

A world map with a red square highlighting the Southeast European region. A thin line connects this square to the SOE logo in the top right corner.

European Integration of Southeast Europe in a European Union under Reform

INTERNATIONAL PARLIAMENTARIAN CONFERENCE

Cavtat, Croatia, April 27-29, 2018

- After the accession of Croatia into the EU in 2013, six Western Balkans countries were left at Europe's front door – Albania, Bosnia and Herzegovina, Kosovo, Mazedonia, Montenegro and Serbia.
- The social democratic argument has to stay focused on championing the combined policies of deepening and widening the EU in order to keep the Western Balkans on the accession path.
- Social democratic ideas such as solidarity, equality and tolerance must become the cornerstones of a future, reformed European enlargement policy.
- By supporting regional economic cooperation, by working on the introduction of the social dimension in the accession negotiations, and by opening structural and other funds focused on mitigating the worst excesses of economic transformation, European social democracy will once again find its voice as a champion of the downtrodden.

Introduction



For 20 years the annual Cavtat-Conference has been a forum and meeting place for parliamentarians from Southeastern Europe with Members of Parliament from both the European Parliament and the German Bundestag. It has become a flagship activity of the Regional Dialogue for Southeastern Europe of the Friedrich-Ebert-Stiftung. In the beginning, the conference was closely linked to the Stability Pact for Southeastern Europe and the role of parliaments in this initiative. The focus has shifted towards the European integration and enlargement process of the region. In recent years, we have addressed issues that pose common challenges, both to the European Union as well as to the countries in Southeastern Europe.

In 2018 we are facing a situation with different, possibly contrary dynamics. On the one hand, the European Union is making efforts to reiterate their promise, made 2003 in Thessaloniki, that all countries in Southeastern Europe have the prospect of becoming members of the Union. And the European Commission is trying to underline their determination in this process by setting ambitious targets, e.g. the year 2025 is set as the year of future accession. On the other hand, though, the financial, economic and budgetary crises worldwide, as well as in Europe, have slowed down the efforts towards European integration. While a lot of energy and attention inside the EU has been directed towards problems within the Union, the EU has lost its attraction to the aspirant countries in the region. Meanwhile other actors have entered the scene with a return of geopolitics.

In this environment, the topic of the 2018 Cavtat-Conference addressed the process of "European Integration of Southeast Europe in a European Union under Reform". We opened with a keynote speech by the former President of the S&D Group in the European Parliament, Hannes Swoboda and held a subsequent discussion with Josip Juratović, Member of the German Bundestag, and Tonino Picula, Member of the European Parliament and the former Minister of Foreign and European Affairs of Croatia. The Conference then tried to pursue the different dynamics of European Integration in three panels dedicated to the political, economic and civil society aspects of the topic.

I would like to thank our speakers, chairpersons and commentators, as well as all of the more than forty parliamentarians who joined the 2018 Cavtat-Conference. With this report, we would like to make available to you the papers presented and a summary of the discussions held. The Cavtat-Conference took place in late April 2018, only weeks before the Bulgarian Presidency of the European Council hosted a summit in Sofia about European Enlargement, the first European summit to address this topic after Thessaloniki 2003. EU accession is back on the European agenda, but there is little enthusiasm for it, while other economic and political problems within the European Union still loom large. The debate about European integration with its different and sometimes contrary dynamics will stay with us. We hope to contribute to this debate with the format of the Cavtat-Conferences and also with the publication of this report.

Dr. Max Brändle

Friedrich-Ebert-Stiftung
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How does the EU-Accession Process of Southeastern Europe fit into the European Reform Agenda?

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President Juncker presented on 1 March 2017 five scenarios for the future of Europe. Even the most careful readers were not able to find any mentioning of the word “enlargement” or even a discreet hint that the EU might consider, in any of these scenarios, a new expansion, this time towards Southeastern Europe. However, nothing is more conducive to new thinking than a good crisis. So, when Brexit started looming with a full glare over Brussels, there was evidently all at once new thinking in Berlaymont. Several weeks later the diplomatic advisors to Juncker produced a new narrative regarding the EU’s enlargement in the Western Balkans.

They essentially started from the assumption that at a moment in which, because of Brexit, a huge crisis has grabbed the EU, it is the duty of the EU to provide new arguments to the citizens of the EU which prove what the EU would be good for them in the future. They had two strings of argument:

- That there will be more integration within the EU in the future. This will increase the well-being and the safety of the citizens of the Union. They pointed out the banking union as one of the fields where the EC will promote more integration. They also spoke of the necessity to improve the European financial stability instruments especially after the crises that broke out in 2008/2009.

They also mentioned the Common Foreign and Security Policy and the necessity to provide for more majority voting in CFSP. This would be necessary also because of the preparations for enlargement.

If the Union is enlarged, it has to be ensured that the institutions function. The CFSP, with majority voting, will be one of the showcases to prove that the EU can reform and produce additional value.

- They also argued for continuing with enlargement to improve the security and the well-being of the EU and the continent. This is the security argument: the EU has invested so much into the region, into stabilising the region, in the last two or three decades, that losing the region would be nonsense. In addition, one can often hear the “geopolitical” argument about the other players, that the EU cannot permit external actors to come into her turf, meaning the Western Balkans.

Veteran Balkan analyst Ivan Vejvoda famously said that there is so much “lose punditry” when it comes to analysing the role of third actors in the region (the West and the Western Balkans being the first two....), about the imminent threats coming from Russia, China, Turkey, whatever.... If you put all of this into perspective, then it is permissible to conclude that these so-called external actors have a chance only if the EU does not keep up its promises, if the West does not get its act together. A look at the map of the region tells that the four non-EU and non-NATO former Yugoslav republics and Albania are similar to the famous Gaelic village in which Asterix and Obelix live, they are completely surrounded by EU and NATO members. We are still waiting for a credible explanation for how Russia could realistically project military influence into the region overcoming on the way the chain of NATO-states stretching from the Baltic to the Black Sea.

Juncker's turn to the Western Balkans was elaborated in the Enlargement strategy published on Feb 6th 2018. Three comments on how Juncker's vision of enlargement fits into the EU's reform agenda:

1. Juncker's mandate ends next year. The next Commission will not be obliged to stick to the path proposed by its predecessor.
2. Juncker's change of mind to give enlargement more prominence came in a moment when in Berlin the political class was busy stitching up a new coalition government. Nevertheless, there were immediate signals from Berlin expressing dissatisfaction with the mention of possible dates for a future round of enlargement – the year 2025. This was not such a good idea because it could diminish the readiness of the candidate countries to comply with the EU conditionality for membership. Since then, Berlin applied the hand-break on the debate on possible datelines.
3. What Juncker and Chancellor Merkel think does not oblige the other fat cats in the EU. French President Macron in his talk to the European Parliament and the discussion with its members in April 2018, said that further enlargement is only possible after a consolidation of the Union.

Why was Berlin somewhat upset about Juncker's foray? I believe it was mainly because of the

Kosovo issue. Since the secession of the Kosovo Albanians from Serbia in February 2008, it was evident that those core EU countries which supported the unilateral declaration of independence, Germany, France, the UK, and Italy in coordination with the US, have been confronted with a huge conundrum: how to find a way out? They have a clear will to turn Kosovo into a genuinely recognized state, but there are five EU countries not recognising the secession, which makes a joint policy towards the issues extremely difficult, perhaps even impossible. Particularly now after the rise of tension in Europe because of the thrust for separatism in Catalonia. Secondly, Russia and China are veto-powers in the UN Security Council and they stand nothing to gain from acquiescing to Western desires regarding the status of Kosovo. Just the opposite, if you look at their troubles with separatist movements and also the ambition to foster a multi-polar world, e.g. diminish US and EU influence.

A lot of people, especially in Berlin, thought that the enlargement process is a way to come to terms with the Kosovo issue. Especially the conservative parties in the government, the CDS/CSU, were active about it: in 2014, the late Andreas Schockenhoff presented a paper to the Bundestag which was subsequently transformed, more or less in an intact form, into the negotiating platform of the EC with Serbia about joining the EU. Its essence was that at the end of the



Panel 1: How does the EU-Accession process of Southeast Europe fit into the European Reform Agenda?

negotiations under the EU auspices, there would be a legally binding treaty settling the “normalisation” between Belgrade and Priština. This treaty was expected to enable the EU to escape the Kosovo conundrum and to proceed at one point with enlargement into the Western Balkans. However, there is a contradiction – the more Serbia moves towards EU membership, the less helpful is the “constructive ambiguity” surrounding this legally binding treaty. As far as it is presently known, not a single line of this important document exists up to now. It is not clear who is going to write it and who is going to provide guidance regarding its content.

In this context, in which the unresolved status of Kosovo is still the largest security challenge in the region, and all attempts to resolve it usually end quite quickly in a blind alley, there is a situation in which for the EU actors it becomes quite useful to identify partners who are capable of delivering the desired outcomes in the region. A lot of people were quite upset yesterday when they read the list of compliments with which European Council President Donald Tusk presented Serbian President Aleksandar Vučić. But he was not the only one, we had Commissioner Hahn previously demanding proof of the infringement of the freedom of the press in the region, we had Chancellor Merkel paying compliments to Mr Vučić for his endeavours to roll back organised crime and corruption in Serbia, interestingly enough only a couple of days ahead of the important city elections in Belgrade... altogether, a lot of political capital has been invested into keeping the junior partners from the region in a good mood all in the hope that they will deliver the desired results, especially in regard to Kosovo so that the whole issue might disappear from the political stage in Europe. However, what is happening it is not convincing.

German Parliament Member, Josip Juratović touched base with most participants of this seminar when he requested also a reform of the EU's enlargement policy. I presume that no one in this room would bet his money that the year 2025 is a realistic timetable. There are too many open issues, not only in the Western Balkans, but foremost in the EU, such as Brexit, which makes the future look quite foggy. However, as we are

in a social-democratic environment here, it is legitimate to quote Eduard Bernstein who said that development is everything, the final goal nothing. It is necessary to gauge if the present instruments of the EU enlargement policy ensure socioeconomic and political improvement in the region.

What is absolutely necessary, when it comes to the reform of the EU's enlargement policy, is to recognise that the four former Yugoslav republics and Albania, which are not yet members of the EU, are far more integrated into the EU than even some of the member states. Indicators prove this: the SEE6 have 74% of their trade with the EU, which in practice means mostly with Germany and Italy; about a quarter of the region's population has migrated in the last two decades or so into the EU and some other Western states (here I would strongly advise against the EU's plans to introduce a tax for Western Balkan citizens who want to travel to the EU, this would further diminish the EU's standing in the region). Therefore, remittances play an important role, particularly in the poorer quarters of the region such as Kosovo and Macedonia. Most of the foreign direct investments in these countries come from the EU, the banking sector is mostly owned by EU banks.

The core issue is, however, what Tobias Flessenkemper and I have called in one of our earlier papers the 6% growth goal for the Western Balkans. To attain the EU-15 level of the employment-to-population-ratio (52%), three million jobs should be created in the SEE6. At this moment, the average GDP growth rate in the WB is about 2% so that the EBRD calculated that if things do not change, the region will need about 200 years to catch-up with the EU average. Our goal of 6% is modest and achievable in 30 years. If the region would achieve the Romanian growth rate from the last year – almost 9% – catching up would last also, of course, much shorter. In the meanwhile, if the present situation continues, then we shall witness further divergence instead of the required convergence.

Through the trade deficit and the repayment of loans, about 150 billion € of the SEE6 GDP and

Croatia were transferred in the last ten years or so to the core EU countries. One reason why the countries are not capable of improving their economic performance is the lack of their own accumulation of capital for investment. What is absolutely necessary, is solidarity in the form of development grants to the region to foster growth. This money could come from the structural funds or cohesion funds, as there are so many sources at the disposal of the EU. We are not talking about big money as the population of the region amounts to just 3.5% of the EU's populace. Only if growth takes place, will there be another broadening of the middle class, of the middle segments of society which have, after so many years of "transition", have all but disappeared. The middle class is prone to hold the political class accountable. This social segment can clear the ground on which the rule of law and democracy will grow roots. Presently, in the Western Balkans, we see societies falling apart because of the huge increase in poverty and the petrification of the overbearing political and economic role of a small segment of tycoons, as the oligarchs are called in the region.

I do not want to end on a pessimistic note, therefore I am pointing to an important promise in the Enlargement Strategy, however also deeply veiled by "constructive ambiguity". Towards the end of the document, there is a paragraph in which the EC ponders about the necessity to ensure

the "adequate funding to support this strategy and as seamless transition to membership". Therefore, the Commission proposes to gradually increase funding under the Instrument for Pre-Accession Assistance and to ensure that an adequate provision is made in the next Multi-annual Financial Framework to cater for possible accessions. The EC budget draft envisages 12,9 billion € in the years 2021 to 2027 for the IPA, which is a relationship of 1:1,2 in comparison with the funds planned in IPA II between 2014 and 2021. Translated, freely, into somewhat less ambiguous terms, this probably means that the EC would like to divert some or all of the IPA-funding which Turkey received up to now, towards the SEE6 recipients. Turkey is receiving about half of the IPA money, however, under the authoritarian rule of President Erdogan this country is swiftly moving away from the values and political principles the EU endorses. If the SEE6 would receive additional three to four billion euro in grants through IPA for infrastructure projects, it would not be a game-changer, but the region would probably be kept afloat. But this is, as one would say in German, is the music of the future, Zukunftsmusik, presently we still mostly hear and see Olli Rehn's (former EU Commissioner for enlargement) "enlargement blues". So, dear EU, please change the vinyl, let's rock now...



Ranko Krivokapić, President of the Social Democratic Party of Montenegro (SDP), **Dušan Reljić**, Head of Brussels Office, German Institute for International and Security Affairs, and **Knut Fleckenstein**, Member of the European Parliament (S&D)

How to improve economic cooperation in Southeastern Europe for an enhanced European Integration?

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The question posed in the long title above is one of the oldest and probably most debated topics within the agenda of the Western Balkan EU integration: namely, the topic of regional cooperation. The objective of regional cooperation in Southeastern Europe has been pursued for over two decades, ever since it was first launched by the European Commission in its Regional Approach for the Western Balkans in 1996. In what follows, three issues will be briefly discussed:

1. Why regional cooperation is particularly important today;
2. Why regional cooperation is still viewed with so much scepticism; and
3. What can be done to further promote regional economic cooperation.

1. The promotion of regional cooperation in the Western Balkans has a long history. A year after the launch of the Regional Approach for the Western Balkans in 1996, the European Council decided to add regional cooperation to the list of conditions that the aspiring candidates from the Western Balkans would have to fulfil. While on the agenda for long, this objective has become particularly important today in the light of the recent “reawakening” of the Western Balkans. After Croatia’s entry into the EU in July 2013 as the first of the seven countries included in the Stabilisation and Association Process, the prospects of further EU enlargements seem to have improved. The year 2025 has recently been indicated as a possible time for the next EU enlargement, Montenegro and Serbia are already deeply into accession negotiations, while Albania and the Former Yugoslav Republic of Macedonia

may also open EU negotiations after the April 2018 recommendation of the EU Commission. Moreover, many initiatives of regional cooperation have been taken within the Berlin process, including the adoption of the Consolidated Multi-annual Action Plan for a Regional Economic Area (MAP REA) in the Western Balkans Six (Trieste, 2017) which envisages the further promotion of regional trade, investment, labour mobility and digital integration. The Regional Cooperation Council (RCC) has the responsibility, together with the Western Balkan Six, to implement the various objectives of the MAP REA agreed at the 2017 Trieste summit. This comes on top of a number of regional projects that have been launched or already implemented in the areas of trade (the CEFTA 2006 agreement) and infrastructure (transport, energy, environment) within the Western Balkan Investment Framework. The RCC’s 2020 SEE Strategy mirrors the Europe 2020 Strategy for Smart, Inclusive and Sustainable Growth, providing concrete objectives to be realised by 2020 and its recent activities confirm that regional initiatives are today in “regional ownership” undertaken by the countries themselves. These are some of the reasons why regional cooperation is of fundamental political importance particularly today.

Perhaps even more importantly, regional economic cooperation is today important because of the potential beneficial effects for the Western Balkan economies. The benefits of economic integration are well-known from the theory of integration, that has also served as the basis of the EU integration process. The beneficial effects of economic integration are likely to be even more

important in the Western Balkans considering the specific features of their economies and the long-term structural problems they have been facing. The Western Balkan countries are mostly very small economies, they are at a relatively low level of economic development (only Montenegro is presently at around 45% of the average EU28 GDP per capita), they are strongly de-industrialised economies, having rapidly experienced the reduction of manufacturing value-added, to a far larger extent than most new, or even some old EU member states; they remain insufficiently export-oriented, since their export/GDP ratios are still relatively low; and they have had enormous problems in their labour markets, with very high unemployment and very low employment rates. Foreign Direct Investment (FDI) has until recently gone prevalently into the non-tradable sectors (banking, telecommunications, wholesale and retail trade, real estate) which serve primarily the local market, in this way helping only marginally the promotion of an export-led growth model. The key economic features of the Western Balkans – a low level of development, smallness, fragmentation, the lack of economies of scale – are important constraints for the inflow of more FDI, which countries with low savings such as the Western Balkans necessarily depend on.

Economic theory offers a number of arguments which explain both the static and dynamic effects of integration. Particularly relevant for the Western Balkans are the dynamic effects of integration, which refer to several groups of effects. By eliminating various barriers, integration should increase competition, thus leading to a reduction in costs and prices and encourage the restructuring of industries. In more integrated markets, greater economies of scale will be realised, since firms will operate on a larger market; and technology and knowledge transfers will be easier. These economic benefits of integration are likely to result in more rapid economic growth, which can increase competitiveness and accelerate convergence with the more developed countries. There are also political economy arguments, which derive from specific sectoral interests of a country, namely its preference for a regional trade bloc rather than multilateralism. Another benefit

of integration, also highly relevant for the Western Balkans, is an increase in their bargaining power at the international level, in negotiations with the EU or with international financial institutions, since countries can present themselves in a more united front and thus carry more weight than each country individually.

2. Given these potential economic benefits, why is regional cooperation still viewed with so much scepticism? Unfortunately, the public discourse on regional cooperation is still today dominated by political issues, and delicate bilateral problems that have not yet been fully resolved. We are frequently witnessing scandals, unpleasant events, even murders, related to the uneasy bilateral relations among some of the Western Balkan states. These events are often reported in the media with an unnecessary flavour of hatred, nationalism and intolerance, suggesting that there has been no reconciliation over the past twenty years. However, despite the recurrence of unpleasant episodes, we are living today in a new reality. All the Western Balkan countries are firmly pursuing the same objective of joining the EU. In order to achieve this goal, the candidate countries will have to become more similar to the EU member states regarding the business environment, employment opportunities, the rule of law, the media, the fight against corruption, and while also having to cooperate among themselves in order to resolve the remaining open questions.

Regarding specifically economic cooperation among the Western Balkan countries, it is very often viewed with scepticism due to a number of controversial issues. First, regional economic integration is frequently misinterpreted as an alternative to EU integration, which it is not. If the Western Balkans integrate their economies regionally, they could achieve stronger growth and be more competitive on the EU market, thus preparing themselves for a smoother integration with the EU once they become EU member states. The EU has similarly promoted regional cooperation among the Visegrad countries in the 1990s, which also led to the conclusion of the initial Central European Free Trade Agreement (CEFTA).



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Second, the role of regional cooperation is often understated because trade statistics are sometimes read superficially. We often hear that intra-regional trade is not important because the Western Balkan region is strongly integrated primarily with the EU, and that, moreover, the share of intra-regional trade has recently been falling. These statements are not incorrect, but they reveal only the general picture. Aggregate foreign trade statistics, based on averages for all six countries, or on averages of exports and imports, hide substantial variations among the individual countries.

The EU28 was the main trading partner of the WB6 region in 2017, representing 84% of WB6 merchandise exports and 67% of the region's merchandise imports, but not for each individual country.¹ The EU28 was the dominant trading partner of four countries – Albania, Bosnia and Herzegovina, Macedonia and Serbia – in 2016 representing from 66 to 80% of merchandise exports and from 62 to 63% of individual countries' merchandise imports. However, two countries,

Kosovo and Montenegro, have registered a decline in their trade with the EU, so in 2016, Kosovo's merchandise exports to the EU28 were only 23% of the total (as compared to 43% of the other Western Balkan countries); similarly Montenegro's merchandise exports to the EU28 were only 38% (as compared to 43% of the other Western Balkan countries). For Kosovo and Montenegro's exports, clearly, the Western Balkan market is far more important than the EU market, although both countries continue to depend primarily on the EU28 for their imports: in 2016, the EU28 was the origin of 43% of Kosovo's imports (as compared to 27% from the WB5), and 48% of Montenegro's imports (as compared to 30% from the WB5).

Similarly, regarding trends in intra-regional trade, although after 2010 a small (1%) drop was recorded for the region as a whole (WB6), not all Western Balkan countries have registered a reduction in their regional trade. The shares of WB6 intra-regional exports in 2016 varied widely, ranging from 12% for Macedonia, 14% for Albania, 15% for Bosnia Herzegovina and 18% for Serbia, to the very high 43% for Montenegro and 47% for Kosovo; the shares of WB6 intra-regional imports were somewhat lower, ranging from a low 4% for Serbia, 7% for Albania, 10% for Macedonia and 13% for Bosnia and Herzegovina, to a high 27% for Kosovo and 29% for Montenegro. The

1. All the reported statistics on foreign trade refer to only merchandise trade (services are not included) and are based on data of the European Commission and of the International Monetary Fund, both available on-line.

recent decline in intra-regional trade is also due to the fact that after 2013, Croatia's trade with the Western Balkan countries was no longer classified as regional trade, but as trade with the EU. The regional market therefore remains a relatively important export destination for all the Western Balkan countries, and a somewhat less important market for their imports.

Intra-regional trade remains relatively important for some Western Balkan countries also for historical and political reasons. In the past, the non-economic factors (historical and political linkages) have been important determinants of trade in the region, especially during the 1990s due to particularly unfavourable political conditions, including international sanctions, which isolated a large part of the region. Being able to trade with neighbouring countries was an important factor for some countries in the 1990s, helping them to register minor trade deficits than would have been the case otherwise. In part, these economic links based on past legacies have been maintained. Also today, for most Western Balkan countries, being able to count on the regional market can compensate for the insufficient competitiveness of their products on the EU market, and therefore remains important.

Regional economic integration is also viewed with scepticism because of the very different positions and relative economic weights of the individual Western Balkan countries. Serbia represents the largest economy in the region (in terms of GDP, population) and has had a large surplus in its trade with the other Western Balkan countries (while the other Western Balkan countries have had corresponding trade deficits). Since most Western Balkan countries have deficits in their regional trade, this is sometimes used as an excuse why countries are unwilling to intensify further economic integration, being wrongly interpreted as contrary to their economic interests. If countries have trade deficits with other partners in the Western Balkans, this simply means that they are not able to export sufficiently to cover the necessary imports, and therefore they are not competitive enough in neighbouring countries' markets.

3. So how can we further promote regional economic cooperation? By supporting and actively contributing to ongoing regional initiatives, by being pragmatic, and understanding and recognising the costs of non-regional integration. Since 2025 is the earliest possible year when the current candidates may be able to enter the EU, the Western Balkan Six should indeed integrate regionally to be more competitive once they enter the EU. A lot can be learned from the EU experience in this regard. Although the Treaty of Rome (1958) already mentioned the principle of the four freedoms – the free movement of goods, services, capital and labour – EU economic integration has been a gradual process. Starting with liberalisation of trade in goods, only in 1968 did the European Economic Community become a Customs Union, while the integration of other markets came much later. The EU went from simple forms of integration towards more complex forms – from a Free Trade Area, built during the first decade, to a Customs Union created in 1968, to a Common Internal Market that in the late 1980s provided for the removal of various non-tariff barriers, to an Economic and Monetary Union conceived in the 1993 Maastricht Treaty which led to closer coordination of fiscal and monetary policies and the introduction of the euro in 1999. Today the EU members are politically sovereign states, but economically, highly integrated among themselves.

Particularly relevant for the current phase of Western Balkan integration aimed at creating a regional economic area are the numerous measures of the Single Market Program launched in the second half of the 1980s in order to reduce the fragmentation of the EU market and increase competitiveness. The "Cecchini Report" published in 1988 calculated the "costs of non-integration" and the multiple micro and macroeconomic benefits of integration, showing how the removal of various non-tariff barriers could positively influence competition, costs, prices, investment, GDP growth, employment, the public and trade balance. The three groups of "non-tariff" barriers that were to be removed were (1) physical barriers, created by time-consuming frontier controls and bureaucratic procedures for exporting enterprises;

(2) fiscal barriers, deriving from large differences in national tax systems; and (3) technical barriers, deriving from differences in technical standards and norms, restrictions on competition for public purchases in public procurement procedures, restrictions on providing certain services (financial, transport), labour legislation restricting employment of non-nationals and so forth. The Single Market Program led to the implementation of substantial liberalisation in various sectors, that helped remove many of these barriers (though not immediately), including the Schengen Agreement, substantial liberalisation in financial and banking services, the removal of controls on capital flows, greater tax harmonisation (primarily of indirect taxes, i.e. VAT), the liberalisation of the main service industries (transport, telecommunications, postal services). Despite limited results in some areas, a lot has been done during the last twenty-five years to reduce the fragmentation of the EU market.

Many of the issues that were on the EU agenda in the late 1980s are now on the agenda of the Western Balkan countries, as evidenced in the Additional Protocols to the CEFTA 2006 agreement, such as Protocol 5 on trade facilitation or Protocol 6 on the liberalisation of services. Despite the obligations agreed upon and endorsed by all the Western Balkan countries, there are still a number of physical, fiscal and technical barriers that impede the stronger economic integration of the region. There is informal evidence that on border crossings in the Western Balkan region, trucks wait for hours because of burdensome bureaucratic procedures; according to some calculations the waiting time on borders presently costs the region some 800 million euros. Instead of fiscal harmonisation, there is strong fiscal competition among the Western Balkan countries: throughout the past decade, in order to attract foreign investors, countries have been competing among themselves by continuously lowering taxes and offering other incentives. There are also numerous technical barriers to trade, including very different sanitary and phytosanitary norms, norms regarding pharmaceuticals, food origin labelling norms or different labour laws, which represent barriers to more integrated markets in the Western Balkans.

The Western Balkan Six are already a free trade area, as envisaged and implemented through the CEFTA 2006 Agreement. They cannot become a Customs Union, since each country has its own Customs Code (this will change only once they enter the EU and start implementing the EU External Trade Policy, thus becoming part of the EU Customs Union). However, the Western Balkan countries could become a much more integrated regional market by removing remaining non-tariff barriers on the free flow of services, capital and labour. This is precisely the intention of the Multi-Annual Action Plan for a Regional Economic Area.

The Western Balkans are not a new regional identity, as inappropriately stressed in some recent documents. The region's identity has been there for decades, or rather, centuries. Tim Judas' book on the Yugosphere (LSE, 2009) has vividly described how, despite the death of Yugoslavia, the region is characterised by the overlapping of histories, religions, cultures, nations, ethnicities, and economic interests. The peoples of the Western Balkans are geographically and historically linked together.

In concluding, the benefits of regional economic integration are based on rational arguments known from economic theory, that have been at the basis of the process of EU economic integration. In the Western Balkans, further economic liberalisation and integration will ultimately benefit the people in these countries, its consumers, through lower prices, better quality and a broader range of products. The liberalisation of markets can stimulate competition and growth, attract FDI and accelerate catching up and convergence with more developed countries. However, for these benefits to be realised, what is crucial is not only continued political will to support the agreed objectives, but also the ability of government agencies to implement them.

SUMMARY OF THE CONFERENCE

European Integration of Southeastern Europe in a European Union under Reform

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The financial and political crisis of the European Union in the last decade, the intransigence of political elites in the region, and the influence of non-European competitors on the internal politics of the Western Balkan states, have weakened the European Union's commitment and influence over Southeastern Europe. Together with right wing populism, the challenges which the European Union faces in safeguarding liberal democracy within its borders are formidable. All of this shapes the way forward with regards to the integration of the –potential– candidate countries of the Western Balkans into the European infrastructure.

At the same time, the political systems of the countries in the region of the Western Balkans, are weak, unstable, prone to supporting autocratic political elites, and dependent on corruption, nepotism, and a disregard for the rule of law.

All of these challenges, both in the European Union, as well as in the Western Balkans, offer a bleak prospect for the supporters of European integration and the unification of the continent. But, despite lacklustre progress in the last couple of years, there are reasons for optimism. Many actors – political parties, civil society organizations, international institutions, media, and businesses – are partnering up in delivering the promises of a European future for the citizens of the region. Promises which were given as far back as 2000 and the Zagreb Summit, if not before.

Some of the questions stemming from this complex political scenario were among the issues that were addressed at the Parliamentarian

Conference in Cavtat 2018. By showing that there are European countries still interested in acceding to the European Union, the European political elite can project an optimistic and positive image of European integration, countering the narrative, set by Brexit, of an obsolete institutional framework ready for the chopping block that some nationalist forces want to show. The perspective of accession is a boon for the candidate countries as well, as it shows to their societies that they are not forgotten, and that they have a place at the European table.

The crisis in the response to the refugee wave of 2015-2016, the importance of the Balkans Route, and the simmering crisis of dealing with refugees and migrants in the countries of the region (with Bosnia and Herzegovina becoming current converging spot), show us the importance of Southeastern Europe's role in the stability of the European Union. At the same time the "stabilocracy" preferred by some European actors, is helping entrench autocratic leaders in country after country in the region. With their focus on hollowing out democratic and independent institutions and fomenting interethnic conflict and distrust among neighbours, these leaders, are destabilising the region in the long run. The European Union has so far no answer to either of these two issues currently occurring in Southeastern Europe.

One of the reasons for the laissez faire approach toward safeguarding the nascent democracies in the region has to do with internal problems, changes, and conflicts, the European Union is currently facing. This has weakened the resolve

of some political actors, both in Brussels, and in the member states, to push for new arrivals, especially those that would need all the help they can get. This lacklustre approach was visible in the President of the European Commission, Jean-Claude Juncker's statement that during his term in office no new members would accede to the European Union. It is also visible in the White Paper on the Future of Europe, with five scenarios for the potential evolution of the European Union all but ignoring the widening of the integration, focusing predominantly on the Union's functional deepening.

This approach towards enlargement policy is problematic for two specific reasons. One, it allows for local political elites to stave of the reform process in their respective countries, focusing instead on short-term activities that breed clientelism and corruption. Two, it also opens doors for non-European international actors to stake their claim in the region by courting local leaders. Countries as varied as Russia, Turkey, China, and Saudi Arabia, have shown interest, or have been active in the region as of late. Some of them have purely economic interests, while others use cultural and religious camaraderie in order to exert political presence in the countries of the Western Balkans. None of those need to align with the interest of the European Union, or the region's societies, but can offer no-strings-attached incentives to local political elites to change the future, strategic trajectory of their

respective countries. This outside influence is made more possible the more the European Union lacks a willingness to offer concrete and reachable accession opportunities to the Western Balkans nations.

Having all this in mind, conference participants focused on answering three interconnected, but independently important questions. Firstly, the focus was on analysing the complementarity of the enlargement policy and the accession process of Southeastern European countries, with the Reform Agenda being proposed currently, as well as with the Future of Europe scenarios. Secondly, the conference addressed the impact of deeper and improved economic cooperation between the countries of the region, and its influence on their integration process. And finally, the discussion dealt with the role of civil society and the necessary prerequisite of reconciliation, trying to answer if this is the catalyst for a faster process of European integration for Southeastern Europe.

How does the EU Accession Process of Southeastern Europe Fit into the European Reform Agenda?

After the accession of Croatia into the European Union five years ago, seven European countries from Southeastern Europe were left at Europe's front door, including Turkey. Focusing only on the Western Balkans, we see that the five years since



Participants of the 19th International Parliamentarian Conference

2013, offered only tentative and slow progress. Two of the waiting countries – Bosnia and Herzegovina and Kosovo – are still only potential candidates. Two other countries, Montenegro and Serbia, are candidates for accession, while Albania and Macedonia await the date for the start of their negotiation process. All of the countries, nonetheless, are still very far away from actually joining the European Union. Their foreseeable future is focused on passing benchmarks and introducing necessary reforms.

Despite the widespread enlargement fatigue, there are worthwhile initiatives focused in maintaining momentum on their accession path for the Western Balkan countries. One such initiative is linked with the European Reform Agenda, an initiative focused on the countries of the Western Balkans. The aim of an accession in 2025 seems excessively optimistic, when we see the path still ahead in front of all the countries of the Western Balkans.

Some European politicians, mostly those from the European People's Party, are investing a lot of goodwill capital with leaders of the region from their political family, hoping that they will eventually deliver the much-needed reforms. However, political elites from the region see this as an invitation for a free and unencumbered reign, with only occasionally talking about the European path of their countries, and the concurrent need for reform. This raises several important questions concerning the rule of law, economic reconstruction and re-industrialisation, civil society and general public cooperation, while leaving the answers to these questions in limbo. These are the questions of the utmost importance for the Western Balkans to prosper and ignoring them cannot help the reformist cause, which is focused on their accession to the European Union.

Some of these issues could be solved by opening the European Union, its policies, structures and funds, to Western Balkan states, even before the official accession date. Brussels should think about opening (some) structural and cohesion funds for the application from candidate countries as well. The main goal of this opening should be solidarity.

Another goal is to work on getting the necessary funds directly to citizens and not to the political elites. Social democrats must work on helping those elements focused on the progress of the Western Balkans on the European path, and not lend our support to (sometimes illiberal) political elites focused on maintaining the status quo and keeping the appearance of façade democracy in the region. The European Union, thus, needs to be the partner not only to the governments, but to the progressive forces in the respective societies above all else.

If we focus on the citizens of the Western Balkans, allowing them and their organisations and institutions to compete for grants of European funds, we will be able to help the rise of the middle class in those societies, which would lead to the surer anchoring of democracy in the region. It is important to strengthen the middle class in order to help strengthen the rule of law and promote tolerance in the mainstream of these societies, which were once ravaged by war and continue to be afflicted by poverty today. The impulses created by the grievances stemming from poverty and conflict can further the rise of populism if unaddressed.

The enlargement policy in the region started as a stabilisation policy, and at the beginning, was not focused on the accession process in the same way it was for Central European member states. Nevertheless, we need to ask ourselves if this veneration for the stabilisation of the region has evolved into stabilocracy, that is, has supporting the region's strongmen who can deliver stability, helped suffocate any opposing views and, which is even more important, suppress any independent or critical institution that could show this stability to be nothing but a smokescreen. This is problematic as no problems are resolved through it. The situation just becomes frozen with political power being captured by anchored elites in societies still transitioning from some kind of authoritarian regime.

Friends of the enlargement among member states and supranational institutions should offer a way out of this conundrum. Focus needs to be on

helping development and on technical assistance to meet the conditions to join the European Union as soon as possible. Member states, especially those that have social democratic governments could help all Western Balkans' countries to speed up the process of accession. This is a concrete and visible support for the enlargement, which the PES family can show to the societies in the region. We, especially, need to be a voice for those countries that are lagging behind, but whose governments are taking visible and concrete steps in reforming, and especially in repairing links with their neighbours, as Macedonia is doing with regards to the Macedonia-Greece issues.

It was stated, in conclusion, that the enlargement strategy lost its primacy among the Brussels elite, due to the scepticism of member states, and lack of reformist zeal in (potential) candidate countries. Despite a weariness among the citizens of some member states, it is of utmost importance for the enlargement to continue. A deepening of the European Union – a much needed and welcomed activity of current member states – must not become the only focus of European institutions. The social democratic voice, focused on championing the combined policies of deepening and widening the EU could prove important in keeping the countries of the

region on the accession path. We need to avoid the betrayed expectations that could lead to negative repercussions and disappointed citizens which can lead to populist and nationalist poison spreading across the region once again. Social democrats need to say clearly that the European integration is not only economic integration, but also a union built on solidarity and cooperation focused on peace on the continent. Maybe 2025 is too optimistic of a goal, but work needs to be done, and help needs to be provided through the opening of funds, twinning projects, know-how transfer, and the support for civil society. Citizens of the countries of the Western Balkans need to see that the work is possible and that the goal of membership is achievable within this generation, as too much time has already been lost.

How Can We Improve Economic Cooperation in Southeastern Europe for an Enhanced European Integration?

Countries of the Western Balkans have small economies with low levels of development when compared to the European Union. Due to lacklustre growth of GDP, a particularly large financial crisis, and the strong, post-transition deindustrialisation of all Western Balkan nations, it is projected that at the current pace it would take them up to 200



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years to catch up with the European Union and the living standards of its citizens.

It is obvious that the Western Balkans' economies need more foreign direct investments, focused especially on the industries of the future, but also those that could utilise the region's comparative advantages. Especially open are the transport and tourism sectors that could bring high levels of growth in some countries. For this to happen, though, political and economic elites of the region need to tackle the issues of the grey economy, as well as these states' weak institutions, which hinder stronger development, and syphon funds from public into private hands.

The European Union could help boost both economic output in the region, as well as economic cooperation between the countries of the Western Balkans through the support of regional economic and political associations. Organisations like the Regional Cooperation Council, the Southeastern European Cooperation Process, the Central European Free Trade Area, the Centre for Security Cooperation, the Western Balkans 6 Advocacy Group, and many others (including those focused on cultural cooperation and reconciliation opportunities), allow citizens of the region to work more closely in the economic field by avoiding trade and other obstacles. This boosts economic growth and facilitates the rise of the middle class among Western Balkan societies.

Considering that almost all industry has vanished from the countries of the region, special care needs to be given to reverse the rampant deindustrialization of Western Balkan societies. Hence, special attention needs to be given to supporting those actors intent on building and modernising local industries. Foreign direct investments need to focus on supporting and modernising existing industrial capacity, while the European Union should help with building the green, circular and sustainable industry of the future, especially the one focused on keeping and attracting educated youth in investing their time, knowledge, and resources in their countries. For this to be possible, governments need to be encouraged to drastically improve the quality

of the political, judicial, and administrative apparatuses.

Although economic development is important for the countries of the Western Balkans, we need to take into account the devastating influence of the neoliberal economic agenda on the fragile social and economic infrastructure of the region. Hence, the question is how to build credible social democratic policy on enlargement that would incorporate a more humane, social democratic vision of economic development. The focus should be on two aspects. The first one is the nascent Social Pillar of the European Union, which would focus more on aligning the social and other policies of member states in order to avoid the disasters of the past crises. The second element is the introduction and strengthening of the social dimension in the enlargement strategies of the Western Balkan countries. This can then become an opportunity for the social democrats in Europe to influence the narrative and to bring this policy to life.

As such, this narrative will strongly focus on the question of inequality as one of the most visible aspects of economic development in transition societies. Income inequality is rampant in the region. By supporting regional economic cooperation and by working on the introduction of the social dimension in the accession negotiations, and even by opening some structural and other funds focused on mitigating the worst excesses of economic transformation, those likely to hit those already under strain the hardest, European social democracy would, once again find its voice as a champion for the downtrodden.

To conclude, it is important to boost the economic cooperation in the region, with an aim of strengthening the European integration prospects in all the countries of the Western Balkans. Although countries cooperate even now, this cooperation can be brought to a much higher level, especially in the area of cooperation of enterprises and private firms in order to better penetrate third markets. On the other hand, all the economies of the region are highly linked economically to the European Union as their

largest trading partner one way or another. As such, the economic question is important and social democrats need to focus on providing answers to that question that aligns with our values. Hence, the need to strengthen the social component in order to boost the rise of the middle class in the countries of the Western Balkans. It is of the utmost importance, above else, to focus on education reform in order to stop the brain drain, and to prepare these societies for the future.

Reconciliation and Civil Society Cooperation as a Way towards European Integration in Southeastern Europe

The third panel of the conference was dedicated to the role of civil society in the region and the reconciliation efforts needed to overcome the bitter divides of the past. The most important message was for the European Union to continue with supporting the need for reconciliation efforts among Western Balkan societies. It is needed because reconciliation is a cornerstone of the European integration project. Without an all-encompassing and genuinely deep reconciliation between France and Germany, we would hardly see a prolonged period of peace in Europe, let alone the integration of such magnitude that we are witnessing today.

This historical evidence needs to be a guiding light for all those forces focused on working to bring reconciliation in the region. With this as a foundation, it would be much easier to build healthier democracy and a stronger rule of law – all of which are prerequisites for candidate countries to attain before becoming members of the European Union. Hence, we need top level support and a more coherent policy toward the history, culture, and identity, all of which would serve the ultimate goal of reconciliation. The point however is not to share one identity, nor to erase specificities of distinct cultures, but to have a framework to deal with the richness and diversity within the Western Balkans.

However, it is more than visible that the free space is narrowing for civil society in the Western Balkans. Encouraged by some external competitors, such as Russia, Turkey, and Saudi Arabia, and helped by the lack of opposition from European institutions dominated by the European Peoples Party, some governments of the region are becoming more hostile towards civil society organisations. Those organisations focused on interethnic and inter-society cooperation, and which are critical toward the region's governments bear the brunt of this hostility. In such a climate, civil society organisations have an especially hard time to provide the



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opportunity for the reconciliation effort to flourish. The work of these organisations, their focus on mutual cooperation and inter-ethnic understanding need to be safeguarded and promoted by the European Union. Mutual understanding in societies between different groups is the base we need to fuel the progress of entire societies.

The reconciliation project cannot be offloaded onto civil society alone, especially one working in this climate of hostility. It is a work cut out for all of us, with stakeholders coming from the societies of the region, from governments in particular, but also from the neighbouring countries, and from the European institutions and the European Union as a whole. Social democrats need to spread the narrative of active participation of the European Union in the reconciliation process in the Western Balkans. Not only through providing funds, but also through putting more pressure on the governments to genuinely embrace the message of reconciliation, as well as through insistences of repeating the Union's origin story as a reconciliation effort.

Without this stronger push and the introduction of more stakeholders in the process, the reconciliation process will remain stalled, and all the good work organisations such as REKOM, and others, that has been done up until now, will go to waste. This will not allow for the resolution of conflicts, but will foment them and let them simmer for a long time. No stability can be achieved, not even in the autocratic strongmen's stabilocracies, with the possibility of renewed conflicts looming menacingly every time a new crisis arrives. Internal tensions in some countries (BiH, Kosovo, Macedonia), when linked with bilateral disputes (which the Western Balkans do not lack), and helped by external competitors (mostly Russia, but also Turkey, and in the future possibly even the United Kingdom), can be exploited and can work against good neighbourly relations, and even against European integration as a whole.

Therefore, the European Union must redouble its efforts in the region, by working with civil society organisations, and especially with young people,

and youth networks. Supporting them and their inter-state and inter-ethnic partnership with like-minded actors from different countries in the region and from the European Union will be of benefit both to those groups, as well as their societies and, ultimately, the European Union as a whole.

Conclusion

In the end, the participants of the conference concluded that the European social democracy needs to play a more proactive role in the formation of the sustainable and optimistic enlargement policy that would see all countries of the Western Balkans become members of the European Union sooner rather than later. Social democrats can achieve this by offering an alternative to the current, very general, and often contradictory stance of the institutions of the European Union led by the very sceptic European Council. Social democratic ideas such as solidarity, equality, and tolerance, must become cornerstones of a future, reformed, European enlargement policy. Six countries of the Western Balkans must have a clear membership perspective. This perspective needs to be rational, clearly visible, and attainable in order for citizens to see accession as a palpable culmination of their effort to reform their societies and strengthen the democratic potential of their countries.

Dangers standing on the path of the countries of the region are similar to those faced by the European Union as a whole. Terrorism, migration, security, foreign policy weakness, all these are challenges one can face more easily while a part of the union that shares the same values. Thus, it is of the utmost importance for all sides involved, to work as partners in achieving the much needed standards that would allow for the accession of the Western Balkans into the European Union. The integration of this region is not important only for Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. It is important for the European Union as well.

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