rigorous monitoring of how far commitments are actually implemented in practice. Elsewhere, I have suggested that the process can be understood in terms of four dialogues and potential alignments between EU thinking and candidate country realities: statistical, participatory, governance, and policy commitments and practice (Stubbs, 2008). Whether there will be alignments between JIM commitments, EU pre-accession funding mechanisms, and accession requirements, is more complex, not least because, again, social policy is neither really part of the 'hard' acquis, nor of the political and human rights conditionalities of the so-called 'Copenhagen criteria'. Nevertheless, the 'soft governance' of social policy through the so-called 'Open Method of Co-ordination' may be the best available mechanism for learning from good practice and for framing key social policy objectives.

Thirdly, there is some evidence that the European Commission's Directorate General for Employment and Social Affairs, rather more than the DG for Enlargement, is seeking to connect the process of accession and association with the EU with the EU's own social policy and social inclusion agenda. Alongside the JIM process, the Commission seeks independent research studies and now has a network of social inclusion experts which meets regularly, including experts from candidate countries.<sup>156</sup> In addition, in 2007, studies on social protection and social inclusion were commissioned in each of the Western Balkans countries, due to be completed in autumn 2008. It remains to be seen how far these studies will influence funding and accession processes.

However, crucially, by framing the studies in terms of the current objectives of the Open Method of Co-ordination on Social Protection and Social Inclusion<sup>157</sup>, for the first time the EU has formalised its concern not only with the fiscal sustainability of social protection, health and pensions systems, as has traditionally been the case, but also with issues of adequacy, access and equity. In the future, then, this process could act as a kind of counterweight to World Bank emphasis on headline expenditures and also challenge some aspects of the marketisation of health and pensions systems. Framing practice in terms of 'accessible, high-quality and sustainable health and long-term care' focuses attention explicitly on the link between health and poverty and social exclusion, emphasises the importance of inequities in access to care and in health outcomes, and focuses on quality standards. Similarly, an objective of adequate and sustainable pensions focuses attention on the issues noted earlier, the link between old age and poverty, older people not in receipt of pensions, replacement rates, and the problems of too hasty marketisation. In the end, the studies themselves may not be taken up by the EU and may remain known only to a limited few just as the initiatives from the Stability Pact have been. Nevertheless, this framework offers a clear, consistent, coherent and relatively non-complex set of objectives around which diverse aspects of support could be framed.

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156 <http://www.peer-review-social-inclusion.net/policy-assessment-activities> (accessed 22 July 2008).

157 [http://ec.europa.eu/employment\\_social/spsi/docs/social\\_inclusion/2006/objectives\\_en.pdf](http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2006/objectives_en.pdf) (accessed 22 June 2008).

Finally, the recent consolidation of EU funding for the Western Balkans into a single Instrument of Pre-Accession Assistance (IPA), does offer some hope that funding will also be available to support social and labour market reforms, not least since both human resource development and poverty reduction are given high priority. The IPA Strategic Coherence Framework Document for Croatia<sup>158</sup>, whilst quite vague, does offer the possibility of tying IPA funding to tackling governance problems identified in the JIM. As with other EU funds, however, problems may well arise as EU country staff and their national counterparts often do not give priority to social issues.

## CONCLUSIONS AND AFTERWORD: Crisis and 'A bridge too far'?

The EU's social inclusion objectives provide, in many ways, a broad social policy agenda for the countries and territories of the Western Balkans. What is lacking, however, are any mechanisms to promote a sub-regional Open Method of Co-ordination which would provide a possibility for aligning analysis, statistics, research, governance, and policy commitments. The Regional Co-operation Council seems to be even less willing or able to embrace this than the Stability Pact was, combining an economistic sense of development with a political emphasis on security issues. Ideally, a clearer co-ordination between the relevant parts of the European Commission, Council of Europe, and the Regional Co-operation Council could provide a much clearer and consistent set of messages regarding social policy for the region. The shifts needed within each organisation would, however, need to be enormous, in the context of noted 'turf wars' and different kinds of organisational cultures. Even more importantly, new alignments with more socially oriented researchers and think tanks, with policy makers and with other interested stakeholders would need to occur. It is hard to be optimistic in this sense either. Overall, there is a need to recognise the examples of good practice which exist in the region, and to learn from these in terms of priorities for the future, rather than endlessly debating the problems of external assistance, some of which are structural and difficult to change. For all its faults, the Stability Pact introduced a new mode of governance which could, with sufficient commitment, be applied more rigorously to social policies in the region.

In revising this text for publication in January 2009, it has become clear that the region is far from immune to the effects of the global financial, food and fuel crisis which, indeed, has now become a general economic crisis and which will have severe, significant and long-lasting social and political impacts. The social impacts, of course, remain far from predictable and, clearly, will depend upon a wide range of factors, some of which are relatively amenable to analysis: the extent and nature of indebtedness; the nature and structure of key sectors, notably banking and finance, and industry; reliance on fixed or flexible exchange rates; access of firms to credit; and so on. Some, including the effects on domestic consumption and on foreign investment, as well as the effects on remittances, are less predictable and rational. A number of social impacts can already be discerned as growth forecasts are revised downwards and, in some cases, are already in negative territory. Whilst higher growth was not particularly efficient in poverty reduction, reduced growth may be more pernicious in terms of increasing poverty. Large-scale redundancies are highly likely to occur, impacting most on specific sectors, on already under-developed regions, and on particular groups such as older workers, low-skilled workers, and women. It is far from clear whether governments will follow the advice of the European Commission for its member states (European Commission, 2008), and seek to raise the level and duration of unemployment benefits and, perhaps most importantly in a region where most of the unemployed are reliant on social assistance, consider widening eligibility criteria.

The effects of the recession in the developed world will also hit countries in the region which

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158 [www.strategija.hr/fgs.axd?id=451](http://www.strategija.hr/fgs.axd?id=451) (accessed 22 June 2008)

have high numbers of guest workers abroad. A number of these may return and, certainly, levels of remittances are highly likely to decline, deepening domestic recession. In the context of pressure from International Financial Institutions and the advice of their own neo-liberal economists, rebalancing of public financing could well lead to cuts in public expenditure and, particularly, cuts in what are seen as unproductive social programmes. In this context, the survival strategies of poor households could further erode human capital as a growing subsistence economy may lead to more young people leaving school early. Inequalities in access to health and education, increased marketisation of both services, and increased need for out of pocket payments, seem likely to widen already significant inequalities in access and achievement. In the longer-term, a demoralised professional middle-class, including workers in key public services, may react to the erosion of their real incomes by fleeing from the public sector and, in some cases, even seeking jobs abroad. A wider erosion of insurance-based systems may well occur as those able to afford it become ever more reliant on private insurance and on the private sector, leaving poor services for poor people. Those who lose their jobs will, often, not be able to maintain their credit repayments and, in the absence of any formal deferment schemes, may join the ranks of those highly indebted to unlicensed and unscrupulous loan sharks. The absence of any flexible, 'smart' social policy thinking or action, as this chapter has suggested, will, therefore, have even more disastrous consequences in terms of a failure to respond to crisis and new risks.

Whilst nothing short of a regional New Deal and, indeed, a new social contract may be needed, regional co-operation and peer pressure become all the more important in ensuring that anti-recession measures are carefully co-ordinated and sequenced and seek to minimise negative social impacts. Ensuring investment in human capital, in research and development, and in innovation, already low in the region, could face new threats. The fate of marginalised regions, some of which cross nation state borders, cannot be left to market forces and significant actions will be needed to avoid a decline which will have impacts on subsequent generations. Now may also be the time to ensure that both the social and ecological dimensions of the crisis are recognised regionally and remedial action taken. Breaking free of donor dependence and subsidies, the region will need to prioritise infrastructural and public works programmes which impact on the most vulnerable groups, communities and regions, in order to avoid a social crisis which, in the context of barely dormant nationalist and populist political sentiments, could re-ignite conflicts which domestic and international actors have worked so hard to confine to history.

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## The Three Case Studies – Conclusions

The three case studies on trade, energy and social policy have identified the following issues relevant for the nature of regional cooperation between the countries of South East Europe:

- the scope of the region,
- the role of international organisations (and intervention),
- the common problems and interests within the region, as well as those of European and global players,
- the (lack of) governance and ownership, and
- the potential for development.

The term South East Europe is usually used interchangeably with the term Western Balkans. This geographic area includes the former Yugoslavia minus Slovenia plus Albania. However, the three case studies show that regional cooperation in South East Europe can involve solely Western Balkan countries (CEFTA 2006), the neighbouring EU member states (the Energy Community), or, in absence of formally defined partners, it can be defined according to the interest/need, on a case-by-case basis (social policy).

Furthermore, current regional arrangements provide for a shrinking of the region: following their entry into the EU, the status of the parties to the Energy Community has changed into the status of participants. In the case of CEFTA, the agreement automatically ceases to be valid for the party which is absorbed by the EU, on the date of EU accession. I.e. the region is defined by outside forces (EU) and characterised by exclusion from the EU. All countries of the region aspire to join the EU, thus leaving the region and their negative Balkan image.

In addition to their role in defining the region from the outside, international organisations and donors (e.g. EU, the World Bank, DFID; SIDA, USAID) have played a significant role in policy developments within the region, including (but not limited to) the areas of trade, energy and social policy. On the one hand, the reforms they supported are aimed at increasing capacity in order to leave the region. On the other hand, regional cooperation has been imposed as a condition to leave the region. As a result, the main drivers for regional cooperation include external anchorage (or intervention), and internal goal to leave the region and catch-up with the more advanced regions (primarily the EU). Tangible results of regional cooperation might help the development of truly regional initiatives and agendas. Thus, international intervention and anchorage outside the region has opposing effects: it helps countries to leave the region, but also stimulates the emergence of SEE as a region in itself.

The question is whether the Western Balkan countries should aspire towards EU integration and not be diverted by the process of intra-SEE regional integration. As EU integration is an indeterminate time away, except, maybe, for Croatia,<sup>159</sup> the interim regional integration (defined from the outside as the exclusion from the EU) can bring some benefits and help improve a sustained growth prospects. Interim arrangements might contribute to the articulation of the region from the inside. For such a development, it is necessary to identify areas in which national interests coincide with broader regional interests. The three selected case studies present some areas in which regional cooperation might bring benefits beyond the process of fulfilling conditionalities. These areas include the improvement of

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<sup>159</sup> For more on proposals for interim phase, before full membership becomes possible, see European Parliament, Report on the Commission's 2008 Enlargement Strategy Paper (2007/2271 (INI)), 26. 6. 2008.

competitiveness, creation of supportive conditions for FDI inflows, development of human capital, and avoidance of possible energy shortages.

Regional cooperation in these areas can bring benefits that can be evaluated in terms of growth, employment and better standard of living. Exploiting these potential benefits heavily depends on the ability of regional structures to: (i) identify cases where national and regional interests reinforce each other, (ii) formulate regional interests, and (iii) gain support for implementation.

The Stability Pact, under the Working Table II, Economic Reconstruction, Cooperation and Development initially served as a structure able to identify areas in which national interests might coincide with wider regional interests. The Regional Cooperation Council has preserved these sectors among its priority areas (including trade, energy and social policy).

In addition to the RCC, specific structures related to trade (CEFTA 2006) and energy (the Energy Community) have been created, whereas, in the area of social policy there is no other governance structure apart from the RCC.

Despite different governance structures, the three case studies indicate that there are areas that are considered relevant for various stakeholders, including national, regional, European and global. In the Energy Community, the role of business and international financial institutions has been formalised, and an external anchorage (through the participation of the European Commission) has been secured. CEFTA 2006 does not have a similar strong external anchorage; however, the Commission has announced that it would support the Secretariat based in Brussels (Busek, 2008).<sup>160</sup> In case of social policy, the RCC is the only structure that should implement a new mode of governance and promote sub-regional open method of co-ordination.

From the perspective of governance and ownership, the three case studies lead to conclusion that involvement of external actors is correlated with potential economic benefits of regional cooperation. External anchorage and management of regional projects can facilitate their implementation, i.e. conditionality imposed by IFIs, coupled with the establishment of governance structures, should bring about profits. Regional cooperation, as a condition in this respect and as necessity for implementation of bankable projects, might play a significant role in catching-up with the EU, at least in economic terms. Successful implementation of projects under the Energy Community umbrella and implementation of CEFTA 2006, which both have governance structures, might contribute to credibility and effectiveness of regional cooperation and might be helpful in creation of regional agendas.

On the other hand, regional ownership is generally low and governing structures are situated outside the region, thus leaving less space for development of regional ownership. As a result, development of regional governance seems to be the opportunity for development of the RCC into a truly regional initiative, and, by doing so, enable development of the region from the inside (as opposed to the current stage, characterised by exclusion and external actors). While voluntary cooperation in the region lacks a governance structure, the structured relationship lacks its regional ownership. Complementing the regional dimension of the EU enlargement policy might become the main strength of the RCC and support development of the region from within.

However, the RCC is yet to develop and ensure its sustainability. In this context, the RCC seems to be more interested in attracting external actors substantially engaged in promoting regional cooperation (through the RCC Board), which contradicts its initial goal, i.e. development of regional ownership. This is also reflected in the involvement of the RCC in

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<sup>160</sup> <http://www.oecd.org/dataoecd/1/54/40315616.pdf>

priority areas. The involvement of the RCC is not necessary if structures are in place (e.g. the Energy Community), while it is insufficient if this is the only regional organisation dealing with an issue (e.g. social policy). Overlapping with the existing organisations and lack of sufficient involvement in the “new” areas might be regarded as the key weaknesses of the RCC and as threat to its development. Namely, the RCC formally supports two opposing processes – it tries to develop into a truly regional initiative, but supports the region’s shrinking (through promoting regional cooperation as an interim solution and the promotion of European and Euro-Atlantic integration of the South East Europe). It seems that, in order to gain credibility and support, the RCC should focus on complementing the European enlargement process instead of overlapping with it. By doing so, the RCC could create a basis for sustainable development of ownership and regional cooperation. Sustainable regional cooperation implies defining the region from inside. This requires focus on projects that can continue even after the EU accession. In this respect, the RCC should not be actively involved in the organisations that lead to the shrinking of the region, e.g. the Energy Community of CEFTA 2006; it should instead support activities in the area of trade, energy, social policy that can continue beyond the EU and NATO membership.