



**ENHANCING RELATIONS
BETWEEN THE EU AND
WESTERN BALKANS**

- A view from Serbia -

Belgrade, April 2003

On the Road to Thessaloniki¹

On June 21, 2003 the European Union (EU) and the Western Balkans countries (WB) are to hold a summit meeting in Thessaloniki. The aim is to reaffirm the intentions of both sides to work for the integration of the WB into the EU. On the occasion, the strategy of the process of integration will be discussed. It is most likely that it will consist of an enriched version of the already existing Stabilisation and Association Process (SAP). The enrichment can be influenced, both by regional and by unilateral suggestions and initiatives. In this policy brief, a review of existing problems in the Western Balkans will be given, the current status of the SAP will be described, the existing or emerging new initiatives will be surveyed, and some regional and unilateral, i.e., Serbian, initiatives will be suggested.

1. From the Regional Approach to the SAP

The region of Western Balkans was created by the EU in the aftermath of the Dayton Peace Accords on Bosnia-Herzegovina. The criterion of this particular grouping was that of security. The two main generators of crisis – Bosnia-Herzegovina and Kosovo - connected, directly or indirectly, the five countries of the Western Balkan region (Albania, Bosnia -Herzegovina, Croatia, F.Y.R. of Macedonia and Yugoslavia). The idea was to use the regional approach to both increase security and speed up EU integration. The outcome was disappointing. The initial regional approach to Western Balkans did not significantly influence the political developments in the region.

This regional approach was strengthened after the Kosovo war in 1999. It eventually became the Stabilisation and Association process, as it is called now. The idea was to strengthen the stability in the region through the process of association with the EU. The main instrument introduced was the Stabilisation and Association Agreement (SAA) that countries from the Western Balkans were to sign with the EU. The idea was that the prospect of signing the SAA would be attractive enough for the respective countries to fulfil the prerequisites for the signing of the SAA. Afterwards, the fulfilment of the SAA would be induced by the prospect of the membership in the EU. Thus the prospect of association with the EU and the very association itself should be stabilising.

These agreements should also have regional consequences in two related ways. First, regional cooperation is explicitly built into the agreements as a condition to be fulfilled, both before they are signed and during their implementation. Second, the progress by one country should provide an example for other countries to follow, i.e., there should be positive effects of peer pressure.

Thus, SAAs should affect positively both internal and regional stability (and security) via the association of the Western Balkan countries with the EU. Up to now, however, their record has been mixed. The first SAA was signed with Macedonia. It did not succeed to stabilise the country at the moment when the agreement was indeed signed. Neither the prospect of the signing of the SAA nor the actual ceremony of signing prevented the eruption of ethnic hostilities that brought the country to the verge of civil war. Eventually the worst outcome

¹ This policy paper is a work of an expert team gathered around the Belgrade Centre for European Integration. The principal author is Vladimir Gligorov. It does not reflect the official position of the Government of Serbia, or the Government of Serbia and Montenegro.

was averted, but the SAA itself did not contribute significantly to the resolution of the conflict or to the post-conflict stability.

In other cases, the prospect of signing the SAA, and thus of joining the SAp, has had rather a weak influence on the internal political developments in most countries in the region. Until now, only Croatia has signed a SAA, but its success is mixed. Though Croatia has now submitted its application for EU membership, the actual process of ratification of the SAA by the EU member states is not yet completed for reasons of Croatia's failure to comply with some of its international obligations (e.g., the co-operation with the Hague tribunal). Apart from Croatia, Albania is in the process of negotiating a SAA with the EU, while Bosnia-Herzegovina and Serbia and Montenegro are still in the waiting room.

In the two latter cases, the prospect of a SAA has proven to be a rather weak incentive. This is because internal problems have taken precedence over external benefits. This may change with the peer pressure intensifying, as more and more Western Balkan countries join the SAp. There may be a feeling that it is harmful to be left out. Still, it is unclear how significant the contribution of this process is to both internal and external stability. It is additionally not clear whether the association with the EU, as specified by the SAA, is contributing all that much to internal and external political and economic developments. In any case, the consensus seems to be building that the SAp should be strengthened and enriched. The whole range of suggestions that have been put forward in the last few months relate to the three problems that have been identified:

- the ends are not clear
- the instruments are inadequate
- the incentive structure is not appropriate

Before going into the various suggestions how to address these problems and deficiencies, a survey of political and economic problems in the region is in order.

2. The *Provisorium* and existing imbalances

The regional approach to Western Balkans, and then the SAp, was developed on the assumption that the region is populated with states. Indeed, the assumption was that the process of Balkan disintegration – balkanisation - has ended and that the process of regional and EU integration can start. This turned out to be wrong. The process of disintegration continued and is not altogether over. As a consequence, there has been a proliferation of political entities that are not really states. Thus, large parts of the Western Balkans are still a *provisorium*, meaning that there are still fundamental constitutional issues to be tackled. The whole region is in fact dominated by weak states, non-state political entities, and even failed states or political entities.

Without going into details, suffice it to say that there is clearly an unfinished process of nation and state building in the region. Nation building is a constitutional issue, while state building refers to the adoption and implementation of the rule of law. Clearly, in a number of cases, there are serious outstanding constitutional issues. Furthermore, throughout the region, the rule of law is yet to be established.

This *provisorium* is a serious problem, because the process of EU integration cannot proceed in its standard form if the candidates for integration are not states. In this context, a state means a sovereign entity in the limited sense of an agent that can take up international contractual obligations. The SAAs, and eventually membership, are contractual obligations

that have to be honoured. A political entity without at least this limited sovereignty cannot be integrated into the EU in a standard way.

As the political situation is non-standard, it has to be realised that the process of EU integration has to accomplish two goals: 1. nation and state building; and 2. membership.

It would be natural to assume that the fulfilment of the first goal should precede the achievement of the second, but in a number of cases the two goals seem to have to be approached simultaneously. It is by now clear that the existing SAP is designed to target both goals at the same time, but that it realistically cannot be the instrument that can be relied on to achieve both goals. Thus, the SAP will prove to be too slow as long as the *provisorium* persists.

This will be the case not only for the constitutional and legal deficiencies that political entities in the region exhibit, but also because of the distorted political will that temporary political arrangements always produce. The distortion will come in two ways.

In one, internal political problems will dominate over external political interests. This is detrimental to the process of EU integration because, as a rule, it requires that the political will to integrate has to be consistent with, and even take precedence over, the other political interests.

In the other, particular domestic or regional political interests may dominate the political agenda and may make it impossible to complete the process of state and nation building let alone to concentrate on the process of EU integration. Clearly, unresolved security issues weigh heavily on the political agenda in many countries in the Western Balkans.

Apart from constitutional and political problems, the Western Balkans have a number of daunting economic problems. The macroeconomic equilibrium in most countries in the region is unsustainable. The three most important imbalances are those in the budgets, in the balance of payments, and in the labour markets.

States and other political entities in the Balkans are big in terms of the use of resources, but they are *weak in terms of the sustainability of their public finances*. More specifically, as a rule, Balkan states and other political entities spend at least half of the GDP, but collect much less in revenues, and the difference is covered by aid, soft loans and the sale of assets. Thus, they face the tough task of the restructuring of the public sector.

External balances are also unsustainable. For one reason or another, countries of WB have lost their competitiveness. Thus, imports are much larger than exports, often twice as large. Current account deficits are smaller, but still high. The difference is covered from transfers and from sales of assets, and in some cases by borrowing. As the deficits are quite persistent, borrowing has the tendency to grow and with it the public debt. Indeed, public debt grows faster than the GDP, which is one indicator that external balances are unsustainable.

Finally, *employment is low and unemployment is high* in the Balkans. This general statement does not have to be modified significantly because of the high level of informal economic activity. In fact, the presence of informal employment only underlines the distorted character of the labour markets. Moreover, it highlights the failure of transition and of institutional reform.

These macroeconomic imbalances will have to be corrected and that will require some painful adjustments to be made. The process of transition from aid dependency to economic self-sustainability has already started. In this respect, the SAp is not necessarily of great help. Most of the benefits from the SAA are microeconomic and are in the area of trade and investment. However, these benefits cannot be exploited to the full if the macroeconomic stability in a country is not assured. This is often the case in WB and this issue will be analyzed later.

Thus, the conclusion of this part is that both the political *provisorium* and the macroeconomic imbalances are an impediment to EU integration. Furthermore, these fundamental problems are not adequately addressed by the SAp.

3. Proposals for Improvement of relations between the EU and WB

Problems with the SAp that were identified above had led to a number of proposals for revision or change. The proposals fall in three main categories of the SAp: incentives, stability and destination.

3.A. Incentives. The key problem with the SAp can be seen if it is compared with that of Europe Agreements or of the process of candidacy. Their content does not differ very much, but the Europe Agreements signed with Central and Eastern European countries (CEEC) *committed both signatories to integration*. As a consequence, the conditions that the candidate countries had to fulfil could be seen as being *internal* to the very process of accession. Though accession was conditioned upon the performance of the candidate countries, these conditions were not seen as externally imposed. Thus, the entire pre-accession process was seen as an *opportunity* rather than as a *set of barriers* to integration. From the very beginning, there was no doubt that the integration would take place, and the only question was when it would happen. Indeed, this type of incentive must have been right because the more pessimistic forecasts were that the actual accession would not take place much before 2010. While in fact it will take place in 2004. Also, unlike what was initially expected, the 2004 enlargement will encompass a much larger number of countries.

Therefore, in the case of the Europe Agreements, both the individual incentives and the peer pressure worked to speed up the process of EU enlargement.

In the case of the SAp, the basic incentives are different. The commitment on both sides is conditional. It is also asymmetric. The EU offers a *vague perspective* of membership with the signing of the SAA with a Western Balkan country. The SAA has to be implemented by the country in question, but that does not automatically lead to candidacy, or to negotiations for membership. This means that the conditions are not internal to the process of accession, but are linked to the implementation of the SAA itself. Thus, they are perceived as being *externally imposed* on the country that has signed a SAA with the EU.

This is *the commitment problem*. Unlike the Europe Agreements, the SAAs do not commit the contracting parties to integration and thus lack a certain degree of credibility. The idea behind the SAp is that it should apply pressure on the countries in the Western Balkans to try harder in order to qualify for membership. The result, however, often is that they are not credible enough to elicit even that much effort that is necessary to implement the SAA itself. Indeed, as already mentioned, the prospect of signing an SAA is often not attractive enough for a country to restructure its political agenda. Once signed, however, the end that it should

lead to, i.e., the accession to the EU, is often perceived as too distant and too uncertain to have much of an impact on local politics.

This is the essence of the commitment problem. The aim of the different agreements with the EU is to start the process of integration which should lead to significant change in the internal political agenda in such a way that the issues of integration would increasingly become the focal points of government's agendas. In order for them to play such a role, the prospect of integration should be credible and visible. Then, on one hand, the opportunity cost of dealing with integration issues rather than others will be more acceptable and, on the other, the political parties competing for power will have to campaign on a pro-European platform. If, however, the process of integration lacks credibility and is pushed into a more distant future, it will have little impact on domestic politics. In the sense of credibility, the commitment engendered in the SAA is somewhat deficient.

The obvious way to deal with this problem is *to raise the level of commitment*. Currently, the EU tends to argue that it is obvious that Balkan countries are a part of Europe and that the completion of the process of EU enlargement is indeed unthinkable without the integration of the Balkans. Thus, the EU tends to say that it is "firmly committed to the eventual integration of the Balkans". This, in itself, is not very convincing. Consequently, proposals arose to strengthen the commitment in substantive, procedural and financial ways.

Strengthening the *substantial commitment* is perhaps the most difficult and the most controversial. An example may be helpful to understand the problems involved. The example is the EU involvement in the constitutional transformation of Yugoslavia into Serbia and Montenegro. This is something that is perhaps appropriate for the EU to get involved in *if* the country is a candidate for membership, because the issue is one of constitutional change, involving the EU in the process of nation building. Strictly speaking, this can be justified only if it is based on the definite commitment of EU membership. Otherwise, it could lead to more problems than solutions.

This example can be generalised. As already mentioned, constitutional problems are rather vital in the Western Balkans. EU's involvement in resolving them may be welcomed if it is a part of the accession process. In that case, the EU may be committing itself to accepting into membership nations and states that it has helped create. The countries themselves would also commit themselves to certain constitutional arrangements on the assumption that they are doing that as members-to-be.

This general rule would provide another solution from the one currently applied in yet another specific problem. The status of Kosovo could be perhaps more easily determined if it were subject to accession negotiations. If Serbia and Montenegro and Kosovo were all perceived as candidates for EU membership, *irrespective of their current mutual relations*, it might be easier to ensure their compliance with certain final political solutions than if those solutions have to be discussed and negotiated outside of the process of EU enlargement. Indeed, the SAP is all but inapplicable in this particular case.

The conclusion is that *substantive commitment* on the part of the EU would give more credibility to its role in the process of national and state building in the Balkans.

It would be difficult to move towards deeper substantive commitment without *introducing changes in the existing procedure*. At the moment, the EU publishes progress reports on Western Balkans. However, if there is to be some change in the substance of the EU

commitment, increasingly the method of screening would have to be used. That means that the EU would be overlooking the progress in individual Western Balkan countries very much as if they were candidate countries. The procedural difference is not only a methodological one but also one of commitment. If the EU were to start screening WB countries for their progress in satisfying the Copenhagen criteria that would mean that they would signal their commitment to accept these countries into membership once they do succeed to satisfy these criteria. Therefore, procedural changes in the way Western Balkan countries are monitored should represent higher commitment on the part of the EU.

Many suggestions for improvement of the SAp involve suggestions for *increased financial help and involvement* by the EU. Most suggestions go in the direction of budgetary support of one kind or another. Given the already mentioned fiscal problems in the whole region, that will certainly be seen as a welcome initiative. The leading idea is to extend some form of structural funds and/or cohesion facility to the region. Those funds would be project based and would have some degree of co-financing. In this manner, both the economic and institutional development would be supported. Not only would an investment in, for instance, communal services become possible, but the local public agency would get greater importance and the interest for public services and public governance in general would increase.

This may be helpful for the other type of financial flow that is, in fact, much more important. The key to development in the Balkans is the increase in private investments. With increased financial commitment by the EU, the risks of investing in the Western Balkans should decrease. Experience shows that in most candidate countries the prospect of EU accession was accompanied by significant increases in private investments. However, the risks would still remain quite significant. Those would have to be identified and instruments could be developed that would lower them. This is a very important area in which the EU could contribute very much to the development of the Western Balkans. A new proposal to that effect will be made in the last section of this paper.

Also, with the objective of increasing the flow of direct foreign investment, the EU could insist more than it does now on the *respect of the rule of law*. Most investors, foreign and domestic, complain that the commercial and generally business law in the region is rather weak and its implementation rather erratic. The legal and other administrative risks, many of them introduced and sustained for purposes of creating opportunities for corruption, put up significant barriers to private investments.

The commitment to integrate could be strengthened with the further *emphasis on regionalism*. As already mentioned, the regional approach to the WB arose due to regional security problems. Those have not disappeared. They can be addressed in two different ways.

One is to *treat everybody equally*. This strategy proved to be effective when it was introduced in Central and Eastern Europe. Also, though the two Balkan candidate countries, Bulgaria and Romania, did not succeed to accede to EU membership in the first wave of Eastern enlargement, they made greater progress when they were included among the candidates than when they were left out during as second-tier candidates. As for the others, clearly the opportunity given to the Baltic countries and to, for instance, Slovakia, provided the right incentive to them to try harder to stay in the club rather than drop out of it.

In the case of the WB, this is not the principle that is followed. Though the regional approach was explicitly adopted, unlike in the case of the CEEC, that approach has had very little

influence on the SAp. Indeed, the EU has been more prone to distinguish and discriminate, so that in the WB practically every country has a different arrangement with the EU. The SAp, though applicable to all WB countries, is implemented on a country-by-country basis, stimulating jealousy and resentment rather than peer pressure. The regional approach should imply equal treatment of all countries in the Western Balkans. This could be achieved by placing all of them initially on the same level in the SAp.

The other element of the regional approach is to *reward the peace-makers*. This generalises on the experience of former Czechoslovakia. The split up of that country was peaceful mainly because the Czech Republic decided that reforms and EU integration were more important than the preservation of the common country, which clearly many Slovaks did not really want. The EU rewarded this attitude by treating the Czech Republic as a leader in reforms and integration.

Similarly, in the WB, countries that are ready to leave balkanisation behind and endorse EU integration should be rewarded by a speed up in their accession to the EU. Perhaps Croatian evolving policy towards Bosnia-Herzegovina can be taken as an example. Unlike the pre-2000 government, which was not very popular with the EU, the current government is moving towards the policy of respect for the sovereignty of Bosnia-Herzegovina and a minimisation of special relations with the Croat community in that state. Clearly, this policy has already smoothed up some of the problems Croatia has had with the EU and it will, if continued and strengthened, increase its credibility as a candidate for EU membership.

Indeed, the policy of “special relations” and of creation of “political entities” is not concordant with that of EU integration. It is a left over from nationalistic policies that were the root cause of the post-socialist balkanisation. In some sense, the success of the policies of EU integration can be measured by the speed with which these policies of further balkanisation are abandoned. In any case, rewards in terms of the acceleration of EU integration should be put in place in order to influence the turn around in the Balkan politics.

3.B. Stability. As already argued, the very existence of the WB region, and the fact of its delayed integration into the EU, is mostly the consequence of the political and economic instability of this region, or a group of countries, that are mainly the consequence of serious security problems. Before discussing the security problems themselves, few words will be said about the political and economic instabilities that need to be addressed.

Political instabilities are the consequence of the constitutional deficiencies that were mentioned above. Those impede the development of certain political institutions and processes that are essential for the emergence of legitimate political structures that are the only ones that can guarantee enduring political stability. Those can be classified as deficiencies of democracy, rule of law, and liberalisation.

Democracy. Due to the predominant concern with security, democracy was not the first item on the political agenda of the international involvement in the region. For this reason, the whole region is just entering the process of democratisation. There is no need here to go into details and to discuss particular cases. It suffices to say that force and money were the instruments of conflict- and post-conflict management that were preferred to democracy. These have fuelled corruption and resentment rather than stability and legitimacy. This has been changing recently, but too slowly. In some cases, anti-democratic procedures and institutions are built into the constitutional set up and stand in the way of democratic development. In other cases, democratic development is delayed till such time when some of

the desired changes and reforms are introduced in an authoritarian manner. All these approaches are misguided and should be abandoned by the EU as soon as possible. Rather than waiting for stabilisation to foster democratisation, democracy should be seen as the main instrument of political stability.

Rule of law. The same problem is with the rule of law. For reasons of security, discretion and outright authoritarianism were accepted and even promoted by the international community, the EU included. It is clear now that without the rule of law neither political nor economic stability is in fact attainable or sustainable. Of course, the introduction of the rule of law now is more difficult because the initial grievances have been compounded with new ones that are piled up constantly. Thus, with the passage of time, the introduction of the rule of law becomes more rather than less difficult. The EU should insist on this, if it is to insist on anything. After all, the main instrument of EU integration is legal regulation and that instrument is unusable if the rule of law does not exist or is at least being developed.

Liberalisation. International involvement has relied more on army and police than on rights and freedoms. Again this was due to security concerns. However, with the greater reliance on the rule of law, liberalisation can be expected to contribute more to stability than force and money can. In fact, lack of liberalisation produces incentives for the growth of informal and even criminal political and economic behaviour. In addition, it induces constant competition or even conflict over public resources rather than fostering the development of the private sector and the civil society. Liberalisation should help not only internal security, but also external security. This relates to the ease with which people can travel and communicate. Thus, it involves changes in the visa regime and in the whole complex area of the way borders are organised and managed in the region. Bringing borders and walls down should not be the end result, but an instrument of internal and external security in the region.

The strategy toward economic instability. The EU, and international involvement in general, applied an economic strategy that can be described thus:

From aid-dependency to self-sustainability.

The aim itself, self-sustainability, is not controversial, though it can become ambiguous in the context of EU integration. However, and much more importantly, the instruments of achieving this end are a different matter. In a number of cases, suggestions are made that aid should be substituted by another non-standard instrument of economic support. This is misguided. In fact, the strategy should be:

From aid-dependency to normalcy.

As discussed above, the WB are burdened with significant macroeconomic imbalances. Some of those have been exacerbated by the policies of foreign aid, macroeconomic stability and transition.

Aid and official transfers tend to disturb the fiscal balance. In a number of economies in the WB this has indeed happened. There is no easy way out of this predicament. Clearly the goal should be to substitute soft sources of financing with those that can be secured through taxes and commercial borrowing. The instrument should be the hardening of the fiscal constraint, an equivalent of the hard budget constraint in the enterprise sector. There is no reason why this should lead to undue problems because there is quite a lot of room to broaden the tax base and there is significant room to decrease public expenditures. (E.g., informal economy when it comes to the tax base and wages and salaries in the public sector, subsidies and security when it comes to public expenditures.)

Macroeconomic stability in the WB is mainly an issue of appropriate monetary policy because all the countries have adopted one or another version of a fixed exchange rate, and some entities have adopted the euro outright (Montenegro and Kosovo). As a consequence, the competitiveness of the whole region has suffered and large trade deficits have set in. In such circumstances, flexibility of the labour and product markets is of crucial importance, which however is non-existent outside of the informal economy. Thus, price stability, which is more or less achieved in the WB, is bought at the expense of persistent external imbalances. Since these are small economies, the failure of export led growth implies slow economic recovery.

This issue is important because of the fact that it is hard to expect that local currencies will manage to gain enough credibility to allow more room for an active monetary policy. For that reason, a suggestion that was made some time ago to introduce euro as legal tender into the region may be still of some interest. Clearly, euroisation with the EU consent would be preferable to the unilateral one. There is, however, no will in Frankfurt to support such a move. The issue should not be considered as closed, because practically all neighbouring countries, with the possible exception of Romania, are or soon will be part of the euro monetary area. The EU may, therefore, rethink the strategy of euroisation that could happen sooner rather than later in the Balkans.

Finally, *transition* has deepened the problem that is certainly the most important one, and that is unemployment. In fact, both employment and unemployment are rather problematic. In a sense, the problem of employment is that of the incentives for employers to employ. As the public employment is too large as it is, the real issue is the development of the private sector. Though, in principle, private initiative should spring up spontaneously, the institutional and market environment does influence its development. The obvious suggestion has been to look towards the creation of a facility similar to a development bank for the WB in the EU. This idea has two sides. On one hand, the EU is probably not the best place to look for the creation and implementation of strategies for development. On the other hand, it is not clear whether the employment problem in the WB is a developmental one. In the WB, entrepreneurial skills do not seem to be lacking. Also, the skills that the potential employees possess are far superior to those that can be found in a typical underdeveloped country.

Thus, the problem of development in the Western Balkans may be better dealt through proper macroeconomic adjustments, through the increase of market access and through institutional development. In all the three areas, the EU can contribute significantly.

3.C. Security. All these suggestions for improved EU involvement in the WB have to be seen in the light of the persistent security concerns. Although the threats to serious destabilisation have subsided, the pre-eminence of security problems in the minds of the international community and the EU itself is still a fact. This is especially true when internal security problems are added to the external ones. Indeed, criminality is seen as even more of a problem than military or para-military conflict.

As already mentioned, security problems are connected with nation and state building. The EU, together with the international community as a whole, has taken the approach that solution to security problems take precedence over those of nation and state building. This has predictably led to less than optimal results. The reason is, of course, that nation and state building are the main instruments of dealing with external and internal security. In their absence, international involvement is a rather poor substitute and in any case slows down the desirable political developments.

The clear example is the strategy called “standards before status” in Kosovo. This is presumed on the possibility of standards being satisfied without the desired status being achieved. This is not necessarily infeasible in theory, but it is a very complex and complicated strategy in practice. As a delaying mechanism, it is of course quite efficient. Practically the whole *provisorium* in the WB is sustained on the same assumption that tough decisions have to be put off and dealt with after one or the other security problem is solved.

An alternative strategy would involve a head on approach to the main outstanding problems of nation and state building in the region. Without going here into the particular problems – some of those will be discussed below – a change in the strategy would be:

To support the process of nation and state building within the credible, structured and enhanced procedure of accession of the Western Balkans into the European Union.

Once the prospect of EU membership becomes an operational reality rather than an idealised perspective, most problems of nation and state building will be much easier to solve because they will be seen in a different – European rather than nationalistic – light. In that context, standards will be easier to satisfy, as will the other instruments of convergence, transition and development.

4. Conclusion on the general framework

Most of the improvements being suggested in preparation for the Thessaloniki Summit relate to the *existing* programme for the WB, the Stabilisation and Association process. Therefore they work *within* the logic and strategy on which that programme is based. That strategy is a mixture of second best solutions for protectorates, weak states, failed states and for post-conflict nation and state building. If adopted, they will perhaps lead to an increase of financial support (this is not ensured, however) and to a more active diplomatic activity. This would not do much, and certainly not enough, to address the fundamental political and economic problems of the region.

Therefore, from a methodological point of view, which could also be a major substantive breakthrough, a move from second best to first best policies would be desirable. That is the policy of enhanced commitment on both the EU and the WB sides to integration. Operationally, that would mean that these countries would be – *de facto* if not *de jure* – promoted to candidates for membership and would in practice take over the criteria of implementation and the mechanism of supervision applied to accession countries.

The change in commitment on both sides would bring about a move towards the reliance on normal mechanisms of nation and state building, transition and integration. In that context, the generalised policy of “standards before status” could make sense. The status would be membership in the EU. Standards would be the usual Copenhagen criteria that entail, *inter alia*, the determination whether a country is a functioning democracy that relies on the rule of law, including the protection of human rights and the right of minorities, and is a functioning market economy that could withstand competitive pressures of the common market.

That would lead to a significant change in the domestic political agenda in the countries and political entities in the region, as well as to the level of involvement of the EU. In that context, issues of nation and state building would have natural solutions that would have a very

important consequence for the security of the region. In a sentence, the strategy could be summarised as:

Status (candidacy) before standards, and then standards before status (membership).

Apart from nation and state building issues, other issues could be dealt with more naturally, i.e., in a normal fashion. In trade relations, the EU could behave as if it had a unilateral customs union with the WB region. In other words, the EU could remove all restrictions to imports from the region and accept the existence of tariffs for its exports to the region for a certain, but not very long period of time.

In helping the removal of macroeconomic imbalances, the EU could support indirect policy co-ordination in the region via its own monetary and fiscal policies. That could involve a strategy for the adoption of the euro and a programme for fiscal sustainability.

Directly and indirectly the EU could help promote the flow of direct foreign investment into the region, that being the key to long-term sustainable growth of the WB. The EU could work on competition policy with the view of helping the region to regain its competitiveness and to increase employment. In that context, developmental programmes aiming at the setting up a local physical and institutional structure could be quite useful (e.g., structural funds).

Last but not least, the EU should lift the remaining restrictions on the freedom of movement of people, e.g., introduce *a visa free regime*.

The countries in the region, on the other hand, would commit themselves to working for the solution of their outstanding problems within the agenda of EU enlargement and within the constitution of the future member states. That means commitment to democracy, rule of law and respect for human rights.

4. A Proposal for the Strategy of Serbia

Serbia has an interest for the EU accession process to be accelerated, for its regional dimension to be enhanced and for standard pre-accession and accession instruments to be used as much as possible.

The preference for *the acceleration of the process* is the consequence of the fact that Serbia would have certainly been among the countries now joining the EU, had it not been for the disastrous policy of balkanisation that was applied in the nineties. Serbia should support as high a level of commitment on the part of the EU, and the implied commitment on the part of WB countries, as is possible. The best would be *to transform the SAA into the Europe Agreement* and the procedure to that applicable to candidate countries. This would put all the countries in the Balkans (not only in the WB) on the same footing. As argued above, that should lead to a “co-operative competition” developing.

The commitment that Serbia would have to make would be that *all the outstanding issues of nation and state building would be resolved within the process of EU integration*. If the proposal to resolve state and nation building issues ***within the process of EU integration*** were accepted, that could mean that the union of Serbia and Montenegro would have to be reconsidered, once membership is within reach. Serbia has no particular interest in sharing its membership in the EU with Montenegro on equal terms. In terms of members of parliament, people employed in the EU institutions and in term of financial assistance, joint membership

could prove to be a source of frustration if, for instance, the distribution of benefits would have to be equal, whatever that might mean in practice.

Also, and partly for the same reasons, it might not be in the interest of Serbia to share its membership in the EU with Kosovo. Indeed, the solution of outstanding national and legal issues with Kosovo should be seen within the constitutional framework of the EU as it exists in practice, and may exist eventually *de jure* too (once the EU constitution is adopted and its implementation advances). In that context, the existing solutions with political entities and quasi-protectorates will have to be phased out.

The last point about the meaningfulness of political entities applies to the constitutional development in Bosnia-Herzegovina. Again, seen within the context of EU integration, the issue of nation and state building in Bosnia-Herzegovina looks quite different than within the context of post-conflict management, which is the way it functions today.

Thus, the acceleration of the process of EU integration would lead to a rather natural and peaceful resolution of the outstanding problems of nation and state building in the whole WB region. No serious internal political problems should arise if, in exchange for EU membership, Serbia were to accept EU solutions for its constitutional problems.

The preference for *the regional dimension of EU integration* is the consequence of the fact that Serbia partakes in practically all the security problems in the WB region. Thus, it benefits not only from its own advancement, but also from the advancement of the others. And, symmetrically, it shares in the costs of delays and postponements. For the acceleration to be an acceptable strategy for Serbia, it would need to have a regional dimension. Clearly, Serbia has an interest not to be left behind in the process of EU integration. As could be seen in the context of the forging of the union of Serbia and Montenegro, the slowdown is very costly. The same would be the case if other outstanding issues were to be solved prior to starting the negotiations for membership. That would, for instance, mean that Serbia cannot hope to become a member of the EU before the final status of Kosovo is resolved, and before the negotiations with Kosovo were to start. This would be very risky in terms of time.

Therefore, Serbia should argue for a regional approach to the procedure that governs the process of EU accession. Then, it would be up to individual countries and territories to compete with each other and to advance as fast as they individually can. In the end, peer pressure would work for the whole region entering at the same time, but not at the speed of the slowest one but at that of the quickest one.

The preference for *the use of standard instruments* is the consequence of the fact that Serbia, similarly to Croatia, has the potential to adopt normal instruments of international relations and of EU integration. It does not need to rely on measures and instruments that may be appropriate for protectorates or other types of *provisoria*. Normalisation through the speedy adoption of the EU standards should be the guiding strategy for Serbia.

Concrete proposals

As mentioned earlier, a number of proposals have already been submitted by various interested parties with regard to the Thessaloniki Summit. The concrete proposals presented here are those that are consistent with the general framework discussed above. In some instances this will mean a repetition of proposals already brought into the discussion. But in some cases the proposals are new.

- The Summit Declaration should contain a wording on the mutual commitment that would go *beyond* the “Potential Candidate” contained in the Zagreb Declaration. Ideally, the commitment would replicate the commitment contained in the *Europe Agreements*, and would include some notion of time for candidacy.
- The noun “Stabilisation” should be dropped from the SAP and an alternative, like *Association Partnership* should be considered. That would indicate the normalcy rather than the *provisoria* aspect of the WB region.
- The existing proposal to add Western Balkan countries to the commissioner for enlargement should be supported.
- In terms of instruments, the screening process, though it has certain drawbacks, should be used in its full scope.
- the EU should enhance its macroeconomic function by moving faster towards the extension of the four liberties to the Balkans.
- In a more ambitious approach, the EU should support a move towards regional policy co-ordination via co-ordination with the EU. That would imply an increased role of the ECB (European Central Bank), and an indirect co-ordination of the exchange rate policies in the region as well as the co-ordination of elements of the fiscal policy (as much as it already exists in the EU).
- If, in addition, financial mechanisms are developed to support investment activities, the region could experience sustained investment and export led growth. The creation of a ***Fund to safeguard against political risk*** would go a long way in attracting direct foreign investment. With a commitment of, say €100 million (of which very little would be actually used), hundreds of millions of euros, perhaps billions, could be drawn into the region. Alternatively, a *structure of guarantees* could be developed. Given that the banking sector in the region is mainly populated by foreign banks, mainly of EU origin, it should be relatively easy to work out a way in which these banks could support much more investment in the region than they are doing at the moment.
- The EU should be encouraged to introduce a unilateral customs area with the Western Balkans.
- The idea that CARDS should be strengthened with pre-accession and cohesion funding should be strongly supported.
- Also, pre-accession financing should be extended and indeed strengthened, perhaps with some means that are applicable to member countries, and have been extended to candidate countries too (e.g., structural adjustment funds).
- Bilateral and/or multilateral twining-like programmes should be introduced, given the positive experience with this instrument in current candidate countries.
- It would be helpful if the EU were to open certain community programmes to the WB region, such as COST, EURECA, TEMPUS, TAIEX, Socrates-Erasmus, Intelligent Energy in Europe, eContent, and the like.
- ***Liberalisation of the visa regime, both with the EU, and within the region would be welcomed.***

On their behalf, the countries of WB should:

- Embrace the Lisbon Strategy in their process of adoption of the *Acquis Communautaire*
- Progressively introduce the principle of additionality i.e. co-financing of projects with the EU

- Accept to make plans of utilisation of budgetary sources and CARDS funds, similar to the National Programmes for the Adoption of the *Acquis* in current candidate countries.

Specifically, Serbia should commit to a faster and broader process of reforms, particularly in areas that have been singled out as vital to the process of democratisation and creation of a market economy, such as:

- Full civilian control of the Army²
- Full cooperation with the Hague Tribunal
- Reform of the judiciary
- Adoption of new laws on political parties
- Adoption of laws on media
- and a whole range of laws in the sphere of economics and finance which would bring it even closer to a full-fledged market economy

² The civilian control of the Army and the cooperation with the Hague are in the competence of the state union of Serbia and Montenegro.

BELGRADE CENTRE FOR EUROPEAN INTEGRATION (BeCEI) is a non-governmental “think tank” which gathers leading Serbian and foreign experts in political, economic and security reforms that are necessary for the Euro-Atlantic integration of Serbia and Montenegro.

BeCEI’s main role is twofold: to help the government’s reform agenda with independent research and consultancy, and to help the public understand and participate in the country’s full integration especially into the European Union. BeCEI performs these roles through its policy-oriented studies and other publications, through education and training for people from governmental and non-governmental organizations, and through public awareness campaigns. Following previous engagement of its members in many regional projects, BeCEI puts special emphasis on this aspect of its work, and cooperates with similar think tanks coming from, or dealing with, South East Europe.

Publications:

EVROPSKI FORUM (EUROPEAN FORUM) – *Monthly on European Integration*, in Serbian, published as a supplement to the Belgrade-based weekly Vreme, each last week in month (*in cooperation with Pax Christi Netherlands and Centre for the Development of Serbia*). **Editors: Aleksandra Mijalkovic and Jovan Teokarevic**

EUROPEAN BALKAN OBSERVER – *Electronic bi-monthly in English on European integration of the Western Balkans (in cooperation with the Vienna Institute for International Economic Studies)*. **Editor: Florian Bieber**

BeCEI Director:

Dr. Jovan Teokarevic

BeCEI Board:

Ivan Vejvoda, Chairman of the Board, Adviser to the Prime Minister of Serbia

Vladimir Gligorov, Vienna Institute for International Economic Studies, Austria

Heather Grabbe, Centre for European Reform, London, UK

Thanos Veremis, Eliamep Institute, Athens, Greece

Ferenc Mislivetz, Institute for Social and European Studies, Szombathely, Hungary

Address: Vitanovaèka 23, 11000 Belgrade, Serbia and Montenegro

Info telephone: (+381) 63 442 442

Fax: (+381 11) 646 025

E-mail: info@becei.org

www.becei.org