

Signs of hope in the Western Balkans?

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»» As 2009 draws to an end, and with it the five-year mandate of the current European Commission, it is worth reviewing the state of play with the EU integration of the Western Balkans. Enlargement Commissioner Olli Rehn has done well to keep the show on the road over recent years in the face of evident 'enlargement fatigue' among member states and the prolonged paralysis over the ratification of the EU's new constitutional treaty. Kosovo's independence – which many feared would threaten the stability of the whole region – ultimately passed off without violence. But the refusal of Serbia and several EU member states to recognise the new state continues to cast a cloud of uncertainty over not only Kosovo's, but also Serbia's EU prospects, thus complicating the outlook for the rest of the region as well. Moreover, long-festered bilateral disputes in which several of the region's states are embroiled have disrupted the pace of EU integration over the past year. And the eruption of the global financial crisis and ensuing economic recession in 2009 has dealt a further blow, threatening to undo the gains of several years of high growth in the region and shunting the Western Balkans even further down the list of EU member states' priorities.

However, as the year comes to an end, some of the gloom is showing signs of dissipation. Although no-one expects economic conditions to make an early, dramatic recovery, there is hope of stabilisation. A key moment was the Irish 'yes' vote for the Lisbon Treaty on 10 September, meaning that it can now go into force, allowing further enlargements to take place. Another encouraging and long-awaited step forward for the Western Balkans is visa-free travel to the EU, due to come into effect from 1 January 2010 for citizens of Serbia (excluding those resident in Kosovo), Macedonia and Montenegro. This follows those countries' successful implementation of the EU's 'Road Map' of reforms in justice

HIGHLIGHTS

- Ratification of the Lisbon Treaty has cleared the way for further EU enlargement, but bilateral disputes in the Balkans region first have to be settled.
- While Kosovo's independence has gone better than many feared, it remains an intractable problem that the EU will have to tackle: the question is whether the EU is ready for the responsibility.
- The Balkans has been badly affected by the economic recession. The full social impact has yet to be felt, with worrying implications for political stability.
- If the model of economic transition based on high inflows of foreign capital is now no longer available, the EU will have to develop a new plan and find additional resources for restarting sustainable growth in the region.

»»»»» and security. Albania and Bosnia-Herzegovina will follow suit as soon as they are ready. Montenegro and Albania have submitted their applications for EU membership, while hardy optimists and stalwart supporters of the Western Balkans are advocating moving the whole region a step forward to candidate status in 2010. This implies early opening of accession negotiations for some, and for the rest a clear 'Road Map' towards that milestone.

But this presupposes pragmatic political efforts to clear away the remaining political obstacles that clutter the region's path to EU integration. It also requires renewed commitment on the part of EU member states to devote adequate attention and additional resources to accelerate the region's economic recovery and promote faster reform. Candidate status may help by redirecting Balkan political leaders' focus squarely towards long-overdue reforms and inducing greater readiness to reach political compromises. But candidate status is no 'quick fix': it will not, in and of itself, solve all the challenges that lie ahead. In this policy brief, we focus firstly on key regional political issues that need to be settled if EU integration is to progress more swiftly, and then briefly on the economic outlook.

BILATERAL DISPUTES HOLD THE REGION BACK

For the first time, the European Commission's annual communication on the region, *Enlargement Strategy and Main Challenges 2009-2010* notes 'bilateral questions' among the 'Key Challenges' facing the region. Unfortunately, the two bilateral disputes which have directly halted integration in the past year have also involved EU member states.

In December 2008, Slovenia decided to veto the opening of any further chapters in Croatia's accession negotiations due to failure to agree with Croatia on the mechanism for final settlement of their maritime border. This was an unpleasant shock not only for Croatia but also for those in the

EU who had expected that a new member state would not act in such a way against another aspiring to join – especially as the territorial issue between the two countries appeared so minor to outsiders. In order to break a deadlock that was also damaging the credibility of the EU itself, Commissioner Rehn – with the support of successive EU Presidencies – took responsibility for mediating this dispute, but it was not until the late summer of 2009, with the appointment of a new Croatian Prime Minister, Jadranka Kosor (after Ivo Sanader's unexpected resignation) that the two sides found a way forward out of the impasse. Thus in September, after a meeting with his new Croatian counterpart, the Slovenian Prime Minister announced that his country would suspend its veto on Croatia's accession negotiations, and the two countries have agreed to return to the negotiating table to tackle their bilateral issues. While a relapse cannot be ruled out if these talks stall again, at least Croatia – hitherto the trailblazer for Western Balkans' EU integration – has been able to resume accession negotiations. Having now opened 28 and (provisionally) closed 12 of the 35 chapters of the accession treaty, Croatia is back on track to complete negotiations by the end of 2010. It hopes to join in 2011.

Meanwhile, the threat of a Greek veto has postponed consideration of the question of opening accession negotiations with Macedonia, which has been an EU candidate since December 2005. The vexed Macedonian 'name question' has been festering without resolution since the very emergence of the new state claiming the name of the 'Republic of Macedonia' in 1991. This ignited Greek anxieties about an implied territorial claim to its own northern region, also called Macedonia. (The term Macedonia is used in this policy brief for simplicity and without implied political meaning). It is hard for outsiders either to understand the depth of the passions involved, or to avoid calling down a 'plague on both your houses' for a dispute which nationalist politicians in both countries have exploited with self-serving short-sightedness. The EU by and large has kept out of the issue, leaving it to a hapless UN appointed mediator to slog away for years in

search of a mutually satisfactory solution. A new turn for the worse came in April 2008, when Greece blocked Macedonia's accession to NATO under the temporary name of 'former Yugoslav Republic of Macedonia' (FYROM), according to the UN-brokered 1995 Interim Agreement between the two states. It was made clear that Greece would similarly block further Macedonian progress towards EU accession. In November 2008, FYROM referred Greece to the International Court of Justice (ICJ), accusing Greece of violating the 1995 Interim Agreement.

By August 2009, any further talks seemed to be on indefinite hold. But a new opportunity opened up in September, when early elections in Greece led to the formation of a new government under the Socialist George Papandreou, known as a 'Friend of the Western Balkans.'

This did not mean an about-turn in the Greek position. However, Macedonian commentators welcomed his arrival as helpful and likely to lower

the rhetorical decibel level. In turn, Macedonian politicians had to ask themselves what Greek leader would be likely to give them a better chance for a deal than this one. The European Commission swiftly seized the moment, recommending in its Enlargement Strategy document that accession negotiations be opened with Macedonia, on the basis of the progress made in a number of key fields.

At the time of writing, behind-the-scenes high-level talks have resumed between the two states. If the outcome is indeed the long-awaited compromise, then the opening of accession negotiations can be expected to be on the agenda of this December's European Council, with good chance of a positive decision. As the Commission's 2009 progress report argues that Macedonia has improved on its reform process over the last year and is now ready to begin accession negotiations, a Greek veto at this meeting will deliver a damaging blow to EU credibility.

In these, and a host of other minor, niggling demarcation disputes, there is a need for bolder, more statesmanlike approaches on the part of the leaders of aspirant states themselves. Lingered nationalist and 'victimhood' reflexes still enjoy wide currency in public opinion. It takes courage and a wider vision to resist these. Leaders in the region are certainly not helped by signs of 'enlargement fatigue' on the part of the EU itself.

Yet the previous enlargement rounds into Central and Eastern Europe had to confront similar challenges, and the lesson is that the most effective weapon against EU faint-heartedness is bold and determined political leadership on the part of aspirant countries to prove themselves more 'European-minded' than the EU itself, thus showing how enlargement can inject new energy into the European project to the benefit of all. If they are not resolved, such disputes will reinforce negative stereotypes in EU public opinion of the 'Balkans' as a concatenation of quarrelsome peoples endlessly embroiled in obscure, yet intractable wrangles.

SERBIA AND THE KOSOVO STALEMATE

The Kosovo issue is set to remain the most intractable problem in the region. Although the new 'pro-European' government of Serbia that came to power in 2008 has been prepared to cooperate with the EU's rule of law mission in Kosovo, EULEX, in a way that the previous nationalist government would not have contemplated, there has been more continuity than change in Serbia's Kosovo policy. The Commission notes that Serbia's cooperation is still not adequate, especially in facilitating EULEX deployment in Kosovo's northern Serbian-minority enclave, Mitrovica. The Serbian government continues to finance parallel Serb-minority institutions and is discouraging Kosovo Serbs from participating in this autumn's local elections in Kosovo. Meanwhile, Serbia is taking a tough line on the terms of Kosovo's participation in regional cooperation institutions and policies, which is a continued source of friction between Serbia and all other states of the region which, with the exception of B-H, have recognised Kosovo.

Candidate status is no quick fix

»»»»» The basic question is that of recognition. Although the ICJ will in December open hearings on the question of the legality of Kosovo's independence, it is far from clear that its ruling, expected in April 2010, will have much impact on the situation. Whatever its ruling turns out to be, it will have an advisory character. Thus, if it rules that Kosovo's independence was not contrary to international law, Serbia is almost certain simply to ignore it; while a ruling in favour of Serbia's position, even if it deters further recognitions, will not induce those 62 states that to date have recognised Kosovo to de-recognise. However, a clear ruling one way or the other is not the most likely outcome, rather one that will confirm the murky ambivalence of the whole question. This will throw responsibility for finding a solution back into the political arena – and foremost onto the EU. This could be an opportunity to re-launch dialogue between Belgrade and Pristina. However, apart from the key question of whether either party will find dialogue in its interests, there remains the other important question regarding whether EU member states themselves will be able to overcome their own divisions over Kosovo recognition – there are still five member states that have refused to recognise it.

Pristina will not engage in dialogue with Belgrade if that implies any compromise of the independence it has achieved, while Serbia can hardly be expected to shift its position as long as the EU itself does not have a clear stance on Kosovo's independence. Meanwhile, Kosovo's prospects of joining the Stabilisation and Association process – the EU's basic strategy for the whole region – are clouded by the EU's inability to treat it as a state. This in turn undermines Kosovo's interest in adhering to the rather onerous terms of the 'Ahtisaari Plan', whose provisions for minority rights and the integration of Kosovo's Serbs were taken over by the EU as a key part of its objective of building a 'democratic, multi-ethnic Kosovo.' And of course, as long as the Kosovo Serbs continue to boycott elections, it will be impossible to establish the self-governing Serb minority municipalities that the Ahtisaari plan envisaged.

If, as expected, the ICJ delivers its ruling in April, it will fall to Spain – hitherto leader of the pack of five non-recognising EU member states – as incumbent EU Presidency to handle debate on the ruling's implications. To date, the EU's inability to reach consensus on Kosovo casts into doubt not only its strategy for the Western Balkans but also undermines its ambitions to become a coherent and effective foreign policy actor elsewhere in the world. Hence the growing interest in finding some sort of medium-term fix for the Kosovo conundrum, sometimes dubbed the 'Ischinger option' after the German diplomat who was appointed by the EU in 2007 in a last ditch attempt to reach compromise between Belgrade and Pristina. He proposed that the 1972 Berlin Agreement between the then two German states might be used as the model for a similar deal between Serbia and Kosovo, as a framework for mutual cooperation based on 'agreement to disagree'. The Berlin agreement had implied de facto, but not de jure recognition of East Germany by the Federal Republic; for that reason, it was firmly ruled out in 2007 by the then Belgrade government. It is not clear that the current Serbian government would view it any more favourably; nor that Kosovo's increasingly impatient leaders would be ready to play that game. In the meanwhile, careful attention will have to be paid to the technical nitty-gritty of such a settlement, which could additionally complicate the future course of the two states' eventual EU integration. The EU clearly will not want to import another Cyprus-type problem.

ECONOMIC CHALLENGES AHEAD

The Western Balkans has been hard hit by the global financial crisis and ensuing economic recession, although, in the Commission's estimate, the region has not fared as badly as the worst-affected EU member states like Latvia and Hungary. Nevertheless, both Serbia and B-H have had to turn to the IMF for emergency support. Although there are some signs of bottoming-out of the dramatic fall in growth (Serbia, for example, now expects a decline in GDP of about 3 per cent in 2009 instead of earlier projections of over 4 per

cent) no recovery is in sight until 2011 at the earliest. The timing of the crisis could not be worse for the region, catching them almost at the beginning of the process of economic transition. Despite several years of high growth rates, real GDP is still well below 1989 levels in Serbia, Montenegro and B-H, and only just above the 1989 level in Macedonia. All except Croatia are below, if not well below the levels of per capita GDP (at purchasing power parity) of the EU's newest and poorest member states Romania and Bulgaria.

The recent boom years have been accompanied by high fiscal deficits, particularly in Serbia and B-H, while growth has had little impact on reducing the high levels of unemployment. The slow pace of structural reforms means that export capacity is still very low, while demand for imports has been very high. This path is not sustainable without continued and assured high inflows of foreign finance for both investment and consumption. But foreign capital inflows have virtually ceased, and will not return to pre-crisis levels for several years.

In other words, the model of economic transition that was employed by the Central and East Europeans in the past 15 years is no longer available to the Western Balkans (and many are questioning its results in CEE too). The region will henceforward have to rely much more on domestic savings and domestic investment: not an easy prescription in poor countries with heavy demands on their budgets due to high levels of unemployment, a large proportion of retired and economically inactive people, and the need to carry out costly public sector reforms. The hard-pressed middle classes of the region, having only in the last few years begun to recover from the devastating effects of war and hyperinflation in the 1990s, now face the prospect of renewed austerity while repaying mortgages and bank credits denominated in foreign currency (mainly euros) which have soared in value as national currencies have slumped. Young people's prospects have deteriorated sharply, while youth unemployment was already as high as 60 per cent in Macedonia and even more in Kosovo.

The worrying political implications of this should not need to be spelled out. The EU needs to respond urgently and generously to prevent the still fragile situation in the region from slipping backwards. A new long term plan for promoting the region's economic catch-up with the EU needs to be devised. Most of the debate on what the EU should do – beyond providing additional short-term grants and loans to stave off the crisis – has been focused on accelerating the countries forward along the EU integration path. This means getting all countries to candidate status in 2010, opening accession negotiations with some of the better prepared, and giving a clearly-defined road map towards that point for the rest. It would also mean early release of the additional funds for pre-accession assistance earmarked for candidates. But we need to ask whether the Instrument for Pre-accession is adequate, not only in quantitative terms of the amount of funds available, but even more in qualitative terms. The IPA is geared to assisting candidates in implementing their Stabilisation and Association Agreements and, subsequently, the *acquis communautaire*. Worthy as these objectives are, they do not add up to a programme for re-starting growth and accelerating economic transformation in poor, underdeveloped and politically unstable countries which will be unable to rely on high levels of foreign capital inflows in future.

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