REGIONAL COOPERATION IN SOUTHEAST EUROPE:

THE BULGARIAN PERSPECTIVE

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INTRODUCTION

The transition from a communist regime to democracy and market economy in Southeast Europe was accompanied by internal political cataclysms, economic crises and strained minority problems. These crisis developments and trends did not allow states like Romania and Bulgaria to match the accelerated transition of the post-communist states in Central Europe which were in a more favorable position. As a whole, however, East Balkan states managed to resolve the issues of their new state and institutional establishments and to create mechanisms for integration of the various ethnic minorities, which allowed these states to generate stability within the regional context.

The changes in the West Balkans were of an entirely different character, as the end of the Cold War precipitated the crisis in Tito’s Yugo-federation, which finally brought to the disintegration of the federation. These disintegration developments were manifested as a clash between the trends towards self-determination of the federal Yugoslav republics and the authoritarian Great Serbian regime of Milosevic. The disintegration of the Yugo-federation was accompanied by a series of military conflicts and acts of genocide against national minorities. These developments pushed the Balkans back to the most notorious days of the region's history. The conflicts within the former Yugoslavian sphere of domination emerged as the strongest destabilizing factor in Southeast Europe, aggravated the state of isolation of the West Balkans and turned into a barrier to the accession of the neighboring states to the Euro-integration developments.

The events in Yugoslavia after 1989 compromised stability in separate parts of the peninsula which emerged as a potential risk for European security. Despite the participation of the states in the region in a number of European and global organizations, and their accession to various international legal instruments, the international community had to face the necessity to embark on decisive efforts to avoid a further destabilization of Southeast Europe.

By the middle and especially in the second half of the 90-s in Southeast Europe there were already a number of challenges to the regional and international security: the emergence of "hot" conflicts and the creation of prerequisites for future conflicts on the West Balkans; the existence of a regional disparity in the sphere of conventional armed forces; the problems, initially related to the isolation, and after the fall of the Milosevic regime - to the reintegration of Serbia into the process of disarmament and arms control; the vague future of
the Socialist Republic of Yugoslavia and Montenegro, and more specifically the uncertainties around of the final status of Kosovo and Montenegro. The crisis trends, related to the differentiation of new states and to the efforts to establish and strengthen a new regional order, must be superimposed on the existing problems in the relations between Greece and Turkey and to the Cyprus issue which have remained unresolved for more than a quarter of a century. The emergence of a refugee problem as a result of the series of post-Yugoslav conflicts had a direct impact on Europe.

Additional concerns, aside from the challenges highlighted above, were caused by the emerging threats related to the crisis in the post-communists systems of government in the region and the weakening of the states' control functions in an environment of a free movement of people, products and capitals. The emergence of organized crime both in a national and international scale, the merger of criminal structures with corrupted officials, and the growth of the gray economy sector, along with other disintegration developments resulted in a deterioration of internal security in a number of states in transition and threatened the new democratic institutions and the emerging market relations in economy. At the same time the rise in the illegal trafficking in drugs and humans, the smuggling of goods etc., create a direct threat not only for the region but for Western Europe as well.

It is important to keep in mind that the problems in other spheres of security - economy, trade, ecology, human rights - may affect and substantially aggravate the problems of military and internal security. The concealed albeit probable and accelerating competition between the various states in the region in view of infrastructure projects must not be excluded as a factor which could revive and aggravate the suspicions between the individual states.

The series of Yugoslavian wars and the related destabilization trends in this region resulted in enhanced attention and efforts by international factors to exert a deterring influence. At the same time the West for quite a long time failed in developing a clear-cut stand towards Tito Yugoslavia and the process of its disintegration. The half-hearted commitments assumed by the developed democracies for resolving the Yugo-crises erupting one after another during the first half of the 90-s was a direct result of the fact that the region as a whole remained outside the territorial scope of NATO and was not considered as a component of integration developments within the EU or even as a potential candidate for accession to the Union.

The impact of the involvement of the US was that it played a crucial role for a more decisive commitment of the West with the resolution of the crisis in Bosnia and Herzegovina as well
as with the peace keeping efforts on the West Balkans as a whole. The 1995 Dayton agreement between the parties in the Bosnia and Herzegovina conflict which was negotiated with the decisive participation of the United States may be considered as the starting point for a series of serious efforts to bring this part of the world into the international security system. At a later stage this role was confirmed within the framework of the Kosovo crisis, and by the interference of NATO with the objective to put an end to the ethnic cleansing of this part of the Socialist Republic of Yugoslavia and to help bring in peace to the province and place it under UN administration.

Meanwhile both Washington and the EU member states realized that no stable security and stabilization of the West Balkans could be achieved by military means and peace-keeping efforts alone. The establishment of the Stability Pact for Southeast Europe at the Cologne Summit on June 10, 1999 came as a direct result of this belated insight. The Stability Pact emerged as the most ambitious attempt ever to create an institutional framework for achieving compatibility between the interests and priorities of the participating states, on the one hand, and between the member states and the European Union, the G-8 states and the international financial institutions, on the other.

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It must be noted that the regional approach employed in an environment of diversity of developments of the states in Southeast Europe has encountered serious challenges. These challenges are primarily related to the manner in which this initiative is related to the efforts for the enlargement of the European Union by the accession of Southeast Europe states. Both the fact that the Stability Pact was initiated by the European Union, and the official statements issued in the European capitals indicate that the Stability Fact is seen as a tool for the stabilization and the successive economic development of the region, which in its turn is expected to accelerate the future accession of these states to the European Union. Judging by the chronology of EU enlargement, this process is far from painless and requires persistent efforts for harmonization.

For more than ten years already the European Union has been discussing the options for its expansion to the East. The actual evolution in terms of this issue however contains a permanent component - expansion has always been pegged to a set of conditions. The major steps in the development of the European Union position could be summarized as follows:
- The eventual accession of Central and East Europe states to the European Union was for the first time discussed in the end of 1989. An intermediate option was launched in the middle of 1991 - namely a new generation of association agreements. In the early 1990s Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Hungary and the Czech Republic signed the so-called Association Agreements.

- The European Council summit which was held in Copenhagen in June 1993 formulated the so-called Copenhagen criteria for EU membership. Today, these criteria are still a prerequisite for the states which have deposited their applications for a full EU membership. The successive European Council meetings resulted in streamlining the requirements for a full membership in the European Union. We shall briefly highlight only the most important as these facts are already well known to a wide segment of the society, and not only to those that are dealing with the issue in its complexity of details.

- The summit of the European Council held in December 1994 in Essen formulated the well-known pre-accession strategy.

- The June 1997 Amsterdam meeting of the European Council highlighted the successful completion of the inter-governmental conference by negotiating the Amsterdam Treaty (which, as it is well known, came into effect on May 1, 1999). This important instrument however, regardless of the progress it initiated in terms of institutional development, left the EU expansion issues for a future date, eventually after the expansion becomes a fact. Thus, the hesitation, vagueness and the differences among the individual EU member states on expansion issues were virtually made obvious to everybody.

- On July 15, 1997, the European Commission published its Agenda 2000. It contained an assessment of all EU aspirants which were grouped into two categories: the states which are ready to start accession talks, and others, including Bulgaria, that still faced the need to catch up.

- In order to somehow make up for the disappointment of the second group of states, the European Council adopted at its meeting held in December 1997 in Luxembourg the equal start formula.

- The Helsinki Summit of December 1999 was another important landmark. The second wave states (including Bulgaria) received at this meeting the long-awaited invitation to start talks for EU membership.

- The European Council which was held in June 1999 in Cologne was shadowed by the Kosovo crisis and was dominated by the Southeast Europe Stability Pact. In terms of EU expansion, the Cologne summit reconfirmed the so-called "Stabilization and Association Process", which was launched by the European Commission.

- The meeting in Nice in December 2000 was also of a major importance as the EU made the crucial decision on the proportional representation of the future member states from Central and East Europe, thus dispelling the concerns of countries like Bulgaria that they might be left out of the European structures.

This chronology of events highlights the relation between the Stability Pact and the process of European integration. In practical terms however the application of the Stability Pact and the development of the regional approach is accepted in the capitals in Southeast Europe in a different manner in terms of its impact on the process of European integration. This is
attributed to the different status of the countries in the region regarding European integration. It is a well known fact that the Stability Pact includes as recipients countries from the "second wave" of EU aspirants, as well as states which still have not reached an Association Agreement with the EU (like Albania) and Yugoslavia which is still in the process of its final constitution.

That is why one should accept as quite normal the concerns that the regional approach embodied by the Stability Pact may extend in time the process of accession of countries like Bulgaria and Romania which see themselves as having covered the longer part of the road to membership compared to their neighbors. (Immediately after the end of the Sarajevo meeting of the Stability Pact in late July 1999, the German daily "Der Freitag" wrote that "the governments in the region are not overly enthusiastic in the cooperation among themselves. They aim to become members of the EU and NATO and not to join Balkan pacts where emerging democracy and weak economies are above all united into an alliance".1) The EU Commissioner for Enlargement Günter Verheugen confirmed in an interview (quoted according to a broadcast of the Horizont Program of the Bulgarian National Radio on June 23, 2000) that the concerns of these states are not unfounded and that it is possible that by 2005 the EU will accept only ten of the candidate states. Bulgaria and Romania however will not be ready by that time for accession, hence they are not included in the group of these ten states. Similar statements seem to corroborate the conclusion that Bulgaria and Romania tend to be more and more closely assigned to the group of the other states in the region of Southeast Europe which in itself represents a contradiction to the assumption that accession to the EU will come as a result of an assessment of the individual merits of each candidate state.

Further, the activities of the Stability Pact are supported by the Secretariat of the Organization for Economic Cooperation and Development (OECD) which recently accepted Poland, the Czech Republic and Hungary as members. Thus, "first wave" accession states have already joined the group of donors (although it is not known whether these states will participate in any manner in supporting the projects which were proposed for financing). This development could also create additional lines of division among the different EU accession candidates.

All these facts indicate that there is a need for a careful reassessment of the developments in order to avoid the "implosion" of the region or the emergence of a formula of the type
"integration of the second group" but rather to create favorable prerequisites for the accession of the region to the European Union.

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From Bulgaria's point of view there is no hesitation whatsoever that its integration into the European Union is its major foreign policy priority. EU membership is interpreted as a historical opportunity to overcome backwardness and isolation, to join the developed democracies and to be included in the scope of European values.

In response to the new enlargement strategy of the EU, adopted by the European Council in Luxembourg, and in line with a proposal made by the European Commission, Bulgaria's government adopted in March 1998 a National Strategy for the Accession of Bulgaria to EU. This document stipulates that the "strategic objective of Bulgaria - the EU membership - is supported by a wide consensus between the political forces and the society", as well as that "today's Bulgaria has no other alternative".2

The national accession strategy outlined also the main aspects in the activities of this country in the short, medium and long term. It also defined the priorities in the various spheres and specified the major tasks and the tools for their implementation. The document set also the strategy time frame. In the medium term - 1999-2001 - the initiation of the talks for Bulgaria's accession to the EU was set as a medium-term objective. Further, Bulgaria has set for itself two more objectives:

- the achievement of compliance with the convergence Maastricht criteria for accession to the economic and currency union;
- the establishment of Bulgaria as an infrastructure center for Southeast Europe.

The long-term strategic objective, for the period from 2001 till the actual membership, is the successful conduct and closing of the negotiations for Bulgaria's accession to the EU.

The program for implementation is an integral component of the strategy, along with the programs for the development of the individual sectors, for the reform of the administrative and the judiciary system, and for the convergence of legislation.

1 “Der Freitag”, 30.07.1999
2 Ibid.
The national strategy is related also to the participation of Bulgaria in the established forms of cooperation and to its preparation for accession to NATO, the West European Union (WEU) and the Organization for Economic Cooperation and Development (OECD). The strategy is related also to the participation of Bulgaria in the World Trade Organization (WTO), in the Council of Europe, in the structures within the systems of the United Nations and the Organization for Security and Cooperation in Europe (OSCE). The document stipulates that "within the framework of its activities in these organizations Bulgaria will strictly follow the commitments it has assumed as a state associated to the EU."

The preparation of Bulgaria for EU membership is a process that has predominantly internal dimensions and affects all aspects of the development of the country and society. The strategy stipulates that "Bulgaria will rely for its successful implementation on the declared firm commitment of the EU … to the process of expansion".

The fact that Bulgaria is situated on the Balkans cannot but have an impact on the search of solutions to issues related to the EU accession. EU sees Bulgaria as already definitely accepted as part of the Southeast Europe region, while Bulgaria's membership in the European Union is transformed into a function of the implementation of the Stability Pact. This fact explains also Sofia's concerns that the regional approach may cause, as a fallout, the delay of the accession of the country to the European Union. That is why it is extremely important that the processes of regional stabilization and development should not be interpreted as an alternative to the Euro-integration developments where the chances of each state for membership are assessed on an individual basis and not on a regional background. The stability and sustainable prosperity of the Balkans could be guaranteed only by the inclusion of specific states from Southeast Europe into the European Union and by the further strengthening of the European standards in the new state formations in the region.

The emerging parallel integration developments after the initiation of the Stability Pact - Euro-integralional and regional - creates also some problems when these developments have to be prioritized and matched. Thus, between 2000 and 2001 the Bulgarian government failed to join the Stability Pact Anti-Corruption Initiative (SPAI) monitoring procedure. At the expert level, this approach was motivated by the notion that such a procedure is redundant as Bulgaria is already participating in a similar initiative, GRECO, launched within the

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3 Ibid.
4 Ibid.
framework of the Council of Europe, as well as other anti-corruption monitoring mechanisms.

On the other hand, the divergence between the interpretation by the Stability Pact and by Bulgaria of the role of this Initiative within the context of the process of European integration highlighted other problems related to the internal coordination of the efforts to implement ambitious infrastructure projects. Within a kind of indirect public debate in May 2001, Bulgaria's national Stability Pact coordinator Ambassador Vladimir Philipov stressed that the main problem of the Stability Pact is the "reluctant investors", caused by the fact that a number of states are not in a position to grant state guarantees. Another problem, according to the national coordinator, is the sluggish pace of implementation of even the "quick start" projects (for Bulgaria these are the Danube Bridge 2, the Lom Port, the Sofia Airport and eventually the Sofia-Nis freeway). Meanwhile, Ambassador Philipov proposed to rename the whole process to Pact for Stability and Development, emphasizing on its role in accelerating economic growth in the region.

These ideas however resulted in additional problems in the communication between the Stability Pact and Bulgaria, with the Special Coordinator, Mr. Bodo Hombach, publicly stating that the behavior of the Bulgarian government was not completely clear, and that varying ideas are being aired. Mr. Hombach went as far as to state that the funds allocated to the Danube Bridge project will be released only after Bulgaria clarifies its attitude towards the Stability Pact.
I. THE NEW APPROACH TO OVERCOMING THE ECONOMIC BACKWARDNESS OF SOUTHEAST EUROPE

The new approach, employed by the Stability Pact, is expressed in the stronger and longer-term commitments assumed by the developed democracies and international organizations to the issues related to arresting the high conflict potential on the Balkans and with the inclusion of the region into the processes of integration in Europe and on a global scale. In order to achieve this objective, the Pact has directed its efforts to strengthening of the democratic institutions, accelerating economic development and establishing guarantees for security in the region. This is the most impressive effort to draw an European perspective for the Balkan nations. The Pact presumes that the EU, US, Russia and the other G-8 states and the international financial institutions coordinate their efforts. The Pact relies in this aspect also on the contribution of the countries in Southeast Europe: Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania and Croatia; Hungary, Slovenia and Turkey are also directly interested in the success of the Stability Pact. Yugoslavia’s cooperation with the Pact is made possible by the fulfillment of the conditions that it adheres to the political solution of the Kosovo crisis on the basis of the principles agreed by the ministers of the G-8 states and takes into consideration the need for all participants to respect the principles and the objectives of the Pact.\(^5\) In line with this attitude representatives of Montenegro have been participating in various forums within the framework of the Pact. Moldova was also admitted to the Pact in June 2001.

Within the framework of the complex approach implied in the Stability Pact, the cooperation in the sphere of economic development is treated as a priority. Overcoming current difficulties and the guarantees for an accelerated economic development to the states in the region will generate also a positive social and political effect. Bulgaria is interested in the implementation of the two major dimensions of the Stability Pact - the strengthening of peace and stability in Southeast Europe and the establishment of prerequisites for accelerating the integration of the states in the region into the European and Euro-Atlantic structures.

The priority placed on the problems which are being solved within the framework of the second Working Table was confirmed also by the manner of allocation of the funds for the

\(^5\) Stability Pact for Southeastern Europe, Art. 11, para. 2.
projects distributed among the three working tables. At the donors' conference held on March 29-30, 2000 in Brussels, a total of EUR430,270,000 were allocated to the first Working Table, EUR 1,833,830,000 - to the second Working Table, and EUR 81,700,000 - to the third.\footnote{According to data released by the Ministry of Foreign Affairs of Bulgaria.}

The donors adopted the only approach possible within the framework of the Stability Pact to sourcing the necessary funds for implementation of the projects. On the other side, due to the fact that the financial assets are offered as loans, there is a danger of a new excessive increase of the foreign indebtedness of the states in the region. There are also a number of uncertainties: whether the Pact could rely on a wide political support, questions related to the consequences of the war NATO waged against Yugoslavia, particularly in view the prospects perspective for the state with strongly expressed centrifugal tendencies (in Montenegro and in Kosovo) is still unclear. This means that the situation in the region might be subjected to new tensions.

The skepticism towards the impact of the initiative remains to be dispelled both within the region and beyond. The slow progress to the start of the practical implementation of even those projects which have not raised any objections serves as a source of additional suspicions. A large number of representative meetings, forums, round tables, conferences, seminars etc., are being organized, which created in the broad public the impression that huge amounts of money is being spent without any tangible effects on the hardships suffered by common people. There is public uneasiness that this could be done partly to account for the growing bureaucracy created to demonstrate that something is being done for the achievement of the common goals.

The delayed mobilization of financial assets for the purposes of the Stability Pact indicates that its initiators are gradually shifting their initial emphasis and priorities, thus creating the impression that they lack the relevant capacity to support the initiative. A disappointment in this aspect might result in new problems for the region as a whole and for individual states in particular. Such a disappointment, in view of the delicate political systems in the Balkan states, would inevitably place under strain the positions of the stakeholders who enthusiastically granted their support to the Pact.

Southeast Europe is by no means a source of crucial resources for the rest of the world. After the end of the violence in the region it seems that it is becoming more and more difficult to
live up to the promises to support rehabilitation, stabilization and the development of the states in the region. The public opinion seems to be getting tired of the Balkan issues which further reduces the chance to have optimistic expectations come true.

The steps made so far within the Stability Pact point to a risk that it could be turned into a clumsy, overly bureaucratic mechanism which may turn out incapable of decision making. There are symptoms that the allocation of the funds which have been painstakingly mobilized may turn out to be a nightmare job to complete.

Despite pledges that the Stability Pact will assist the integration of Southeast Europe into the European structures, it may start acting as a brake for the EU accession of the more advanced states in the region. The expectations that Southeast Europe may be turned into a EU region are not overly encouraging. Statements made by responsible representatives of the European institutions\(^7\) gave ground to concerns in some of the states in Southeast Europe that the Pact may be converted into an alternative to the expansion of the European Union over this area.

While drawing the European perspective to the Balkan nations, the Stability Pact initiators must proceed also with large-scale practical efforts for the implementation of the feasible ideas. An eventual failure would have numerous negative consequences reaching far beyond the region. One should not forget the words of the chairman of the European Commission, Romano Prodi, that the Balkans are a test for the ability of the European Union to function efficiently.\(^8\)

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\(^7\) See for instance the interview of the European Commissioner on Expansion Günter Verheugen in *Suddeutsche Zeitung*, September 2, 2000

\(^8\) Quoted according to http://europa.eu.int.
1. Options for strengthening market economies in the region

The expected allocation of substantial Stability Pact funds for the accession of Southeast Europe to modern political and economic life warrant a closer look at the current state of those countries in the region that will be the beneficiaries of the planned cooperation. This would allow to more appropriately estimate the volume of the objective-oriented resources and the rate of their utilization, to specify the priority spheres and the forms of investment activities needed to achieve production and market expansion as the basis for sustainable growth in the Southeast Europe states.

1.1. Reform problems in the Southeast Europe

Before attempting to assess the current state and the trends of development of the reform-related problems in the Southeast Europe states it would be necessary to compare these economies with the established market, as well as other transition economies in Europe in terms of the common standards employed for similar comparisons and assessments. This is necessary as the transition in the states in Southeast Europe is influenced by a number of specific external and internal factors.

The geo-political location of Southeast Europe is the first external factor that must be accounted for. The region occupies the periphery of Europe and has been over the last 40-50 years the arena of challenge between European and supra-European geo-political interests. The ambitions of strong integrational communities and states like the European Union, US, Russia, China, NATO and WEU, as well as other political and economic forces have used the region as the arena for the clash of their ambitions.

Further, the inheritance of the former planned economic development continues to exert a substantial influence which is expressed in the physical and moral depreciation of the production assets and in the divergent management practices, including the business culture of the economic entities, applied in view of the new requirements. The inherited production structure and sectoral proportions remain immune to an efficient accession into the contemporary European economic, trade and market mechanisms.
The transition from a centralized planned economy to a market-oriented economy was hindered by a number of negative developments - the whole specter from efforts to weaken the institutions of the state in order to attain the objectives of private and semi-legal economic groups, to the corruption of the management levels and the criminalization of the macro-environment.

These phenomena were caused by the fact that the transition is developing as a dynamic process of a colossal redistribution of a wealth - albeit a wealth that was created by previous generations. Such a process is always accompanied by a clash of interests and it is charged with corruption and criminality aimed at the acquisition of properties through redistribution rather than production.

The behavior and the attitude of the economic entities and of the society as a whole is used as a criterion for the assessment of the transition to a market economy. Post-communist attitudes are characterized by exaggerated initial expectations. It was expected that the transition will be quick and short, and the results - immediate and easily attainable, without inherent changes in the material and technical base, in the manner of political and economic thinking and without a necessary selection in view of the new type of social life. The sobering that gradually occurred with the passage of time had a reverse effect, de-motivating the economic entities in their role as the engine of economic growth and a factor on the communal prosperity.

The macro-economic situation of the states in Southeast Europe is not favorable in terms of the objectives set by the Stability Pact. Ever since the beginning of the process of reforms, these states have reported a decline in their economic performance, a decrease of the gross domestic product (GDP), respectively of the national income, all of which caused restrictions to the introduction of infrastructure programs.

The economic difficulties and the unsatisfactory reforms, in line with the persistent budget deficits, served as barriers to investment processes and foreign investment flows. This resulted in the de-capitalization of production, in the slow pace of foreign trade, and in the deterioration of the foreign trade balance and the balance of payments.

The unfavorable development of the economic and structural reforms caused the emergence of new and the sharpening of already existing problems. Two of these problems - unemployment and inflation, still remain without a plausible solution. It is true that unemployment is typical not only to the economies in transition (the number of the
unemployed in the European Union exceeds 20 million). But when combined with delayed reforms, privatization and restructuring, unemployment becomes a manifestation of the immaturity of the political systems in the Southeast Europe states. As far as inflation is concerned, its persistent growth in the Southeast Europe states is caused by the lack of developed and competitive markets, which in its turn is attributed to the weakness and the production immaturity of the private sector. Inflatory pressures are exacerbated by inefficient measures to limit budget spending, including the incapability of politicians to match the growth of income to the increase of efficiency of labor. The unemployment and inflation in Southeast Europe lower the perspective of the political elite for decision-making, stir confusion in the society by the implementation of the reforms, cause increases of the budget and fiscal deficits, stimulate economic crime and lower the efficiency of new legislation. As a result, political apathy in the society is spreading, and the support for the social and economic reforms is eroded.

Besides the fact that the transition to a market economy is implemented in an environment of economic recession and a low level of commitment by the society, the process is hampered also by problems related to the public administration. The governments in Southeast Europe, which build their economic policies exclusively on the platform of the political force that led them to power, fail to engage in legislative reforms in such a way as to accelerate reforms and reduce resistance to changes. This phenomenon is due to the fact that the Southeast Europe states were absolutely unprepared for the replacement of the centrally planned economies and for the transformation of the markets along the model of the developed economies. Currently none of the Balkan states could claim it has nearly completed its structural reforms, that is has emerged as a market economy or that it has introduced private initiative as the definitive principle in the social and economic life. As a result the monopolistic structures of the past are preserved, the establishment of parallel (private) structures is tolerated, whereas these parallel structures in many cases are managed by persons with a criminal background or by proxy persons and organizations.

The legal and regulatory transformation, which should be matched or synchronized to the legislative foundations and the market rules in the developed economies, is also very slow. This provides an additional "freedom" to the economic units to abuse their monopoly status and to manifest an opportunistic behavior and disregard to the law. This results, in all of Southeast Europe states, in the unequal redistribution and utilization or resources, in low efficiency and competitiveness of production which in turn affects economic revival and
challenges the political stability in the region. The of conflict between legislation, law enforcement and the introduction of market rules of behavior results in serious consequences as it generates negative attitudes towards reforms and corruption in the institutions of the state.

The ongoing political instability in the Southeast Europe states also has a substantial negative effect. This instability is caused by the absence of established democratic traditions, by underdevelopment of the civil society and by the replacement of the public interest by private ambitions. All these factors generate a high level of unpredictability in the performance of the public administrations in the states in Southeast Europe due to the lack of transparency about the factors motivating this performance.

The current state of the national financial systems, the methods and the procedures which are employed, and the quality of the institutions are some of the characteristic features of the structural reforms in the states in Southeast Europe. In it necessary to make an analysis in this aspect as the investment projects scheduled within the Stability Pact require a modern financial management of the available resources. This would be a difficult task if the financial systems were to preserve their current characteristics.

The banking sector in the Southeast Europe states has been developing since the beginning of the transition in an environment of insecurity and instability, of suspicious reputation of the banks and of an insufficient ability to protect the interests of depositors and corporate clients. Banks in Southeast Europe lag behind in terms of modern methods and mechanisms of operation, opting only for measures for survival or for setting "secure" short-term objectives only. There are either no instruments that could be engaged against such a behavior of the banks, or if a mechanism does exist, it is not employed. It is indicative that a number of banks in Southeast Europe are specialized predominantly in simple banking and foreign currency operations, and instead of creating incentives these banks raise barriers to the demand of production loans and credits.

The so called "financial pyramids" – financial scams promising improbably high return on investment - which still exist in some of the states in Southeast Europe exert an additional pressure on the banking system, and more often than not on the state as well. The local banks in the region find it difficult to re-organize into modern financial institutions, they fail to provide diversified financial services, to manage efficiently financial inflows, and refuse to assume serious investment risk or their management. It could be assumed that the financial
environment in Southeast Europe is unpredictable and conservative. It will most probably remain like that in the short term future despite the improvement observed lately which was partially caused by the entry of Western banks and their affiliates into the banking systems in Southeast Europe.

Bulgaria is a typical example of the challenges of the post-communist period. That is why it merits an analysis of its social and economic situation as it is indicative for the situation in other Southeast Europe states.

The dynamics and the structure of the GDP of a state, as it is well known, are reliable criteria for the state of an economy. Bulgarian statistics indicate that, assuming the level of the GDP in 1989 as being equal to 100, the GDP generated in 1998 was equal to 64.2%, which is indicative of a negative dynamics over the last ten years. For the same period GDP in Slovenia rose to 104%, in the Czech Republic it stood at 95%, in Hungary - at 95%, in Romania - at 76%.

In 1998 Bulgaria had a GDP per capita of USD 1230, which ranked it 131-st in the world; Morocco was ranked 130, with the US on the top of the list and China ranked as 149; Japan was ranked at the 7-th place, Macedonia - at 127-th, and Albania -144-th. The average GDP growth rate between 1980 and 1990 stood at an average 3.4%, while the average for the period from 1990 to 1998 was a negative 3.3%.

In view of the analysis and the qualitative characteristics of Bulgaria's GDP it is substantial to assess the added value generated by the economic sectors. Between 1990 and 1998, the added value generated by agriculture declined by an average annual 3.1%, of industry - by 5.5%. In 1980 Bulgaria's GDP stood at USD 20 billion, while in 1998 it stood at about USD 10 billion. Without disregarding the branch characteristics of the GDP it must be noted that it is dominated by the sectors producing goods and services with a high level of consumption of resources, energy and labor. The technological sectors, and even less the high-tech sectors, account for an insignificant portion of Bulgaria's GDP. This determines the structure of export, which is dominated by energy-inefficient, low-technology, resource-consuming products. Bulgaria has virtually no items on its export list which would be classified among the top 10 high-technology groups of products (according to the international classification).

When commenting on Bulgaria's transition to a market economy, the country's GDP must be assessed also in terms of the form of property. There are some positive indications in this
aspect, as about 72% of the GDP is generated in the private sector currently. At the same time however, 94% of all private enterprises consist of up to 9 employees, 2.7% of the enterprises have between 10 and 19 persons, and in about 2% of all enterprises the number of employees is between 20 and 49 persons.\textsuperscript{10}

The negative trends in Bulgaria's GDP over the last 10 years were coupled with a low-profile dynamics of the rate of accumulation and investments. The rate of accumulation fell from 33.1% in 1989 to 14.8% in 1998. The volume of investments during the same period fell by 12.2%, while savings in their nominal form were not converted into material assets, and especially in long-term material assets. At the same time the rate of investment fell from 26.3% of the GDP in 1989 to 12.6% in 1998. It is surprising that while savings and investments in Bulgaria remain at a very low level, Bulgaria's credit resource, to the amount of USD 7 billion (as a total sum for the period from 1990 to 1998) was held in deposits abroad - tendency which is valid for today as well.

The rate of employment and the level of unemployment are two more indicators for the macro-economic situation in Bulgaria which are similarly disturbing. The negative trends are manifested by a rise of the number of the long-term unemployment (37.1% of all unemployed in 1998) and by the fact that the number of the employees made redundant in the state sector is higher than the number of jobs created by the private sector. Besides the damages incurred on working-age citizens and professionals that have been left without a job (in many cases due to political considerations which is a phenomenon typical for Bulgaria's realities), for instance the loss of qualification and social exclusion, employment in Bulgaria is not harmonized to the progress towards a market economy at the expected rate.

Against this background it is only natural that the population is becoming poorer and the that the distribution of incomes remains unbalanced. The real income in Bulgaria for the last 10 years (with very few exceptions) has been steadily declining. The average minimum wage in Bulgaria in 1996 stood at 43% of the country average, while in 1998 it was already down to a mere 27%. The average state pension fell from 37 to 32%, while the guaranteed minimum income fell from 18% to 16%.\textsuperscript{11} The differentiation between the poor (and the poorest) and the richest is drastically increasing. The ratio between qualification and remuneration was

\footnotesize{\textsuperscript{9} Reference data quoted from Savov, St, "Status and Tendencies in Bulgaria's Economy in the Years of Transition". \textit{Ponedelnik} magazine, Issue No. 1, 2000, p. 35.\textsuperscript{10} Ibid \textsuperscript{11} Ibid}
permanently upset, so that currently the portion of the work force with the highest qualification (teachers, doctors and engineers) are getting the lowest pay.

These social and economic characteristics of Bulgaria warrant the question why do these negative tendencies emerge and persevere. One of the possible answers is that the country was transformed into a huge debtor to foreign credit institutions, thus becoming more and more obliged to comply with the terms and requirements set by these institutions for the pace of transition and the mechanisms of economic reforms. A tendency towards an increase of the foreign debt above the level of the debt in 1990 (where 1990 is considered as marking the start of the economic reforms) emerged over the last several years. The analysis of the loans and credits obtained after 1990 indicates that most of them were not used for investment objectives but rather for consumer purposes. Thus, the economy assumes an additional burden while future generations are being as of today burdened with the difficult tasks of debt repayment. The absence of measures aimed at the reduction of the foreign debt is disturbing as a growing portion of the low GDP is allocated for old and new foreign debts servicing.

Despite the critical assessment of the characteristics of the Southeast Europe economies in transition it would be only fair to indicate that a number of tendencies and political and economic processes motivate the emergence of a certain level of optimism.

A certain level of financial stabilization and economic revival has been observed in the region over the last couple of years which definitely delivered an impetus to economic development. The growing interest of foreign investors to the region, respectively the increase of the volume of the foreign financial assets invested in the states in Southeast Europe, are encouraging. This basis was used as the starting point for a growing number of projects with international participation which creates additional prerequisites for the economic development of the states in the region.

As far as the infrastructure projects are concerned, it is becoming obvious that Southeast Europe is emerging as a region which is attractive for the further development of the common European structures and more specifically for the implementation of trans-continental infrastructure and commercial strategies of the European Union. The objective of the Union to provide for its long-term energy independence and needs by a direct access to energy sources outside the Community and to streamline its transport links to and from the markets in the Middle and the Far East imply that the infrastructural development of Southeast Europe is an integral component of the pan-European infrastructure network.
At the end of 1999, Bulgaria and Romania were invited to start negotiations for accession to the EU. The invitation was confirmed by the Nice Summit held a year later. This gave an additional impetus to the economic activities in the two states. The fact that three of the Southeast Europe states are already considered as serious applicants for an EU membership is an indication of the political recognition of Southeast Europe and at the same time as an evidence of serious commitments by this powerful international community with the solution of the social and economic problems of the societies in the region.

The emerging favorable factors and trends, however, are still not sufficient to offset previous deficiencies in the development of most of the states in Southeast Europe, which affects also the opportunities for attracting the investments necessary for an accelerated integration of the region.

There is also another set of problems which is related to a contrast between the directions of the post-communist reforms and the main principles of the European economy. This problem exists also despite the ambitions of the states in Southeast Europe to join Europe's economy, all the more so that the regional economies are becoming increasingly liberalized. There is no doubt that by force of the so called "Washington consensus," adopted also in Southeast Europe, the economies in transition should follow a policy of deregulation of their capital markets, of international trade, of business and of privatization, and especially a policy towards a sustainable financial and economic stabilization.

Judging, however, by the experience of Bulgaria and Romania over the last 8-9 years, it becomes questionable whether the states in Southeast Europe must follow without any reservations the path towards financial, production and market liberalization. This question is especially important in view of the genuine risk to lose the already weakened national commodity and financial markets, as well as the consequences from the combined privatization of the state-owned enterprises, the absence of a loyal competition and the lack of measures to streamline the environment in which the new economic entities will be forced to work in.

The financial stabilization is a positive economic factor, all the more so in the presence of low or even zero inflation, low interest rates and a high level of employment which are conducive to a stable finance and production sector and provide alternatives for an accelerated growth. In Southeast Europe financial stabilization must evolve into economic stabilization. Conversely, financial stabilization without any efforts to expand internal markets and to
stimulate production and export, without raising the level of internal investments and the
inflow of foreign investment resources - may be counterproductive.

Most of the Southeast Europe states are rather optimistic about their future membership in the
European Union, NATO and other European and trans-Atlantic integrational structures. In
this respect, it is necessary to analyze the mechanisms, policies and actions of these
institutions, as they are evolving in various directions which could have varying effects for
the states in Southeast Europe. Such an analysis would allow Southeast Europe states to
realistically assess their national interests and expectations of their future membership. The
adoption of such an approach would facilitate the understanding that for the time being is of a
higher priority for Southeast Europe - to overcome backwardness and eliminate the negative
tendencies in its social and economic development.

The unjustly high expectations about the role and impact of the Stability Pact could be
considered in the same vein of thoughts. This could mislead anyone trying to tie the
necessary reforms to the activities within the Stability Pact alone. The reverse is also true -
the current state of the reforms in Southeast Europe is creating serious obstacles in their way
to an efficient participation in the progress of regional reconstruction. International
experience can provide a lot of examples of the abrupt collapse of powerful structure-
defining enterprises and of whole industries as a result of their shift towards artificially
"favorable" or unrealistic assumptions and conditions.

1.2. Establishing a new investment climate

The states that initiated the Stability Pact understandably emphasize the institutionalization
of activities, the allocation of tasks in terms of executive factors and the identification of
sources of financing for the scheduled project activities. Besides already established
structures like the Regional Conference and the Working Tables, the European Union is
assigned also with tasks related to the development of the economic institutions in Southeast
Europe by means of the common strategy on the Western Balkans. The US is charged with
assisting the processes initiated within the Stability Pact by means of programs for economic
and technical assistance and by encouraging the involvement of the international financial
institutions and donors. The tasks assigned to the International Monetary Fund (IMF), the
World Bank, the European Bank for Reconstruction and Development (EBRD) and the
European Investment Bank (EIB) are of an exceptional importance, especially in terms of
drafting a strategy for Southeast Europe and of projects for macro-economic and structural policies which are designed to launch the establishment of efficient management and administrative systems.

Central attention is being paid to the stability initiative for Southeast Europe which is expected to apply the new approach to economic and infrastructural cooperation, and the formulae for solving of related problems, including the elimination of the barriers to the private capital in Southeast Europe. The donor cooperation process was started on this basis as a framework of sourcing, allocation and management of the financial assets necessary for the Stability Pact. Within the framework of the organizational procedures which followed, the World Bank, in cooperation with the EIB, EBRD and the Southeast Europe states drafted a proposal for regional development and implementation of infrastructure projects. The EIB was assigned the leading role in the activities related to the infrastructure projects, more specifically with the processing of the related proposals and initiatives and with the preparation of a package of priority measures for Southeast Europe within the Pact.

A similar task was assigned to the EBRD in relation to the direct investments by the private sector. A decision was approved about an Investment Compact specifying the mechanism for implementation and coordination of investments while accounting for the specific features of each of the Southeast Europe states. The EIB made an assessment of the infrastructure projects in Southeast Europe in the spheres of transport, energy and environment, stating in a report the criteria employed to that end. The first Regional Conference on financing (which took place in Brussels, in March 2000), formulated the concepts of partnership and the forms of interaction between the states in Southeast Europe and the states that initiated the Stability Pact.

The structures of the Stability Pact have reported a certain progress in the development by the World Bank of a strategy for regional development which incorporates the conclusions and the recommendations to both the Southeast Europe states and the developed economies within the Stability Pact on how to achieve the objectives of the Pact on time. The Investment Compact identified the commitments of the Southeast Europe states for the establishment of a favorable climate for domestic and foreign investments, including for the creation of mechanisms for the utilization of the planned and of the allocated investments assets. The report on regional infrastructure development which was drafted by the EIB on the basis of the infrastructure projects proposed by the Southeast Europe states was accepted with interest. Out of a total of 400 initial proposals, 80 were assessed as suitable for
implementation in the medium term, and about 45 of them were listed as “quick start projects”, which will be implemented in the near future in case the necessary financing is provided. The number of investment initiatives coming from and dedicated to the private sector is rising in parallel with the need to match the financial commitments assumed by the developed states, including the necessary incentives in the form of guarantees and risk management measures related to the allocation of investment funds.

“Form pledges to implementation” was the dictum of the Regional Funding Conference, formulated by the Special Coordinator of the Stability Pact. The conference discussed the package of "regional projects and initiatives" dedicated to the development of infrastructures, the private sector and public and administrative reforms, which will be treated with priority. It was reported that EUR2.4 billion have been provided for the purposes of the Stability Pact and will be used to finance the quick start package of projects by a total of EUR1.8 billion. It was stated that these projects are is the first step towards the objectives of the Stability Pact, while the preparation and the implementation of any of the projects or initiatives in the future shall be subject to the close interaction and cooperation between the states in Southeast Europe. The states in Southeast Europe confirmed their commitment to support the rule of law and the combat against corruption, to improve the conditions for development of the private sector, to reduce the trade barriers and to stimulate the application of the democratic principles.

Besides the calls for the implementation of the commitments related to the approved projects and initiatives, the representatives of the states included in the Stability Pact approved a motion that the process of implementation must be monitored in such a way that the accumulated experience would help streamline projects with a crucial importance for the region, mainly those in the sphere of transport, energy, telecommunications and ecology.

Following the meeting dedicated to the development of infrastructure and the private sector (Rome, May 2000) and the Regional Funding Conference, the purpose of this analysis requires also to focus on the conclusions and directives made at the meeting Regional Table in Thessaloniki in June 2000. This forum established that the existence of developed infrastructure services is a key factor for economic development, while their quality in the states in Southeast Europe is a task of a primary importance for the Pact. A program for the development of the Southeast European infrastructure” was drafted for this purpose, and an "immediate" package of infrastructure projects was approved for implementation within the
next 12 months, as well as a medium-term package of 50 projects for accelerated preparation and implementation within the next 24 months.

The success of those and other projects, along with investments in infrastructures was hinged on incentives for the trade in energy resources and to incentives for integration in telecommunications and transport. Special attention is being paid to committed but not yet available funds, as well as to the ratio between the loans and grants of the quick start package. It was stated, however, that there are still serious problems for the implementation of infrastructure projects in Southeast Europe which implies that the legislative, executive and administrative institutions must dedicate more attention to these issues.

In line with this, the Investment Compact which sets the conditions for a modern economic and structural development of Southeast Europe requires that the states in the region must make changes in their policies and government in order to achieve a dynamically developing market economy, and to assure incentives and support for domestic and international investment projects. That is why the implementation of the Compact will be used also in the so-called three-stage approach to the analysis of the conditions for investments in Southeast Europe, namely: the development of national and regional investment projects and initiatives, monitoring of the implementation of the recommendations for investments and assessment of the effects of the investment activities. Actually, all this is reduced to incentives and control over the performance of the states in Southeast Europe with the objective to improve the quality of the investment environment so that foreign investment in the region would grow and evolve as a factor of national development and a prerequisite for the implementation of the objectives of the Stability Pact.

At the same time the Pact donor states must assume a special approach to the specific challenges in Southeast Europe, accepting the fact that the region is among the most difficult and amorphous in terms of its integration aspects. The elimination of the deficiencies in the actual implementation of the infrastructure and other investment projects is a factor for the improvement of the investment climate in Southeast Europe.

Contradicting national policy interests of the states in Southeast Europe are seen as one of the major problems before integration initiatives in the region and a basic reason for the slow rate of implementation. The discrepancy between the dynamics of the international investment processes and the ability of the regional factors to engage efficiently in global strategic projects or investment networks are seen as another of these reasons. The governments in
Southeast Europe and the businesses there frequently display reluctance or hesitate to assume risks whenever they have to go beyond the objectives they have set for themselves. These states are even more reluctant to treat with priority their region as a component of the pan-European entirety.

It is a frequently encountered phenomenon, at the stage of preliminary discussions or even during debates on ongoing infrastructure projects of a regional or European importance, that a specific event becomes a forum for rivalry among the states on how to proceed with the project with little interest that it be beneficial to all (the Via Ignatia highway vs. the Crete corridor No 8; the new bridge across the Danube - Bulgaria vs. Romania; the Bourgas-Alexandroupolis pipeline vs. the Bourgas-Vljore pipeline, to name but a few). As it was already mentioned, the political and economic life in Southeast Europe is characterized by instability, by low economic activity, by weak and underdeveloped commodity and financial markets. At the same time, the political systems in the region view with suspicion the democratic traditions which in itself makes them unstable, and results in volatility of the pursued economic policies. All these factors strip the actions of all economic agents of predictability. In this sense, the major barrier for the implementation of infrastructure projects are the problems which are typical for a highly unstable environment.

The planning of infrastructure projects in Southeast Europe is also accompanied by problems. The insecurity of the environment in which they are implemented reduces their valuation. At the same time, insecurity about the repayment of extended credits and loans, including their low yield, may discourage interested investors, while the role of the Stability Pact and the European Union as factors in the design and marketing could only partially resolve the emerging problems.

Second come the problems related to the implementation of the infrastructure projects. Economic and administrative instability, including the weakness of the local markets, do not allow for a proper identification of the necessary expenses. This is sufficient to make any project risky and may seriously impede the selection of contractors, the price and terms of completion talks, the control and the supervision over the project implementation.

Third come the problems related to the coordination of the activities of the participants in a specific project, especially the coordination among the public administrations of the Balkan states. With the state interference in social and economic life quite high, and the political systems in Southeast Europe still not fully democratic, certain elements of the administration
“enjoy” the discretion to challenge or impede the implementation of specific projects. These factors raise the cost of regional projects and lead to the emergence of new international problems related to coordination and implementation.

Fourth, the Southeast Europe states lack the sufficient legislative base for regulating the incoming foreign financial assets and the relevant organizations with a sufficient experience in the control, coordination, management and planning of these assets. It is a common phenomenon that various recipients abandon the common approach to fundraising which results in duplication both during the design stage of the infrastructure projects and during presentation of the proposed project to foreign investors. There are little criteria for the evaluation of the use of foreign funds, and there is inadequate work with the donor and investment community in the project design phase. Foreign funds are raised in a systematic way due to the lack at both central and local level of programs, strategies and concepts whose objectives are defined on the assumption of availability of foreign funds. The issues related to the professional qualification and the level of expertise of the personnel charged with the foreign financial assets at ministries and institutions is also of a crucial importance.

Fifth comes the problem of inertia in thinking and in the expectations from the implementation of the infrastructure projects. The terms "infrastructure" and “infrastructure development” evolved into popular mantras. These terms emerged as a component of the economic philosophy in Southeast Europe and as a definitive factor whenever the contents and the objectives of large investments are discussed. These terms seem to predetermine to a major extend the economic policies in Southeast Europe, and in some aspects the policies of these states in general. Against this background, the expected benefits of the construction and the operation of regional infrastructures are exaggerated, while neglecting the reality that the benefits from the infrastructure projects are not limited to the revenues from transit fees. Placing the emphasis on this benefit alone is typical of rent seeking behavior, neglecting the fact that the rate of economic growth is not determined by the value of transit fees but rather by the employment of an economic policy that mobilizes the comparative advantages of the Southeast Europe states and the advantages of their geographic location in view of the national interests. Infrastructure projects are needed not because of the transit fees and their contribution to the government budget but because of the opportunities which are created for an equal and mutually beneficial participation in the process of decision making on infrastructures in such a way as to exert a direct influence on the national economic and social development.
The Southeast Europe states declared at the Stability Pact meeting in Sarajevo in July 1999 their readiness to initiate "specific measures for improvement of the investment climate" as a response to the requirements for an efficient utilization of the investment funds which are being provided. In other words, the states in Southeast Europe agreed to solve within a short period of time the problems related to the need to facilitate the flow of foreign investment assets mainly by streamlining the institutional structure, the management and the planning of these assets.

The improvement of the investment climate in the states in Southeast Europe should deal with the issues related to:

- the definition and the components of foreign investment;
- the system of management of foreign investment, its components, prerogatives and functions;
- the factors and the agents of the foreign investment management;
- the objectives of foreign investment;
- the economic programs for development and the foreign investment strategies;
- the information and coordination systems for foreign investment;
- the planning and control of projects implemented with foreign investment;
- the relation between the local and the foreign sources of foreign investment;
- the relation between R&D policies and the utilization of foreign investment.

Foreign financial assets generally consist of two types of incoming (from the point of view of the recipients) financial flows, namely: official, agreed on a bilateral or a multilateral basis, (including loans and grants, technical support and assistance), and private - direct and portfolio investments; joint ventures with a 100% of foreign participation, investment and credit funds, technical support and assistance.

In view of the necessity to employ flexible systems and management factors, the emphasis must be placed on overcoming the existing clumsiness and underdevelopment of the systems for foreign investment management in most of the states in Southeast Europe, which requires:

- the establishment of a comprehensive and adequate legal framework related to the foreign investment management systems;
- the definition of clear and mutually complementary rights and responsibilities for the agents in terms of foreign investment management;
- the development of rules and procedures for managing foreign investment;
- the training of qualified experts and specialists for work with foreign investments and investors.

The existence of these conditions will create opportunities for specifying the objectives for which foreign investment is required, and especially for the optimization in terms of needs and efficient utilization. This would allow to derive the functions which must be executed by a foreign investment management system expressed in terms of: a) the identification of the sources of foreign investment suitable for the states in Southeast Europe; b) the rational allocation of the received funds among the priority projects; complete utilization of the foreign investment; c) monitoring and assessment of the efficiency of foreign investment; d) the provision of a balance between the utilization of foreign investment and local resources for the implementation of business projects.

In view of the investment environment in Southeast Europe it is important to develop a foreign investment strategy, and more specifically a strategy for the utilization of the foreign investment by the public and the private sector in order to achieve the objectives incorporated in the programs for economic restructuring and development.

Attention should be paid also to other key issues which in one way or another are specific and of immediate importance for the states in Southeast Europe. One of these issues is the need to match the national development programs with the need to attract and utilize foreign investment. These programs must detail as much as possible priorities and objectives. This would allow to estimate the actual need of foreign investment.

Another important issue for the states in Southeast Europe is the attitude of society and political parties to the scale, the type and the sources of foreign investment, since consensus on these issues would make the impact of the foreign investment stronger and more sustainable. Relevant here is the manner in which the foreign financial donors will be informed about the priorities and the objectives of a particular concept for national development, and especially about the priorities and objectives which have to be attained by obtaining the funds which are being sourced. The issue becomes even more topical when taking into consideration the proposals of the donors to the Stability Pact in formulating the priorities and the objectives of the national concepts, including the programs and documents adopted at the Stability Pact forums.

Further consideration need to be given to the manner in which the executive institutions are engaged with foreign investment, what rights and obligations will be delegated to them, what
will be the system for notification, coordination and joint activities so that the inter-institutional conflicts be avoided.

It is worth also analyzing the impact of leading donors on the recipients in Southeast Europe, more specifically their actions for the improvement of the conditions for access to foreign investment, their role in view of the positions and attitude of other donors to the recipients and generally the inter-relations between the states in Southeast Europe and the Stability Pact foreign investment donors. It is also interesting to study and improve the coordination between the bilateral and multilateral donor programs and the Southeast Europe recipient needs, including the mechanisms and the institutional requirements for such a coordination.

The projects which have already been launched by using foreign investment must be subjected to a strict supervision throughout their implementation, and their effect must be assessed in terms of intermediate and final results. That is why it is imperative to establish a system for control and monitoring of agreements on foreign investment, including a scheme for selecting the subjects charged with targeted activities, their functions, rights and responsibilities in view of planning, coordination and implementation.

Considerations about the improvement of the investment climate in the states in Southeast Europe need to be complemented by considerations of the opportunities for regional improvement. As this issue has not been widely discussed and was almost never subjected to a theoretical analysis, below is an attempt to attract the attention to the opportunities for improvement of the investment climate in Southeast Europe on a multilateral basis.

Within the context of the financial support for Southeast Europe extended by the Stability Pact, first of all it is necessary to have the interested states in the region converge their views on the development of a common strategy and on the implementation of measures which would allow them to comprehensively and efficiently utilize the financial and/or investment assets provided by the Stability Pact.

First of all it would be advisable that the states in Southeast Europe be able to adopt reasonable compromises and to cooperate among themselves at all stages of implementation of a specific project implemented by means allocated within the Stability Pact. It is of crucial importance in this aspect to establish the initiative for multilateral actions in identifying the infrastructure, economic, trade and other projects in compliance with the interests of a national, regional, continental and trans-regional scale.
The next important step is to identify the approach of the states in Southeast Europe towards common strategies for solving various problems in view of supporting the national interests so that they would be compatible with the interests of the region and with the objectives incorporated into the Stability Pact. Such a strategy would contribute to:

- expanding the horizon for the states in Southeast Europe for multilateral cooperation, planning and attainment of national and regional objectives;
- stability in the implementation of projects and the reduction of investments risks;
- the removal of rivalry and costly ambitions for "special" positions and "leadership";
- the dynamics in the development of trade, the financial, economic and technical cooperation, including the dynamics of the geo-strategic processes of common interest;
- the security of integration programs and processes in the area of energy, transport, communications, including in terms of association and integration into the European Union.

If these recommendations are accepted, the next step would be to establish in the states in Southeast Europe specialized analytical centers for investment planning and implementation, which should operate jointly with the structures, initiatives, programs and measures within the framework of the Stability Pact.

In line with these steps the states in Southeast Europe must work for merging the trade, investment and transport legislation, including mechanisms for banking and financial activities, for creating incentives for the implementation of important economic and infrastructure projects and for cooperation in the implementation of these projects.

The solution of the above-mentioned problems should be sought at regular meetings at the highest level, where the emphasis should be placed on political dialogue and cooperation in Southeast Europe and on the developing of strategies of a common interest, by taking into account the achieved results and the perspectives for cooperation within the framework of the Black Sea Economic Cooperation, the Central European Free Trade Agreement, Central Europe Initiative and mainly with the European Union.

**Energy** is the sphere in which there is a substantial interest towards specific recommendations and ideas on means to expand the interaction between the states in Southeast Europe with the aim to improve the investment environment in the region and to implement the regional infrastructure projects.

Southeast Europe states may direct their efforts in the sphere of energy towards a merger of interests of energy consumers and energy producers and suppliers, so that Southeast Europe
could emerge as a single regional agent in the talks related to the possible solutions of energy related issues within the framework of the Stability Pact. An eventual success in this aspect would allow redirection of the efforts at a next stage to the unification of the energy, natural gas and oil transfer systems of the states in Southeast Europe with the systems of other European states. This could be achieved through the joint assessment of the development of the European transit systems, the prospects for the national, regional and pan-European energy markets, including of the necessary investments for such a unification.

Natural gas is among the most important issues in Southeast Europe, which could find a durable and mutually beneficial solution through the development of the regional natural gas market. The establishment of such a market may start with joint forecasts of natural gas consumption, with the assessment of the capacities and the commercial operation of natural gas deposits, with the construction of common pipelines, with the reconstruction of the existing gas transit networks, with the analysis of the status and the demand on the natural gas market and of the financial assets necessary for its development. Energy efficiency issues should also find their place on the agenda and must be resolved through cooperation in the sphere of energy saving technologies, as well as by establishing a common policy on the construction of energy facilities which incorporates the national programs and employs the best practical experience.

The implementation of the European Energy Charter Treaty deserves similar attention. The objective would be to utilize the investment assets provided within the framework of the Stability Pact in order to create a modern regional energy infrastructure, to expand the trans-continental energy links, to activate the foreign and the local capital, to assure access to high-technology energy assets and to expand the trade in energy materials. These measures require the development and the application of a common regional energy strategy which would enhance the reliability of the forecasts for energy resources demand, price changes, structure and volumes of trade, and the unification of the energy, gas and oil systems in Southeast Europe with the similar systems in the rest of Europe. Such a strategy must at the same time provide for the efficiency and the flexibility of the energy sector, for the emergence of a reliable energy supply system and a functioning energy resources market.

One of the possible options for improving the investment climate in Southeast Europe is accelerated implementation of the infrastructure projects of general interest. This would imply joint selection of those projects (with a mixed financing - foreign and national) that would yield the best possible effects for the related economic activities. The joint operations
must start with the assessment of the importance of the projects, with the selection of adequate methods for project motivation, with the adoption of the best available experience and standards of planning and implementation, and of the program instruments for joint operations.

The overall activities must be supported by economic, legal and institutional measures to simplify the implementation of infrastructure projects. These activities must be at the same time assisted by consultations about the national regulations in the infrastructure spheres, as well as by consultations on providing the infrastructure projects with foreign and national investment. Additional specific conditions include:

- integrating state budget funding into project financing;
- measures to stimulate state budget revenue and to utilize the revenue from infrastructure projects (mainly for the purposes of maintenance and modernization);
- studies of investment practices of international financial organizations and integrating study results into project design;
- cooperation with the European Union on programs for support to Southeast Europe in the spheres of transport, energy, telecommunications, trade, ecology etc.;
- building incentives for private capital involvement and market solutions;
- the streamlining of planning;
- higher level of utilization of local labor force, of the available production capacities and of the local engineering, technical and intellectual potential.

1.3. Opportunities for a sustained economic growth in Southeast Europe

The objectives of the Stability Pact have two major dimensions - prevention of new military conflicts in Southeast Europe through strengthening peace and stability in the region; the cooperation and integration between the states in Southeast Europe and their accession to the European and Euro-Atlantic structures. The level of preparedness of each country and of the region as a whole for accession to these structures is a major prerequisite for the success of the political cooperation and economic integration. At the same time the results of any form of cooperation adopted within the framework of the Stability Pact will be determined by the economic situation and by the growth dynamics of the states in Southeast Europe. For this
reason, special attention must be paid within the framework of the Pact to cooperation with the objective of providing assistance in the selection and the utilization of factors conducive to sustainable growth and a dynamic social and political development.

The problem with creating conditions for a sustainable economic growth is similar to the prerequisites for development of production companies, regardless of whether they are state-owned or private. The opportunities for economic growth are determined generally by the potential of industrial companies to expand their commercial activities and their share of the national and international markets. The multilateral and bilateral cooperation within the Stability Pact aimed at easing restrictions on the dynamics of the production units will have an impact on the rates of economic growth. More specifically, the cooperation within the Stability Pact in this sphere could be expressed in:

- improved corporate governance with the objective to raise the level of competitiveness by the application of the relevant experience and by the appointment of highly qualified foreign management;
- streamlining the privatization process with the objective to improve budget policies; measures to reduce inter-company financial debts, liabilities to suppliers, the state budget, to commercial banks and foreign creditors;
- regulation and optimization of the financial flows between the enterprise sector and the state budget (subsidies to companies, corporate taxes), reduction of the state subsidies, assistance in the collection of receivables on credits from other states;
- support for the financial discipline, the elimination of the weaknesses in the tax system and state capture;
- measures for raising the level of bank financing for profitable companies in the enterprise sector;
- raising the level of financing for investment ventures by the capital markets; assistance for the development of the latter; expanding and easing the access of small and medium businesses to bank credits and preferential loans.

It is also very important to initiate measures for updating the applicable standards related to the quality of products and services, which should match the requirements of the leading markets in the states in Southeast Europe, including measures for improving the standard enforcement systems. The application of these measures will create the prerequisites to match the requirements of foreign consumers at the state of production, and at the same time will
serve as a barrier against low-quality or dumping imports and as a protection of local entrepreneurs, producers and traders.

Macro-economic stability is a major prerequisite for economic growth. The dynamics of the basic economic indicators, especially in case they reveal a positive trend, would generate stimulating signals to production, investments, state budget and households. The Stability Pact provides an ample ground for cooperation in the formation and the application of a stabilization policy which has social support and which generates better dynamics for economic activities, and which benefits long-term decision making. The main objective here is the elimination of all barriers for investment activities. At the next stage, cooperation must focus on the development of adequate stabilization programs, incorporating monetary policies, exchange rate policies, budget performance, income and social polices.

Attention should be paid also to improving fiscal policies which influence growth through budget allocations for local products and services. In view of the unfavorable current trends in the dynamics of savings and investments (both corporate and household), cooperation should focus on measures for raising saving and investments so that they could emerge as growth factors as well.

After the start of the period of transition the states in Southeast Europe have achieved some progress in reforming their financial systems (demonopolization, decentralization of management, deregulation of private capital, privatization, banking competition, new financial products, the emergence of local private and international banks). However, there are still problems with the banking system that remain unsolved (some mentioned above): low investment potential, high liquidity, export of capitals, low level of crediting, domination of commercial over investment banks, mistrust among the banks’ clients, a narrow range of bank services. There are also institutional and organizational problems which also remain to be solved - the existence of oligopolistic structures, links between financial companies on a capital and debt basis, delayed privatization, poor financial management, underdeveloped stock market, low quality of services, insufficient control and supervision by the government institutions.

The cooperation in the financial sector should help the evolution of this sector into a factor for the modernization and the development of financial and non-financial enterprises as potential partners in absorbing investment allocated within the Stability Pact. The foreign investments which are expected within the near future require that financial companies must
efficiently service the needs of regional projects and of the businesses, and be able to operate with new packages of financial products, to maintain a strict financial discipline, to assure management flexibility and diversification of the available services. It is necessary to support the development of a financial system that would match the requirements for efficient management of financial flows, for discipline in the relations with the economic entities, for competitive capabilities compared to the international financial institutions, and for deregulation of the services.

The components of cooperation should include:

- in terms of financial policies - attracting capital assets for the purposes of economic growth, security of banking transactions, long-term financing markets;
- the establishment of an efficient bank supervision system; protection against the retreat to the bad debts era;
- the engagement of a larger number of local banks in the management of government assets and in the privatization of state-owned enterprises;
- the balance between the private and the state-owned shares of the insurance and banking markets;
- sustainability in the development of the capital markets and incentives for their use for the accumulation of funds dedicated to infrastructure and business development;
- increased reliability in the securities market;
- a policy by domestic markets encouraging foreign capital going into sectors where domestic investors are absent;
- measures against lost control over foreign investors (due to their capital power and technical advantages) and, as a result, loss of control over national economic policy;
- elimination of "shadow" capital assets from the economy.

Structural reforms in the states in Southeast Europe now more than ever need investment resources dedicated to economic restructuring, privatization and development of capital markets. At the same time, investments in technology-intensive export products will determine the level of market competitiveness of the states in Southeast Europe in the integrational environment of the European Union, the CEFTA, EFTA, the WTO and the free trade zones. Foreign investments within the framework of the Stability Pact must be conducive to raising labor efficiency, to increasing the capital base and management quality, to flexibility and ability to adapt of companies, modernization of material infrastructure and to improving the administrative management and markets development. Hence, the Stability
Pact must treat pledged investments as the foundation of the dynamics of economic growth in Southeast Europe.

It was already emphasized that the impact of foreign investment depends on the macro-economic performance of the recipient state and on the perspectives for its development. The expected increased internationalization of the investment and production processes in Southeast Europe as a result of the Stability Pact imply also a change in domestic government, as the presence of foreign competition will push to front-stage international competition rather than domestic competition. Foreign investments should not be reduced only to direct financial aid, but rather aim at encouraging the transfer of technologies, know-how and other international business assets. The competitiveness and the adaptability of the individual economies in Southeast Europe will to a large extend depend on the presence of national production and services in the flow of foreign investment, including the ability of the economies to generate and add value and to absorb and multiply the effects of foreign investments. Thus, the implementation of any investment project within the framework of the Stability Pact should seek a balance: while direct investments in production raise export potentials and have a highly positive effect, the investments in trade, distribution and infrastructure networks have a smaller and secondary net benefit (less value is added in the country itself). Hence, any investments made in a project launched within the framework of the Stability Pact, should:

- result in the replacement of imported products and services, including technologies, with local products;
- improve foreign trade balance;
- accelerate the concentration of capital thus facilitating access of Southeast Europe companies to international markets;
- contribute to improving company policies, management, organization, skills and capabilities which would enhance company advantages in dynamically changing external markets;
- match restructuring of economic agents, sectors and of the economy as a whole with international standards;
- facilitate introduction of clear "rules of the game" and assists the combat against the non-market forms of competition, trade and production;
- introduce best practices of corporate governance.
The overall conclusion is that foreign investment should play a crucial role in the technological and infrastructure renewal of the economies of the states in Southeast Europe and assume a fundamental importance for their competitiveness and growth prospects.

The limited human, material and financial resources of the states in Southeast Europe require a selective approach and prioritizing to be applied to solving economic problems. The identification of priorities for recipient sectors and industries, regions and states must become a condition for attracting foreign investment within the Pact. The orientation towards economic growth implies incentives both for development and for the investment behavior of the privatized enterprises and of the newly established private companies with or without foreign participation. In this aspect the success in attracting foreign investments depends on the smooth transition from a privatization-based to an infrastructure model for accelerating the process, including the increase of government procurement.

Governments in Southeast Europe have an important role in creating incentives for the investments in infrastructure development. Special attention should be to avoiding the risk that the state might turn from an intermediary and a regulator into a monopoly participant, which will result in the substitution of economic interests with pseudo-state priorities.

The highest possible level of transparency of the procedures for proposal and implementation of infrastructure projects and state procurement contracts creates incentives for competition and investments. The quality of the investment environment in a specific state depends on the manner in which macro-projects are offered at the international market. Any project which is not sufficiently transparent, which has not been properly selected and which was inadequately presented to the local and the international investment community will lead to a loss of image and will raise additional barriers for foreign investment.
2. Regional cooperation as a factor in the integration of Southeast Europe into European structures

2.1. External trade of the Southeast Europe states

The external economic relations of the states in Southeast Europe are a major factor for their economic and social development. These relations are determined by the scale of the international division of labor and by the dynamics of integration on a European and a worldwide scale. The impact of external economic relations on the economies of the individual nations varies subject to the effects of a multitude of factors—specific features of the individual states, established economic structures and the existing infrastructures, apportioning of the internal markets, resources available to industry, quality and the technical level of imported and exported products, the trends and the results domestic economic policies.

The external economic relations between the Southeast Europe states are not only a consequence of economic necessity. Their nature and structure is determined by political, social, technological and other factors, so that their interaction and impact on separate states has remained substantial.

Being small states, the nations in Southeast Europe remain dependent on the development of their external economic performance. These states would be able to achieve economic growth and develop an efficient economy only in case they become active participants within the system of international markets, in the globalization of production and in the acceleration of the applied research and technology developments. Against this background, the Stability Pact for Southeast Europe must highlight as its major task promoting external economic relations between the states in Southeast Europe, the improvement of the dynamics of regional trade, the expanded participation of the region in the European markets, and making Southeast Europe a factor in the formation of the European trade and economic space. The results in this respect will define the overall assessment of the performance of the Stability Pact and at the same time will serve as an accelerator of the economic growth in Southeast Europe.

The analysis of the current state and the tendencies in the development of trade between the states in Southeast Europe would lead to unsatisfactory conclusions. These are small in terms of territory and population countries, with relatively low levels and limited in diversity production structures, and with limited or rather undeveloped internal markets— all factors to
be taken into account. Most of the states in Southeast Europe either have no important natural resources, or the available resources are limited in type and volumes (with the exception of land, water and forests). Some of the states have substantial but still not utilized energy and industrial resources. These states are lagging increasingly behind in terms of science and R&D which is exacerbated by a permanent deficit of budget allocations. Almost all the states in the region used until recently to develop similar industries and agriculture, which is a direct result of the similar natural and climatic conditions and economic policies. In most of the states in the region the active labor force with an economic, commercial, engineering or technical education amounts to a relatively small percentage. Their GDP per capita is at least 10 times lower than in the European Union, as is labor efficiency in the major production and economic sectors.

With the accession of Greece to the European Union, and after Turkey was admitted to the European Customs Union, by January 1, 2000 there were three states in Southeast Europe (Slovenia, Bulgaria and Romania) that had signed association agreements with the European Union. Another six states are members of the Black Sea Cooperation Organization. Slovenia, Bulgaria and Romania are members of the CEFTA, Moldova and Macedonia have signed free trade agreements with Russia. Turkey, Greece, Slovenia, Romania, Bulgaria and Albania are members of the WTO. Moldova, Macedonia and Bosnia and Herzegovina, despite their long-standing applications for membership, are still have an observer status at WTO.

The membership of the states in one or in several international trade and economic organizations creates incentives to and accelerates foreign trade. At the same time, the multi-directional character of these memberships have a different contribution to the dynamics of regional trade and economic relations. It is exactly these overlapping memberships that sometimes limit the activities aimed at stimulating the external economic relations within the region of Southeast Europe, and in some cases have a deterring effect.

The European Union emerged as the main trade partner for the states in Southeast Europe (with the exception of Yugoslavia and Moldova). The share of the European Union in the foreign trade turnover of the states in the region stood in 1999 at 36-37% for Bosnia and Herzegovina, at 50-63% for Bulgaria, Croatia, Greece, Turkey and Romania, at more than 65% for Slovenia and at 80% for Albania. Almost all states however have a negative balance in their trade with the European Union, which is especially true for Moldova, Turkey,

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13 Ibid
Macedonia, Bulgaria, Slovenia and Romania. Greece is the only exception with exports to the European Union almost two times higher than the imports. By 1998 the share of the states in Southeast Europe in the trade turnover of the European Union was still insignificant at 5.87\% of the volume of the overall imports to the Union\textsuperscript{14}. The elimination of the trade barriers and restrictions between the states in Southeast Europe, and the improvement of the quality of the traded products should be expected to result in a higher dynamics of the regional trade relations.

The analysis of the external trade volume between the states in Southeast Europe in terms of products structure indicates that energy products, chemicals, timber, agricultural raw materials and semi-processed products, metals and metallurgical products, and other raw materials and inputs dominate the structure of both the import and the export. The structure of the external economic relations between the states in Southeast Europe indicates that the countries trade mainly in products which are highly sensitive to the dynamics of international markets and to transport costs. Most of the products which are traded between the states represent semi-processed inputs or raw materials subject to additional processing, to incorporation in other products or to re-export, including to the markets in neighboring states.

There are almost no "investment" products (machines, equipment, technologies, transport vehicles) listed in the trade between the states in Southeast Europe. This fact is attributed both to the underdeveloped production of these items and to the low level of supply, which leads to the absence of contracts, as a result of the inadequate or outdated technical, economic and operational parameters. Poor trade between the states in Southeast Europe is attributed also to the fact that most of the traded products are produced by monopolies, both private and state-owned, while actual trade is often performed or handled by semi-legal commercial entities and organizations of an unclear origin.

Tourist, transport and financial services assume a growing share of the external economic relations between the states in Southeast Europe. Tourist services demonstrate a high rate of development which is attributed to the favorable climatic and natural conditions in the individual states, attracting tourist from the region of Southeast Europe and elsewhere. At the same time, the tourist sector in most of the Southeast Europe states does not offer combined tourist packages (sea and mountain, culture and sports, etc.). Additional obstacles to the development of this potentially profitable business sector are created by the difficulties related to the crossing the borders between the states in the region, the absence of an adequate

\textsuperscript{14} Ibid
road network between the national tourist facilities and resorts, and last but not least by the ongoing conflicts in the region.

Each of the states in Southeast Europe has been developing and continues to develop their individual transport systems in such a way as to satisfy predominantly domestic needs. As a result there are currently virtually no combined transport facilities of international importance servicing these states, with the exception of several bridges, ferry boat ports, access roads to the borders cross-points, railway station maintenance facilities and facilities for border and customs processing of transport vehicles.

Road transport dominates external economic relations due to the geographic proximity of the states and the relatively small volumes of freights. Railway transport is underused due to the still uncompleted important international railroad links, the poor development of the railway networks in the border regions, the low speed of the trains, the slow rate of processing of cargoes at the border way stations, etc.

The use of river transport for freight and services traded between the states on Southeast Europe is limited. Marine and air transport are used predominantly for transportation of passengers and goods towards markets outside Southeast Europe and to a smaller extend for cargoes between the states in the region.

Recently, combined transportation of goods started to assume a growing importance for the external economic activities of the states in Southeast Europe. For a number of states in the region, however, this type of transport has a sporadic significance. Its further development requires the expansion and upgrading of the existing transport networks by means of reconstruction and modernization projects designed to create opportunities for the commercial entities to raise the volume of container cargo traffic. The combined railway-road transportation is also of a limited application due to the delayed development of the railway transport and the lack of sufficient railway terminal capacities to handle cargo containers. A better development is registered in the sphere of "sea- river - other type of transport" operations.

Most ports in the states in the region are equipped with the relevant machines for container handling, but the capacities are not suitable for an efficient and quick processing in combination with other types of transport.
Financial services between the states in Southeast Europe are practically non-existent which is an obstacle for the dynamics and the expansion of the external trade relations. This fact implies that urgent measures must be initiated, including by the Stability Pact.

Despite these negative assessments, the aggregate foreign trade turnover between the states in Southeast Europe is constantly growing. The import-export operations are diversifying, modern trading techniques and scheme of interaction are being applied, and the product list is expanding.

In view of the open nature of the economies in the states in Southeast Europe, foreign trade is playing a specific role in their economic growth. States use foreign trade to provide for their energy and raw materials supplies and to market a major portion of the produced goods and services. Assuming that domestic demand is a factor of economic growth, the Stability Pact is appropriately analyzing the options to expand exports and related imports, including the methods and the schemes for stimulating domestic demand. Priority is given to the implementation of the European Union association agreements, the membership in CEFTA, EFTA and the WTO, the free trade zones, the agreements on economic cooperation, the agreements on the avoidance of double taxation, the agreements on protection of foreign investments, the free access to foreign markets, the lowering of customs duties, the non-cost factors (quality, consumer properties, design), the export infrastructure (units and systems for incentives and export crediting, insurance agencies and export credit insurance establishments), and others.

In order to use foreign trade as a booster of economic growth it is necessary to design and apply a common regional trade policy aimed at its deregulation and at the accelerated accession of Southeast Europe to the markets of the rest of the continent. Such a policy, supported by the Stability Pact, should represent the interests of the states in an equal participation in the international division of economic operations, in their inclusion into the European economic structures and in increasing economic growth.

The new environment requires the development of new trading strategies and practices. In order to ensure the durable participation of Southeast Europe companies on the European markets it is necessary to develop joint approaches to market penetration and expansion which would allow the active inclusion of small and medium businesses in export and import operations. These measures should be aimed also at the direct links between the producers and their distributors or the final users of their products. Special attention and support should
be dedicated to regional trade by utilizing all available advantages like common borders, similar social and economic needs, and common interests in the implementation of infrastructure projects. The support of the Stability Pact for a common regional trade and economic policy will be of major importance for raising the competitiveness of exported products and services created in the states in Southeast Europe. One of the major criteria the states in the region will have to comply with in order to be eligible to achieve European Union membership is the ability to handle competition pressure and market elements dynamics.

In the longer term the rise of exports should not be hinged to the changes in the international environment and conditions only. The increase of export requires the improvement of quality, of the technological properties and the competitiveness of the products while at the same time the comparative advantages of the states in Southeast Europe fully used. Further, the structure of the exports from the region to the developed market economies must be changed by utilizing to a higher extend the local resources, local production traditions, knowledge and skills of the labor force, the economic, engineering and technical potential and capacities and their own scientific achievements.

Special attention must be dedicated to production sectors with a competitive potential and impact on the long-term economic development of Southeast Europe. These are high-tech export oriented sectors that used to part of exports. However, the share of these sectors was substantially reduced after the early 90-s due to shifts in economic policies or as a result of unfavorable external circumstances. Economic growth in Southeast Europe could be stimulated also by measures for an increased external demand for labor-intensive products. This implies the assurance of a larger perspective for the competitive advantages of the national economies and the support the development of adequate sectoral and industrial policies. These measures would allow the states in Southeast Europe to make the best use of the existing conditions and develop productions and activities for boosting economic growth by using relatively small financial assets.

From a practical point of view, the Stability Pact could render support for the development of the states in Southeast Europe and for the enhancement of their foreign trade in several major aspects. One of these aspects is the adoption of measures for the development of regional strategies for joint ventures and consumption of the generated output, especially for larger scale markets. Such a strategy, for instance, could be the development of the production of automobiles. There is a substantial demand for motor vehicles in Southeast Europe that is met
exclusively by imports. At the same time, it is not economically feasible for any single state in the region to develop complex facilities for the production of motor vehicles.

Due to the similar production patterns in the states in Southeast Europe, no dramatic expansion of the mutual trade relations could be expected in the near future. This fact, however, creates prerequisites for enhancing the regional division of labor through cooperation, specialization in specific production sectors and in trade within both the regional economic projects initiated by the Stability Pact and within local projects aimed at the reduction of expensive imports and at the expansion of the range of national products.

These initiatives could involve: the production and supplies of vehicles; agricultural equipment and tractor-driven machines; hoisting and warehouse equipment; technological equipment; electronics; telecommunication equipment, and others.

In order to strengthen the external economic relations between the states in the region the Stability Pact should support the institutional development of the external trade operations. These are measures designed to accelerate and enhance the comprehensive adoption and compliance with the requirements within the World Trade Organization, the implementation of the agreements and the programs within the European Union, the supplementing and the expansion of the contractual system of foreign trade, the compliance with international standards and the requirements and responsibilities related to trade contracts.

Foreign trade is closely linked to the efficiency of the customs and the border control administrations. In this aspect the Stability Pact must decisively assist the improvement and perfection of these by asking the states in Southeast Europe to initiate measures for accelerating cooperation and reform, and especially for raising the transparency, adaptability and unification of the requirements and the rules applicable to border control procedures in line with the established practices within the European Union.

The analysis must not leave out the importance for the states in Southeast Europe of their trade with the European Union. One of the objectives which the Stability Pact should incorporate in its tasks measures which must be initiated by the European Union to allow an easier access of products form Southeast Europe to its markets. The application by the European Union of the quota principle of access to the Union markets demonstrated that in a number of cases the quotas set for individual states in Southeast Europe are obviously insufficient. This caused problems to these states both in terms of production and in terms of sales at other markets.
The efficient utilization of geographic prerequisites conditions requires the construction of rapid and convenient transport communications between the states in Southeast Europe and the European Union. It is necessary to "upgrade" the understanding for what is the most efficient type of transport for the various foreign trade cargoes, namely the priority development of the combined-transport shipments. The Stability Pact could assist in uniting the efforts of the governments in Southeast Europe dedicated to infrastructure development with the emphasis placed on combined transportation since these are to the highest extent compatible with the modern requirements for safety, security, speed of delivery and low transport costs.

The trade integration through upgraded trading and financial mechanisms and border transport procedures is among the most urgent areas of concern for a number of states in Southeast Europe in view of their accession to the European trade and economic space. A number of programs were launched under the auspices of the Stability Pact, the more important being the World Bank’s trade and transport facilitation in Southeast Europe project (TTFSE), and the EBRD trade facilitation program, which incorporate six of the Southeast Europe states. The two programs have allocated a total of EUR130 million for financing related to decreasing the cost of trade and transport agreements, combat against corruption and illegal trafficking, supporting cooperation and accelerating regional trade, to bank guarantees and financing of deals made by small and medium enterprises. The two initiatives have adequately identified objectives and tools while the efforts for their comprehensive implementation should be continued with priority.

2.2. Infrastructure in Southeast Europe – status and possibilities for development

Motor roads are probably the most important transport factor for the social and economic development of Southeast Europe: a fact predetermined by the short transport destinations in the region, the prevalence of land borders, the road arteries inherited from the time of the Roman Empire, and the existing road network linking both in the past and now the populated regions between the neighboring countries. As a whole, the road network in Southeast Europe is dense but highways and first-class roads account for a very small part of it. In Bulgaria, for instance, which is considered to have developed roads, highways make up about 10% of the road infrastructure.

The development of the road network in the region is connected with the reconstruction of
the existing road links and the building of new ones. Such, for instance, is road E79, which
has to be refurbished and the access road to the Makaza pass has to be built. Actually, there is
a road link there but its current state allows it to be used by animal-drawn or rugged utility
vehicles. This link will connect the road systems of Bulgaria and Greece, shorten the travel
time and distance, and, mainly, facilitate the flows of passengers and products between the
two countries.

The construction and reconstruction of roads in Southeast Europe is predetermined also by
the directions of the European transport corridors passing through the countries in the region.
countries, however, have different approaches to these roads and there is no united policy in
relation to the construction of the common road network. An example for this are the
arguments in Greece about the building of the new North-South transport routes or those
between Bulgaria and Romania over the roads to Danube Bridge 2. The Stability Pact should
assist the Southeast Europe countries in unifying their positions on the incorporation of the
roads in a transport corridor, so that it be completed simultaneously in all countries, on a
mutually acceptable and beneficial basis.

In a number of cases the road projects in Southeast Europe fail to meet the EU standards and
have no economic and environmental rationale. All countries in the region are experiencing
financial difficulties in the construction of roads which necessitates the formation of priorities
for the Stability Pact projects but priorities which are recognized and followed by all
countries in Southeast Europe. This is a way for the funds provided by the Stability Pact to be
utilized purposefully and rationally.

The railway network in Southeast Europe, unlike the road system, is not sufficiently dense.
The countries in Southeast Europe hold one of the last places in Europe in terms of length of
railways per 100 sq. km of area. That is predetermined by both the level of their economic
development and the terrain characteristics of their territories. That is why the development
of the railway network in the region is connected mainly with the reconstruction of the
existing railways (and construction of new railway communication links between them)
aimed at upgrading their technological parameters to allow passage of high-speed trains at
160 km/h and with equal carriage axial load. This concerns the key directions of railways
which are part of the European transport corridors. It should be noted that despite the acute
need for rail transport in the region, the existing railways are not efficiently used or not used
at all, which is the case with the Vidin-Calafat (ferryboat) line or the Svilengrad-Greece
destination.
The building of new road links necessitates the application of combined transport technologies but only with proven investment efficiency. Taking into consideration the relatively low number and strong dispersion of the people in these countries it cannot be expected that there would be considerable volumes of passengers or cargoes compared to the EU. The reconstruction and building of new railways can only be justified for foreign trade purposes and the organization of combined transport. In this respect, the Stability Pact should assist the countries in Southeast Europe in reconstructing and building those stretches of their national railway networks that are prospectively important for the entire Southeast Europe region.

The availability of specialized terminals for cargo handling are crucial for combined transport. There are such terminals at large ports and at some railway stations in Southeast Europe countries. The Stability Pact should assist in completing terminals under construction and in optimizing their location with a view to the common interest, proceeding from the priorities of the transport corridors and the links planned between them. Terminals should be regarded as important for foreign trade both between the Southeast Europe countries and with the EU member states.

Sea transport is important for Southeast Europe's participation in international trade but it has a secondary role in the transport of passengers and cargoes between the countries in the region. Taking into consideration the expected intensification of foreign trade in Southeast Europe, this type of transport is likely to assume a key role in long-distance transportation of bulk cargoes, parallel to the road transport of passengers and commodities. Its development should be regarded as an opportunity for an increase in the supply of transport services in Southeast Europe and for the faster introduction of combined transport technologies.

Some countries in the region, including Greece, Bulgaria, Romania and Turkey, have modern port facilities and equipment: length of the wharf fronts, specialized warehouses, buildings, etc. They, however, have two weaknesses: lack of specialized equipment for reloading bulk cargo and of hoisting equipment for container handling (for combined transport). It should be pointed out that in order to dynamize port activities in the region the access roads to the ports should be refurbished for the purpose of accelerating, simplifying, and streamlining as a whole the transportation of cargoes. The development of the ports should be considered from the viewpoint of combined transport too, and from the viewpoint of the priorities in building the various European transport corridors.
The Danube remains crucial for river transport in Southeast Europe, as well as the Danube ports built in the separate countries. The Danube ports require special attention because the river can be used for the transportation of bulk cargoes both between the Southeast Europe countries and to the EU states. There are two basic favorable factors: the high transit capacity of the river (80 million tonnes a year in the middle course of the river) and the relatively low cost of freight. In order for them to be utilized measures for the permanent leveling of the river shoots and for improving the conditions for cargo handling at the wharves are need. Along with the proposed measures, the Stability Pact needs to pay attention to the Danube due to environmental reasons as well. When the river is comprehensively and efficiently used as a transport artery, the hazardous gases emitted in the atmosphere by the road and rail transport will drop rapidly. The Danube actually coincides with transport corridor No. 7 (according to the classification of the Cretan Transport Corridors). Since the bridges at Novi Sad were destroyed, the Danube has been almost unusable. In this regard, the Stability Pact should provide assistance in restoring Danube navigation in the shortest terms possible.

Air transport is less developed than the other types of transport in Southeast Europe due to the low number of active passengers and the insufficient development of the national airport networks. The Stability Pact should assist in the refurbishment of airports in Southeast Europe with a view of providing modern conditions and safety of the air traffic, as well as of improving the passenger and freight services offered by the air carriers. The purpose of this is to bring servicing in Southeast Europe airports to the standards in the EU countries.

Pipeline transit systems in Southeast Europe remains the least developed. Only Bulgaria, Romania, Greece, and Yugoslavia have comparatively well functioning pipeline (gas) networks. The condition of the power-line and telecommunications infrastructures in Southeast Europe is similarly poor, although for them there are plans and projects which is expected boost the infrastructural development in the region.

For the purposes of infrastructural development in Southeast Europe, along with the projects outlined so far, the Stability Pact may consider the possibilities for including additional measures in its program activities aimed at:

- working out regional strategies and programs for building infrastructural projects;
- conducting technical research and preparing joint economic and social feasibility studies, including joint design of infrastructural projects;
- building a system of priorities for implementation of transport projects;
- outlining measures for acceleration, transparency, and simplification of the tender procedures for design and construction of infrastructural projects;
- joint marketing and measures for attracting investors to finance regional industrial and infrastructural projects;
- organizing teams of local and international consultants for the construction of transport projects;
- measures for enhancing the legislative and economic and investment climate in Southeast Europe.

The Stability Pact should also carry out a policy of internationalization of the infrastructural projects aimed at including more countries in their implementation, especially in projects for development of the European transport corridors. The Pact should take into consideration mainly the complex development of the transport system in the region, so that the outlined transport projects are connected with the development of foreign trade in Southeast Europe, as well as of the foreign-economic links of the region with the European Union.

2.3. The new significance of regional cooperation in Southeast Europe: harmonizing the Stability Pact with the EU enlargement strategy

Against the background of the new trends in the development of the world economy and international relations, the idea for regional cooperation in Southeast Europe acquires a new significance and can be filled with new content. In short, cooperation can be defined as joint activities for achieving shared common goals. It involves pursuing mutual benefit through consensus, assistance, and solidarity, through finding compromise on the basis of equality. But the specific characteristics of the economic and other types of cooperation between the countries in Southeast Europe depend on the objective situation created by their economic capacity to participate in the international division of labor, by the general state of their bilateral and multilateral relations, on the one hand, and by the general conditions in the world economy and the international environment, on the other.

An European orientation dominates regional cooperation policies of all countries in Southeast Europe. Though with a different degree of determination, they all regard cooperation between themselves as a way for their becoming an integral part of the all-European processes. This was included as a starting point for regional cooperation in the Sofia Declaration of Good Neighborly Relations, Stability, Security and Cooperation in the Balkans adopted at the
meeting of ministers of foreign affairs of the Southeast Europe states, which was held at the initiative of Bulgaria in Sofia in July 1996. At the meeting, the ministers discussed the future opportunities for multilateral cooperation in a European context as stemming from the strive of each country to integrate into Europe. Against this background, they declared their will for interaction with other formats of regional cooperation like CEFTA and the Black-Sea Economic Cooperation.

At the current stage, regional cooperation in Southeast Europe is to a large extent an imperative imposed from without. The new regional approach to tackling the problems in this part of Europe adopted by the Stability Pact agrees with the general dimensions of globalization. The ideas on which the Stability Pact is designed are essentially directed to systematically organized internationalization of the processes of decision-making on major economic issues in the countries in the region. There is a tendency towards transferring functions inherent to the Balkan states, so much charged with nationalism, to structures like the EU, the World Bank, the International Monetary Fund, the World Trade Organization, as well as to other newly created regional mechanisms.

The concrete organization of regional cooperation consists in a combination of actions and interactions between national and international, public (non-governmental), national and international structures and economic agents through which political, contractual, organizational and governmental, and technical conditions are created for development of the economic links between the countries in the region. The strength of regional cooperation, as mentioned above, depends on the level of international division of labor achieved, and on the involvement of the separate countries in other mechanisms of international cooperation. There is considerable variety there: Greece is a member of the EU, while Bulgaria, Romania and Slovenia are holding negotiations for full membership; Turkey is associated and is in a customs union with the EU. Croatia, Macedonia, Moldova and Albania are striving to raise their relations with the EU to a new level, with the former two having signed Stabilization and Association Agreements. Bulgaria, Romania and Slovenia are members of the Central European Free Trade Agreement. Bulgaria, Turkey, Greece, Romania and Moldova are members of the Black-Sea Economic Cooperation Organization.

With this in mind, it could be pointed out that enhanced regional cooperation in Southeast Europe needs:
- a shared vision of the region common for the interested parties;
- shared values as a basis for cooperation;
- use of agreed and generally acceptable mechanisms;
- solidarity in pursuing common goals;
- a decision-making mechanism.
II. SECURITY AND GOOD GOVERNANCE ASPECTS OF REGIONAL COOPERATION

1. Security in Southeast Europe in the context of a changing international security system.

In the beginning of the 21st century the traditional military aspects of security gradually conceded their leading place in the international debate to other components and dimensions of security. New problems and issues came to the fore, such as strengthening the democratic institutions and the civil society, social, economic and environmental issues, ethnic and religious intolerance, violation of human rights, nationalistic outrage and xenophobia, uncontrolled migration and refugee flows, proliferation of weapons and potential dual-use goods, materials and technologies, drug traffic, etc. The risks stemming from the increasing trans-national activity of the organized crime, terrorist and fundamentalist organizations are also new dangerous phenomena in the field of security. New terms appeared in the doctrine, like “soft” and “hard” security, the latter covering mainly the military aspects of the concept.

Two concepts, which are becoming popular in the theory and practice of security, are of great importance: first, the variety and untraditional nature of the causes of instability and insecurity; second, the trans-border effect that can be produced even by indirect challenges and risks for security.

These new trends are reflected in the Stability Pact. The documents of the European Council in Cologne of June 10, 1999 point to the necessity for working out a common strategy on security and development in Southeast Europe as a fundamental objective of the initiative. Emphasis is placed on the development of democracy, human rights, economic development, functioning civil society. At the same time, the conflicts in Southeast Europe have proven that the military and political aspects of security are still important for this region: moreover, they were at the basis of the regional problems in the last decade.

The controversies in the region, earlier concealed and frozen by the cold war, emerged mainly as problems in the field of security, which not only threatened the stability in Southeast Europe but also to a certain extent threatened to affect the processes of European
integration in the light of EU enlargement and the unity of NATO’s southern command. The high conflict potential of the region was also the reason for directing the efforts of the international community mainly to the regulation of conflict situations.

The problem of this strategy, which in the light of the results of the Kosovo and Macedonia crises, was assessed as inefficient, was that it was limited to the immediate prevention of a certain conflict. The depth of the inherent controversies and the acuteness of their manifestations determined a change in this strategy, which is best expressed in the philosophy of the Stability Pact. The new approach reaches beyond the traditional conflict regulation and is connected with the overall stabilization and economic development of Southeast Europe, with the democratization and development of cooperation between the countries in the region. Within the framework of this approach, the issues of security preserve their paramount importance.

Bulgaria has gained positive experience in the issues of consolidation of regional security and can play an important role in the development of these processes. Therefore, the work of the Third Working Table of the Stability Pact on Security, which Bulgaria co-chaired between July 1 and December 31, 2000, is an immediate priority and opportunity for active initiatives by Bulgaria.

The second aspect of the Third Working Table – the problems of interior security – is increasingly coming into the foreground of international attention. The stabilization of the region and enhanced security of societies and individuals involves an active joint combat against trans-border crime, which no country can cope with on its own. The progress made on the issues of defense and international security would be rendered meaningless by a possible transfer of the conflict potential and tension into the daily life, by the spread of lawlessness, the strengthening of organized crime and corruption, which hinder the prosperity and individual development of the separate citizen.

The Working Table on security also tackles regional cooperation in respect to organized crime and corruption, terrorism and prevention of ethnic conflicts. It is of vital importance also to cover issues such as illegal immigration, trafficking in human beings, drugs, weapons and hazardous goods, which are becoming increasingly pressing for the countries in Southeast Europe.

1.1. The international context
At the end of the 20th century there were distinguished zones in Europe with different levels of security from the viewpoint of military and foreign policy aspects. Eleven years after the end of the Cold War, the continent is divided into three groups of states:

**a/** Integrated West and Central Europe, included to a large extent in the Euro-Atlantic system for collective defense. The security in this zone is based not so much on bilateral and multilateral military agreements than on the economic and technical interdependence, considerable trade flows, sustainability and involvement of the national institutions providing democratic development and protection of human rights, the common traditions, culture, and history. This involvement results in curbing hostilities or creating tension in the relations between the member states. The interdependence also leads to the formation of common goals in Europe and outside it, many of which are achieved on the basis of compromise and concessions made by each of EU member-state, often by relinquishing parts of its sovereignty.

**b/** Russia, which preserved its status of a global military power despite the disintegration processes, continues to have a military potential comparable to that of NATO and to develop cooperation with the Alliance on the basis of signed agreements.

**c/** Countries in Southeast Europe and former Soviet republics comprising the so-called “gray zone” of security. This group includes European states which are directly engaged in conflicts with a different level of intensity, mainly as a result of the disintegration of the federal states. What is common for this “gray zone” is that the countries are not protected by the umbrella of security that can be provided by the EU/NATO, and to a certain extent by Russia. It should be pointed out that this group is not homogeneous. There are for instance various levels of interest and sensitivity to the EU/NATO and Russia, as well as differences in the national policies of the countries in the zone as concerns NATO and Russia.

The fall of the Berlin Wall found European countries, both East and West, unprepared. Later on, the conceptual ambiguity of the West in relation to Southeast Europe increased. While Central Europe was unquestionably in the strategic plans of the European and Euro-Atlantic institutions, the place of Southeast Europe in these plans was unclear.

The US and Western Europe were sending mixed signals to the countries in the region, including Bulgaria, concerning their intentions. The US directed its efforts to preparing the Central European states for the Euro-Atlantic structures. The European Union took partial, and in some cases chaotic, actions due to the different trends and its internal problems. The
analysis of the practical steps made in the ‘90s shows that the EU understands stability rather as preserving the status quo in Southeast Europe, as "closing" the region, not allowing tensions to flow out of it. The conflicts that broke out later in Southeast Europe dominated as a determining factor for designing the strategy of the West: the US and Western Europe staked on the use of force for regulating the problems in Southeast Europe. The vacillations of the EU, especially during the Bosnia conflict, strengthened the leadership position of the US in the military solutions to the conflicts in the region.

Only after the war in Kosovo, the US and the EU seem to have begun paying more attention to the countries in the so-called gray zone. The Stability Pact has the ambitious goal of generating more security in Southeast Europe, of spreading the principles and practices of democracy, the processes of integration and cooperation in the Balkans. It is an expression of the new philosophy of the West for settling the problems in the region: gradual abandonment of the use of force and a search for new possibilities for solving the real problems by stimulating interaction and promoting the norms of European integration.

It could be said that the US transferred the responsibility for the development and implementation of the Stability Pact onto the European Union, preserving for itself a role only in the military aspects of security. The US military presence in Southeast Europe is aimed mainly at guaranteeing the strategic American interests, including through stabilization of the countries in the region, settling the problems in the relations between NATO’s allies, development of the infrastructure. The Southeast European Cooperative Initiative (SECI) is in the course of these goals of the US administration.

The announcement of a special EU Agency for the Stability Pact, and especially the invitation for starting negotiations for full EU membership extended to some states in Southeast Europe, are substantively new points in the development of the attitude of the West and of the Initiative, in particular. They do not only send strong political signals to the states in the region but also show that the EU is finishing the process of consideration and agreement on its policy concerning the Balkans. The wavering about the place and role of Southeast Europe in the integration processes seem to have been overcome and the Stability Pact is entering a practical phase.

During the ‘90s Russia’s approach to Southeast Europe depended on the available foreign policy resource and the pursuit of cooperation with the Western states. The disintegration of the USSR, the problems inside the country, and the increased financial and economic
dependence on the West considerably reduced Moscow’s options to exert independent influence on regions strategic for it. In fact Russia isolated itself from the processes outside its immediate neighborhood. The above-mentioned factors replaced the attempts at constructive presence and development of economic cooperation with crisis regulation and the use of force as priorities in Russia’s regional policy. By agreeing to impose trade sanctions against the Federal Republic of Yugoslavia and the deployment of NATO forces outside the Alliance’s area of responsibility, Moscow in fact conceded the strategic initiative to the Western states and their organizations.

After a certain period of activity during the war in Kosovo, Russia again withdrew from participation in the settlement of the problems in the region. Despite the appeal in the Stability Pact for more active efforts by Moscow, internal problems, including the war in Chechnya, etc., will hardly help change the attitude of self-isolation in the near future. Nevertheless, this attitude should be considered as temporary because Russia continues to regard the Balkans and the Black Sea as a zone of its strategic interests.

The change in the attitude of the EU and NATO most of all to the processes in Southeast Europe after Kosovo shifted the focus of activity of other European and Euro-Atlantic organizations too: the Balkans moved higher on the agenda of many of them. This is especially true for the OSCE, which is called upon to play an active role in the field of preventive diplomacy, the prevention and regulation of conflicts. The importance of this organization for the implementation of the initiative increased after the Stability Pact was placed under its auspices.

As a positive fact one could mention the membership of the countries in Southeast Europe in a number of European and global organizations, which however has a partial impact on their sense of security.

In the economic field, in the sphere of democratic institutions and human rights, all countries in Southeast Europe gravitate toward the closest and strongest center, the European Union. Of course, these countries are at a different distance from Brussels. Among them there are members of the EU, countries which have been invited to accession talks, candidate members, countries which have expressed willingness to join the EU, and countries which have not expressed such willingness.

The variable geometry of the institutional affiliation of the countries in the region was noted in the previous chapter. Depending on the involvement with the operative security structures,
at the end of the ‘90s the countries in Southeast Europe can be classified in the following groups:

- NATO member-states;
- states participants in the Partnership for Peace Initiative with express aspirations to full membership of NATO;
- the Federal Republic of Yugoslavia which after the fall of Milosevic regime was accepted as member of the Stability Pact but which continues to be considered a problem from the viewpoint of establishing state order in Southeast Europe.

This classification of the countries in Southeast Europe is of course provisional and is made for the purpose of the current analysis and the range of ideas and proposals contained in it. For instance, the grave historical burden on the region creates additional risks and uncertainties which cannot be entirely solved by the membership of the only structure for collective defense and security. The analysis is additionally complicated by the presence of state formations which have no apparent features of identity or state organization. At present these states still have a limited sovereignty on their territories or are in a process of becoming autonomous. An example of such a state is Bosnia and Herzegovina. Kosovo and Montenegro are also likely to join this group at one stage or another.

Finally, the efforts made for the success of the Stability Pact need to take into account the regional specifics ensuing from the fact that, unlike the other European regions, the states in the Balkans have almost never succeeded to define common priorities and goals in the field of security – just the opposite – they have always identified each other as a source of threat.

1.2. Specifics of the internal political developments in the countries in Southeast Europe

Most of the countries in Southeast Europe are undergoing a difficult process of economic and social transformations which is at different stages in the different states. Their democratic structures are insufficiently developed and the building of a functioning civil society is at an early stage. Social and economic and ethnic problems prevail.

The independent existence of the Balkan states is historically based on the so-called ethno-cultural model of state organization. It is characterized by the domination of one ethnic group, culture and language and the practice of interpreting the past within the framework of the separate states: this model actually rejects the alternative for the state as a political
formation covering different ethnic groups and based on a constitutional agreement between them – an alternative which has become prevalent in Western Europe after the French Revolution. For ages in the Balkans there has developed the trend for each ethnic group to consolidate its collective consciousness by inimically differentiating itself from the others. This trend is to a great extent present now in separate parts of the region.

In the period 1945-90 the constitutional organization of the Balkan states in transition was based on adding to the concept for the state as dominated by one ethnic group of on the idea for the ideological (class-based) state. The decline of the ideological nature of the state, without there being a political agreement adequate to the new conditions between the different ethos groups, i.e. without applying the model established in Western Europe, brought to the fore ethnic problems. In nearly all states in transition the minority groups made demands for autonomy, transition from unitary state to federation, separation, integration with the “mother” state, independence. In the crisis regions in former Yugoslavia the key principle structuring the society is the ethnic one.

The situation is complicated by the presence of a religious-minority aspect with the ethnic and religious minorities overlapping, partly coinciding or differing entirely. Thus for most Balkan states the borders between civilizations (simultaneously dividing by an ethnic, religious and language principle) are inside them.

Most Balkan states, with a few exceptions, believe in the necessity for protection of the individual rights of ethnic minorities as opposed to collective ones. These views are at the basis of various contradictions because in all countries in the region the minorities are collectively organized and politically represented.

As a result of the established historical, political, economic, social and psychological, civilizational and other conditions, there have often been observed essential, often fundamental, differences between the Balkans as a whole and Central Europe as regards the organization and functioning of the state, including in the framework of one and the same political system. These differences failed to be reduced considerably even under the influence of the totalitarian doctrines after the World War II which targeted social unification. Thus, despite following the trend of increasingly pluralistic societies and market economies, during most of the ‘90s the Balkan states in transition preserved considerable differences in the models of development and the specifics of the problems, and contradictions in the processes as compared to the Central European states.
Parallel to the consolidation of the sovereignty of the states in Southeast Europe, there is a trend that can be described as working in the opposite direction - disintegration of the very state organization. The collapse of totalitarianism created constitutional and legal ambiguity in all the countries in transition. In some cases, under the influence of other accompanying circumstances, the vacuum in legitimacy made their existence uncertain and created possibilities for their disintegration along the ethnic fault lines.

After 1990 a specific model of transition was established, which was characterized the development of all post-communist Balkan states during most of the decade. The specifics of the Balkan type of transition, as compared with the Central-European model, were marked by a slower rate of reforms and a strong influence of the former Communist parties on the public processes, or – the opposite – directed by immature radical forces identifying the purposeful policy of reforms with extreme anti-Communism. These specifics brought about delayed and unsteady implementation of the reforms, strong influence of organized crime, high social price of transition, higher level of state capture. As a result of the establishment of this model the state organization weakened and even collapsed due to the erosion of its fundamental elements. The voluntary abdication of the state from spheres where its regulatory role should remain unquestionable, and the institutional deficit for meeting challenges resulted in the lack of potential for some states to cope with the new challenges to their security: organized crime, large-scale contraband, illegal trade in weapons, drug traffic, trafficking in people, etc.

A new challenge to the security of the states was for the first time identified in the Balkans, namely, the risk of failure of the reforms and hence – the threat from disintegration of the state.

These specifics of the development of the Balkan states will determine to a great extent the direction and the characteristics of the projects proposed for financing within the framework of the Stability Pact.

1.3. Potential risks for the security in the region which need to be taken into account within the framework of the Stability Pact

Despite the participation of the countries in the region in a series of European and global organizations and their accession to various international instruments, there are many problems of the internal and external security of Bulgaria and the region. At the beginning of the new century the following groups of challenges could be outlined: hot or potential
conflicts in close proximity to the national borders; regional imbalances in the field of conventional armed forces; isolation of Serbia from the processes of disarmament and arms control; a possible precedent of creating and recognizing an ethnically pure state in the region; a possible restoration of the opposition between the US and Russia; advance of the international organized crime to the region; an increase in illegal traffic and contraband. Under certain political circumstances these problems could become risks and even threats for the national security of each country in Southeast Europe, including Bulgaria.

It is important to keep in mind that the problems in other fields of security – economy, trade, environment, human rights – can affect and complicate the problems facing the military and internal security. Increasing competition, for instance, between the different countries in the region concerning the infrastructural projects could restore and deepen the mistrust and affect the feeling of security of the separate countries.

**Hot and potential conflicts**

For a number of countries in the region, including Bulgaria, the vacuum of security common for the post-communist states was accompanied by problems with regional conflicts in their immediate neighborhoods. The disintegration of Yugoslavia, the military operations and the ensuing peace-making operations bring regional military security before the threat of new conflicts breaking out on the territory of post-Yugoslavia, e.g. in Sandjak and Vojvodina, of restoration of problems that have been already put under control by the international community like Bosnia and Kosovo, or of the conflicts flowing out of Yugoslavia’s borders – the conflict in Macedonia is a case in point. Acts of revenge-seeking are likely on the part of rump Yugoslavia at this stage or later. The possibility for the spread of religious extremism and aggravation of ethnic intolerance could bring terrorist acts to the region or using the territory of neighboring states for terrorist acts. Each of these threats would inevitably be followed by a refugee or immigrant pressure from the conflict regions.

**Regional imbalances**

In the beginning of the ‘90s there emerged regional imbalances in the field of conventional arms. The Conventional Armed Forces in Europe Treaty stipulates a substantial exclusion
zone on the territory of Turkey. Parallel to the discussion of measures for reduction of some conventional arms under the Conventional Armed Forces in Europe Treaty (CAFET), NATO developed the cascading concept, i.e. transferring modern arms from one region to another in the process of the reduction. It was mainly Greece and Turkey that took advantage of this concept, as well as of the lack of provisions in the Conventional Armed Forces in Europe Treaty against the modernization of armaments. The imbalance deepened especially after the disintegration of the Warsaw Pact due to the fact that the maximum national levels were set in the framework of collective ceilings for each of the two opposing unions, which in the region of the southern flank were agreed mainly with the interests of the former Soviet Union rather than with the interests of its allies.

For Bulgaria, the disadvantageous proportion concerning conventional arms is supplemented by the fact that Yugoslavia, being in the group of the neutral and non-aligned nations of OSCE, remained outside the scope of the Conventional Armed Forces in Europe Treaty. The armed conflicts on the territory of former Federal Republic of Yugoslavia led to the accumulation of arms and equipment in the post-Yugoslav space despite the ban on weapon supplies to the warring parties.

Unlike other parts of the continent, from the viewpoint of control on arms Southeast Europe has emerged as a region with unbalanced commitments. For Bulgaria, the elimination of inequality in arms and the balancing of the international legal commitments has become a foreign policy priority. However, for a long time the negotiations in a regional format were the only possibility for agreeing limitations on the armed forces of non-parties to the Conventional Armed Forces in Europe Treaty. Parallel to this, the armed conflict in former Yugoslavia excluded the possibility for the three most heavily armed post-Yugoslav republics to take part in the negotiations. That in fact rendered senseless the efforts to solve the problems of the regional imbalance and of the unification of the obligations of the countries in Southeast Europe.

**Unfinished reintegration of the Federal Republic of Yugoslavia**

As a result of the international isolation inherited from the Milosevic regime, the Federal Republic of Yugoslavia is not a part of a series of international initiatives, agreements and conventions in the field of control on arms and disarmament. This results in asymmetry of the international obligations in the military field between Belgrade and the remaining countries in
the region. For instance, Yugoslavia has not joined the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their destruction. The unfinished reintegration of that country into the international system of security has a negative effect on the non-military aspects of security as well: drug trafficking, trafficking in nuclear materials and technologies, contraband, illegal immigration, environmental pollution, etc.

**Redrawing of borders along ethnic lines**

The possible creation of an ethnic state will be a precedent with unpredictable consequences for the security in an ethnically and religiously encumbered region. At this stage the risks of the introduction and international recognition of such a state model are connected with the further fragmentation of the Western Balkans and with the rise of ethnic tension in other parts of the peninsula where other ethnic communities, with or without the help of neighboring and extra-regional powers, can attempt to follow it. There may appear unstable and amorphous state formations, permanently moving to unification or disintegration, which will have an unpredictable foreign policy and thus aggravate the political climate in the region. Yet another consequence could be the creation of small states with limited sovereignty and possibilities for manipulation by regional and extra-regional powers.

**The risk of restoration of the opposition between Russia and NATO**

Russia’s military potential, its interests and capacity for influencing the security in Southeast Europe should not be neglected. As was mentioned above, Moscow has temporarily isolated itself from the processes outside its immediate neighborhood and is exerting limited influence on Southeast Europe. This period may continue for long but one should not exclude the possibility for its termination as a result of Russia feeling that its interests are being impaired. That feeling does not have to be related to the Balkans alone. The return to a kind of cold war between Russia and NATO will have an extremely negative effect on the processes in Southeast Europe.

**Advance of the international organized crime to the region**
Unstable state institutions, removal of old barriers to the movement of people, goods and capitals, the presence of criminal organizations, partly financed by semi-legal activities, and the lack of institutionalization and experience in the cooperation between law enforcement in the region are all factors that may enhance the concentration of criminal groups in the region.

The specific geographical location of Southeast Europe and the poverty of most of the population, which was additionally aggravated by the crises in former Yugoslavia, together with the above factors make the region highly attractive for international crime. The permanent settlement of criminal formations of international nature would not only have a very negative impact on the security of the people but would also affect the processes of integration of the countries in Southeast Europe into the European Union and NATO.

Today there are intensive contacts and relations between the organized crime groups in Southeast Europe and other world regions. However, the countries in the region are affected, though to a different degree, mainly by the influence of a few groups of trans-national organized crime concentrated in three countries and having connections with the respective governmental circles, namely, Russia, Italy (the influence of a few large mafia-style groups) and Turkey, including the Kurdish clans. The criminal communities in these countries find partners and allies in a relatively few, but nonetheless dangerous, organized crime groups, which gravitate towards them and which are especially active in Albania and all the countries in ex-Yugoslavia, as well as to a certain extent in Bulgaria and Romania. The different centers, among which Malta, Monaco and Cyprus, provide offshore bank facilities which attract money-laundering schemes.

The emergence of trans-border networks threatens both the territorial integrity of the separate states and their internal security. When organized crime establishes control over a given region, and when that region’s judicial bodies are inefficient or simply absent, the region becomes a zone of free access and operation of the trans-border criminal formations. In practice, such regions or areas, which can also be called ‘gray zones’, are outside state sovereignty. Their existence is observed in a number of countries in Southeast Europe. Therefore they cannot be serious partners with NATO and the European Union. At present in the countries affected by the wars in former Yugoslavia there is a risk of trans-national organized crime influencing changes in government.
Increase in illegal trafficking and contraband

Together with organized crime, the different aspects and forms of illegal trafficking can be pointed out as the biggest threats among the trans-border challenges to security in Southeast Europe. Illegal trafficking can be considered in connection with organized crime because it usually requires a criminal organization. Trafficking and smuggling require the creation of trans-border networks. The funds generated through the different types of illegal trafficking are directly used to destabilize society, the political system, the administration and the economy of the countries. Illegal armed structures are established whose operation has substantial subversive effects, like market deficits, unfair distribution, and illegal struggle for power. These circumstances can have grave consequences for the transition carried in some of the countries in Southeast Europe.

A special attention in the region should be paid to the traffic in drugs and people. Drug trafficking is assuming alarming proportions. The successful drug business today moves along a few diversions of the traditional Balkan route (through which 80% of the heroin to Western Europe is transited), as well as along some new corridors which appeared after the disintegration of the Soviet Union. The wars in Bosnia and Kosovo caused some noticeable changes in the traditional drug routes. As a result of the first war in Yugoslavia, the Balkan route moved to the southern part of the Balkan peninsula. During the war in Kosovo, traffickers began to avoid Albania and Kosovo and moved mainly to Hungary. The traffic along the Eastern route, which is controlled by the Russian traffickers, intensified and part of the hauls passing through Bulgaria, Macedonia, Yugoslavia and Albania before were transferred to it. That reoriented the criminal gangs in Southeast Europe to maintaining networks for production and re-routing of synthetic drugs.

The illegal trafficking in human beings is another key direction of operation of the criminal gangs in Southeast Europe. The illegal transit of people across the borders of the Balkan states has become a very successful and lucrative business with “profit” margins comparable to drug trafficking. Apart from the transfer of local citizens seeking to live and work in Western Europe and North America, it is aimed at transferring foreign citizens, most often from Asia, Africa and Bulgaria’s neighboring countries. The trafficking structures are connected to prostitution in the West and to the export of the so-called “white slaves”. As most active in this relation in the region appear the Romanian, Turkish, and Moldavian groups.
The smuggling of various goods today is becoming one of the biggest problems in Southeast Europe, in particular for the societies of the countries in transition. This trend received a considerable boost in the region with the imposing of the embargo against Yugoslavia and the ensuing possibilities for making huge profits by violating it. The problem however is wider. The process of the reforms created extremely favorable conditions for increasing the volume of contraband operations. The reasons for this are various: internal and supranational, political and economic, institutional and cultural. After the disintegration of the supranational economic and trade institutions in East Europe the national production facilities lost their traditional partners and markets. At the same time the West European states remained to a great extent closed for most post-communist countries, more for the countries in Southeast Europe than for the countries in Central Europe. As a result of the drastic reduction in foreign markets, a part of the produce of the most developed sectors in these countries was subject to contraband export. The ensuing economic crises and the fall in industry and agriculture deepened the disproportion between supply and demand on the domestic markets, which also stimulated illegal trade and contraband operations. On the other hand, the disintegration of the judicial and controlling mechanisms inherited from the communist era and the resultant legal and institutional chaos, in combination with the liberalization of trade and the opening of the post-communist countries to the world, made the increase in the volume of contraband operations from and to these countries possible and comparatively easy. Generally speaking, the huge-scale corruption among the public officers became rampant and a mandatory component of contraband operations in the transition period. The survival and maintenance of contraband channels and their control by groups in the state authority hampers the stabilization of the democratic institutions, the regulation of the parties’ finances, the reform in the governmental structures, the establishment of modern government standards, and the development of civil society.\(^{15}\)

Health and environment hazards

The new health threats which emerged in Western Europe at the end of 20\(^{th}\) century exceeded the purely medical scope and became an issue of wider coordinated actions within the framework of the European Union member states and other countries in the world. The danger of a similar epidemics and the increasing social mobilization for neutralizing that

\(^{15}\) See further Corruption and Trafficking: Monitoring and Prevention, Center for the Study of Democracy, Sofia, 2000
disease are indicative of what might be the challenges to the countries in Southeast Europe in the future.

Human health is turning into a factor of a growing importance, which is demonstrated by another scare linked to the consequences of the usage of depleted uranium, and most probably of plutonium, during the NATO bombings in the Kosovo war. The high leukemia mortality rate among the military staff in the war zone in Bosnia and Herzegovina caused suspicions for the fatal influence of radioactive particles both on the inhabitants of the above mentioned territories as well as for the pollution through underground waters and air streams of neighboring countries, and above all Bulgaria. Except for the immediate effects of the disclosures for the protection of nature and human life in the Western Balkans, the exposure to depleted uranium will result in raising the importance of the humanitarian and ecological aspects of security compared to its traditional military aspects.
2. Possible initiatives by Bulgaria in the sphere of security and defense

2.1. Main areas for strengthening regional security in the framework of the Stability Pact

It should be pointed out at the outset that the Stability Pact does not target and is not capable of radically solving the security issues in Southeast Europe. The pact should be assessed as another instrument for alleviating existing risks to Bulgaria's and regional security. Among its goals is the harmonization of already assumed commitments by the states under global and regional organizations and under different multi-lateral arrangements in the arms control sector.

All initiatives to be implemented in the framework of the Stability Pact should account for distribution of responsibilities among European, Euro-Atlantic organizations and players outside the region, included in the instrument.

Demilitarization and cooperation on issues concerning military and budget planning

The general demilitarization of societies in the region is fixed in the working plan Regional Table of the Stability Pact. The measure is exclusively productive and its leading aspect is decreasing the capability of states to wage offensive wars. Possible measures include lowering of the relatively high levels of military spending, decreasing the number of armed forces, etc.

The establishing, within the auspices of the UK, of an expert group for comparative studies of the military budget planning in the countries in the region is planned. The objective of the group will be to draft procedures optimizing the budgeting processes, a sphere in which Bulgaria is nearing NATO standards as a result of the ongoing military reform. The discussion of the proposals brings to the focus the issue in what way the British initiative will include the idea tabled by Bosnia and Herzegovina for a 15% cut of the military budgets of the countries in Southeast Europe. From one point of view the cuts in the military budgets not always result in the direct decrease of the military threat. However from the view point of the Stability Pact the approximation of the systems for military budgeting as well as the armed forces of the countries in the region to NATO standards is seen as appropriate. This is hardly, though, possible under the conditions of drastic cuts of military budgets. Bulgaria is not ready
to undertake such a step too, especially bearing in mind the expected military reform expenditures in the coming years and the aspirations for compliance with NATO standards and modernization of the armed forces. It is highly probable that Bosnia's initiative will be met with disapproval by the majority of the states in Southeast Europe, Greece and Turkey including. The implementation of the initiative is assessed as highly problematic due to the fact that Yugoslavia will be excluded from the scheme too.

The ongoing reforms of the armed forces of the Southeast Europe countries, focused on compliance with NATO standards - although not linked to budget cuts - will inevitably result in increasing the effectiveness of the armed forces. Practically the only criterion for optimizing military planning and budgeting is to adopt the NATO approach to the issue. The process both complies with the program for reforming the Bulgarian armed forces as well as with the accession of Southeast Europe to NATO, the latter being a major aspect of Bulgaria's efforts in the framework of the Stability Pact. A similar approach might be used to improve civilian control over the armed forces.

Balkan states’ forces have different levels of combat readiness. It is quite clear that the major issue is to abandon the policies of military balances while the countries in the region initiate a review of their military doctrines so as to totally exclude military threat. Bulgaria for one might propose a regional seminar on military doctrines, with the participation of representative from NATO, the Western European Union, Russia, and other organizations.

Second comes the issue of the mechanism for integrating the ex-Yugoslavia states into the future regional balance, defined by the already harmonized CAFET.

Last, the implementation of the Dayton Agreements seems problematic, mainly Article V, under which the parties are to continue their efforts for compliance with general European levels of armaments. As a whole the system for arms control in the region needs a radical update.

Another major aspect of the demilitarization of communities, which should be mentioned here, is the understanding of the process in its broader sense. It should not be discounted that there is a persisting trend among some of the public circles in the region to consider its neighbours in the context of the "zero-sum game". The task of overcoming this is very complex and may not be reduced to the agenda of the Third Working Table. Of major importance in this sense would be the cooperation in the media sector, where the burden of nationalistic tensions is persistently observed.
Confidence and security building measures

In their classic scope, known from the end of the Cold War and immediately after that, the confidence building measures (CBM) include the establishment of top levels of armaments and military equipment, which are not included in CAFET (concerning countries, parties to the treaty); fixing top levels in border zones; defining quantitative ceilings of armed forces, taking part in military exercises, beyond which the countries inform each other; the introduction of monitoring during military exercises, including of the participation of military units of larger strength, than specified by CBM ceilings, etc.

All countries in the region are invited to join the effective international agreements for non-proliferation of weapons for mass destruction within the framework of the Stability Pact. Most of the countries, including Bulgaria, do not have any problems in this respect as they are parties to all international treaties. This requirement of the Stability Pact in practice is applicable to Yugoslavia (for example for joining the Chemical Weapons Convention) and partially concerns some other states of ex-Yugoslavia, which have not as of yet joined specific international schemes.

The enlisted CBM are of a classic type and they should be assessed as a positive instrument playing a basic role in achieving the Pact goal of creating a climate of confidence and security. A review of the approved CBM in the framework of the Third Table would be quite useful. In case that there are countries among which such measures have not been established, the Third Table should recommend their drafting. In view of the countries, which have already accepted some of the CBM of the classic type, the Third Table should recommend additional measures to enlarge them to include all possible areas. The aim is to include all countries in the region in the system of measures and to establish the fullest possible set of measures. This would lead to the establishment of a flexible and homogeneous regional system of CBM.

The states which currently are parties to agreements for establishing CBM, would be included relatively easy in the scope of new measures. As far as Yugoslavia is concerned, after joining the Stability Pact efforts for the country's participation in the strengthening of regional security should become more practical which would contribute to the rehabilitation of the relations in Southeast Europe.
The uncompleted inclusion of the states of ex-Yugoslavia under the Dayton Agreement - article V, for the harmonization of CAFET, might pose a problem. Another possible problem for the enlargement and homogenization of the classic type CBM in the region might be the existence of a complex of controversial issues between Turkey and Greece, reflecting a military balance in East Thrace, the Aegean and Cyprus. In this case the political instruments in the framework of NATO should be utilized so as to reach the approval of some of CBM among the two countries even in case this is not bound to the radical improvement of Greek-Turkish relations. (The current partial warming of the Greek-Turkish relations might play a positive role in this direction). Otherwise the harmonization of the CBM environment in the region will turn to be a hostage of the Greek-Turkish confrontation, fanning doubts about the capability of NATO to generate security in the Balkans.

Lastly, there is the possibility of difficulties emerging among countries in the region and their neighbors outside the region. It is possible that some of the countries will not be capable of accepting CBM concerning their partners due to emerging disbalances with neighboring states, which are not part of Southeast Europe. Turkey often faces a similar dilemma.

Bulgaria's position of a country supporting non-confrontational relations with all neighboring countries all CBM are acceptable. It is ready both to actively participate in their enlargement as well as in the diversifying their scope. The development of both trends does not question Bulgaria's security interests. On the contrary, Bulgaria is potentially a very active participant in the enlargement of the CBM process based on the stance in the National Security Concept and the Military Doctrine, stating that the security of the country is dependent on the security it generates in the region and for its neighbors. It is highly probable, due to the possibility of boycotting of the process by Yugoslavia, that expectations for the formation of a homogeneous zone of equal CBM around Bulgaria would not be feasible, but this would barely endanger the national interests of this country.

An important sector for achieving progress is the control over the production and trade in small arms. The nature of the military conflicts simmering in the region makes a potential conflict with the use of such type of weapons highly probable. The work in this direction is highlighted in the Work Plan. The small arms issue is pending as it is expected to become the focus of international community's actions after the antipersonnel mines issue is solved.
A decision was made within the framework of the Third Table that Slovenia hosted Workshop on Small Arms and Light Weapons. Stability Pact's Special Coordinator oversees the agenda in coordination with NATO so as to have the activities in the framework of the Pact comply with the approaches of the Alliance.

Accounting for its national security interests, Bulgaria - as a manufacturer and exporter of small arms, is interested in the smooth and quick development of the process. Measures undertaken in the small arms sector should improve the security environment in Southeast Europe. Targeted areas for the development of the initiatives in the framework of the Stability Pact are the seizure of illegal weapons, prevention of illegal trafficking, and harmonization of certification for the end user.

Meanwhile there are radical views within the framework of the Stability Pact leading to the identification of national defense needs and respectively to the destruction of the total reserves of small arms, which exceed the national needs. In case of these requirements are complied with, Southeast Europe will be subject to a specific and relatively more restrictive regime, compared to the strictest international obligations in this sphere.

In addition to the analysis on the implementation of the classic type of measures, other additional steps for CBM implementation might be tabled, for example extending political guarantees under official statements by KFOR and IFOR members for a longer-term commitment to the region, and a decision for restoration of the mandate of United Nation forces in Macedonia. It is possible to undertake a detailed analysis of the foreign policy issues and needs of the countries in Southeast Europe in the framework of the Western European Union and NATO in cooperation with their partners. Bulgaria might propose and motivate the need for opening a liaison office in its capital of an Operational Center, which is to be set up for operations planning under the Organization for Security and Cooperation in Europe (OSCE) for mandating of observers in Southeast Europe and the Caucasus.

Positive results might be achieved by the initiation of open-ended negotiations for measures for strengthening confidence and security, and the implementation of the OSCE code of conduct on politico-military aspects of security among the participants in the conflicts on the territory of ex-Yugoslavia under the auspices of OSCE. At an initial stage negotiations might include states outside Yugoslavia, but during the next stage Belgrade should participate in the talks. Bulgaria, together with Greece and Turkey, could share its experience bearing in mind
the bilateral agreements for confidence building measures. Bulgaria should also be included as an observer as it is an interested involved neighboring state.

A review of the implementation of the bilateral agreements signed between the countries in the region could lead to the coordination of additional measures for boosting confidence.

Other ideas, matching the interests of the countries in the region, including Bulgaria, refer to the commitment to refrain from participation of the Balkan Corps in operations on the territories of the states in Southeast Europe, the expansion of the Wasenaar Agreement for export control over the whole of Southeast Europe, the effective participation in the group for contacts among the military representatives in the region, which was initiated by Austria, the formulation of adequate modules for joint education and exchange of expertise, and cooperation concerning higher military education establishments and military academies of the countries in the region.

**Further control over arms and disarmament**

In this sphere Bulgaria could table the implementation, under the auspices of the United nations, of a review of the issues of the succession and the participation of the Southeast Europe states in the major international arrangements for arms control treaties and the creation and the implementation of adequate mechanisms.

Concerning the potential arrangement on broader negotiations (with the participation of other countries from Southeast Europe including Bulgaria) on arms control around ex-Yugoslavia, Bulgaria should adhere to its already declared position that such negotiations might be initiated only after the productive implementation of the needed measures in this area by the countries participating in the conflict. In this aspect it is important to mention the joint stance of Bulgaria, Greece and Romania after Dayton that the subject for these negotiations could not be the levels agreed under CAFET.

Bulgaria has launched the initiative for freeing the respective borders of the Southeast Europe countries from anti-personnel mines. Because of the complications in the region resulting from the outburst of the crisis in Kosovo, the initiative was removed from the regional security dialogue agenda. The initiative might be tabled again in the framework of the Stability Pact, which offers a favorable environment. Under the new conditions its target
might be the motivation of the countries in the region which are not parties to the Ottawa Convention to undertake some limited commitments for matching the requirements of the Convention. It seems appropriate that Bulgaria should renew its initiative as it was one of the leaders in the region in signing and ratifying the Convention. If successful, the initiative will bring immediate strategic and humanitarian benefits. Meanwhile, in case of difficulties, the Bulgarian party might continue its efforts for negotiating bilateral agreements to that end.

The Stability Pact has already approved the operation of the Slovenian Mine Clearance Fund. Canada and Slovenia are in the process of enlisting the existing projects and programs. Croatia proposes the establishment of a Regional Mine Clearance Fund, which will operatively coordinate specific activities, utilizing the expertise of the Slovenian Fund. The European Commission is also engaged in studies on this issue.

**Military cooperation**

The countries in the region established intensive military cooperation in the past years. The major conclusion, which might be drawn from the process, is that it stayed at the technical level. Without exploring deeper opportunities, the countries of Southeast Europe targeted broader cooperation. Most likely was the result of the large number of submitted initiatives, and also trying to participate with many events under the Partnership for Peace and in the Euro-Atlantic Council for Partnership, etc. The cooperation was also not able to include the lower levels - brigade, battalion. Due to these reasons the military cooperation among the countries in the region stretched barely beyond the parameters of some measures for establishing a higher level of confidence.

Bulgaria has launched on bilateral and multi-lateral level different initiatives with the objective to boost the security in the region. Among them are the initiative for meetings of the defense ministers of the countries of Southeast Europe, for the initiation of a debate on the regional security issues in the framework of the Council for Partnership, for eliminating of anti-personnel mines at the respective borders of the countries in the region, etc. Bulgaria played an important role for setting up of the Multinational Forces for Southeast Europe, which was embodied in the location of the headquarters of the unit in the Bulgarian town of Plovdiv (South Central Bulgaria). Some of the aspects of the cooperation in the format Bulgaria-Romania-Turkey and Bulgaria–Romania-Greece had a radical impact not only on the foreign but also on the internal security. Bulgaria should to preserve its active role of as a
country which has already achieved a substantial progress on its way to NATO membership, and one supporting the implementation of the common policies in the sphere of foreign relations and security of the European Union. The Bulgarian stance should account for the fact that in the regional security sphere a number of initiatives are piled up and are overlapping while in other spheres there is a deficit of ideas and cooperation approaches.

It should be taken into account that in the framework of the Stability Pact more and more initiatives for cooperation among the states in Southeast Europe would be launched by countries outside the region. For example, France has proposed the establishment of a regional aerial surveillance center. The implementation of the French proposal is useful and it should be finalized in a manner that would bring the activities of the countries to the NATO criteria and standards. It seems appropriate for the Center to become the point for know-how transfer and training of personnel under NATO standards.

In order to boost military cooperation it is necessary to achieve an effective coordination among the different international organizations which participate in the initiatives, merging their own capacity for improvement of the security environment in Southeast Europe. The establishment of an informal expert group for improvement of the contacts among the military institutions in the countries in the region in the framework of the Organization for Security and Cooperation in Europe is envisaged. The leading role of NATO which plays an increasingly important role on the Balkans should be maintained with respect to securing coherence and mutual complementarity among the approaches of the global and regional organizations participating in the Stability Pact.

Civilian Control

Many of the Southeast Europe states have introduced civilian control over their armed forces. It might be due to this reason that the civilian control is not treated independently in the framework of the Third Table. However, due to the insufficient democratic traditions and fledgling civic societies, the transparency of the military planning and reforms as well as the role of the NGOs in the process are not adequately developed. To this end, Bulgaria could propose:

- regular reporting to the public in the respective countries about the budgeting and utilization of defense and arms funding;
• creation of a system for preliminary information (for example web sites, etc.) of the respective governments for organizing meetings with the NGOs on security and defense issues;
• system of encouraging the other participants in the Security Pact for cooperation among the NGOs of the respective countries, connected to the arms control and defense (sponsoring seminars, joint web pages, etc.).

Military and political security issues

These are connected issues, which might be discussed either in the framework of the Stability Pact or separately from the Third Table agenda and facilitate the achievement of its targets. The proposal for expressing public support to the territorial integrity and sovereignty of the countries in Southeast Europe could be put forward. The proposal could complemented with the readiness for assistance in the protection of the rights of all minorities in Yugoslavia - as similar proposals were included in the NATO Washington Declaration (1999). Another positive influence could come from the idea for establishing a forum or other means for additionally informing Russia about measures for security and confidence in the framework of the Stability Pact and have Moscow involved in decision making Southeast Europe security issues.

2.2 Possible initiatives in the area of justice and home affairs

The domestic security issues bear specific features in this context. In the first place, cooperation in the sector has never been the focus of large-scale negotiations and has never reached the level characteristic of the military-political sector. Moreover, some aspects of the internal security were highly ideological and were the central arena of confrontation during the period of the Cold War, including the region of Southeast Europe. Their nature never supposed the introduction of measures for confidence building. The latter was initiated very slowly after the fall of the Berlin Wall and after the progress of the integration of the Central and East Europe states in the European and Euro-Atlantic institutions.

Second, the possibilities and the scope of the cooperation in this sphere depend to a great extent on the readiness of the institutions and the practices in the respective countries and on their compliance with the modern standards of the rule of law. This readiness will define in
general the areas and the needs for project financing in the justice and home affairs sector in the framework of the Stability Pact.

The potential initiatives and projects in the internal security sector have two aspects:

a) identifying priority sectors for activities including *all Southeast Europe states*, while individual projects will have mainly national impact and will account for the specific characteristics of the respective country; and

b) regional cooperation projects based on the understanding of the risks posed by the internationalization of criminal and illegal acts.

**Fight against corruption**

The level of illegal distribution of wealth to the detriment of ordinary citizens as well as the fact that corruption pressure is a risk factor restricting foreign investments and support for the development of the Southeast states, and undermining the national potential for the implementation of the reforms prioritize the combat of corruption in the region.

The Stability Pact Anti-Corruption Initiative (SPAI) as a priority for the development of the cooperation of the non-military aspects of security in the framework of the Stability Pact was approved at the session of the Third Table in Sarajevo in February 2000. The approved structure of the initiative, including a general agreement and an action plan, resulted from the joint efforts of the representatives of the Stability Pact, the European Union, the Council of Europe, the Organization for Economic Cooperation and Development (OECD), the World Bank and the US. The representatives of all the countries in the region, including Bulgaria, gave their full support and stated their desire to join the initiative. The initiative is based on the general understanding that corruption and other criminal acts are destructive for to the stability of all democratic institutions, undermine the rule of law, violate basic human rights and freedoms guaranteed by the European Convention for the Human Rights, and undermine the confidence of the citizens in the honesty and independence of the public administration.
At the same time, current efforts are restricted to the level of intergovernmental exchanges and make little effort to involve civil society. The limitations of the purely intergovernmental approach was highlighted by the Bulgarian government’s reaction to the monitoring provisions made under SPAI. Referring to the participation of the Bulgaria’s public administration in a number of other monitoring procedures which assess anti-corruption progress – EU accession preparations, GRECO – the government warranted its disinterest in cooperating with the SPAI monitoring. This drew criticisms from the Pact officials citing Bulgaria’s general commitments in the Pact. Another reason for the government’s disapproval of the SPAI approach was linked to the lack of differentiation among target countries which does not take into account actual progress made and the varying institutional affiliations of the target countries (eg Bulgaria not treated as resource – like, say, Hungary - but beneficiary country – like, say, Albania - under SPAI regardless of its EU accession talks status). This has further fueled Bulgarian government concerns that regional cooperation initiatives could slow Bulgaria’s progress towards EU membership by engaging its administrative capacity in joint regional projects in areas which it has achieved marked progress compared to other states.

This dilemma underscores the limited impact which the traditional intergovernmental approach to combating cross-border corruption and related crime could have. On the one hand, rampant corruption in Southeast Europe has many regional factors fueling it and cannot be tackled effectively in any country unless common causes are removed. On the other, the institutional logic of the “variable geometry” of affiliations of the countries in the region (discussed above) places conflicting requirements on the public administrations and could be used as an excuse for opting out of common regional initiatives.

While the countries in the region will apparently have varying progress in establishing democratic control and the rule of law in the near future – and could thus have overlapping and conflicting memberships in international institutions and initiatives – the restrictions of the intergovernmental approach in this area could be overcome by expanding the application of public-private partnerships. Substantial inertia would have to be defeated as these are issues traditionally reserved for law enforcement and other executive government agencies. A number of factors substantiate the importance of public-private partnerships in addressing regional corruption risks.
The first one relates to the scale of the problem of corruption in these countries. Societies in SEE are faced with a corruption cultures that permeates all structures of the body politic and has become a systemic feature of their political structures. The spread of corruption throughout the whole spectrum of possible forms – from the usual bakshish to the traffic police to the entry of organized crime into the mainstream economies through corruption privatization practices – presents a challenge that goes beyond the effectiveness of traditional anti-corruption tools used separately. The systemic nature of corruption in SEE has become the major factor impeding their development efforts. It has distorted the restructuring of their economies, the modernization of their education systems and public health care, and has affected many social programs (e.g. public housing). All this has had a negative impact on the public’s trust in the emerging democratic and market economy institutions and has bred disillusionment with reforms in general.

The second relevant aspect relates to the factors bringing about corruption on this scale. The institutionalization of corruption in the SEE countries cannot be explained by the national circumstances alone. A number of region-wide causes need to be taken into account if we are to comprehend the nature of the problem. In general, regional instability in the past ten years has undermined effective law enforcement throughout the region, has raised considerably the cost of regional trade, and thus the stakes of smuggling, which consequently has become a breeding ground for organized crime on a regional scale. Driving the SEE economies into the gray, and even criminal zone, has been the main dynamic behind high levels of corruption.

The gravity of the problem, therefore, calls for bold and radical measures if corruption is to be stemmed. These measures should upset already entrenched interests which fuel the institutionalization of corruption. For this to happen, broad public coalitions need to be formed both within countries, and region-wide. Traditional bureaucracies – be they national or international – cannot muster the type of public support needed if these reforms are to be successful.

However, support coming from a cross section of society, involving major public and private actors could only be enlisted in this process if society has a clear view of the severity of the problem. This warrants the introduction of a new kind of corruption assessment which goes beyond traditional law enforcement methods. This new kind could only be successful if it is based on cooperation between the public institutions, involved in designing and
implementing anti-corruption policies, and civil society institutions which are expected to generate civic support for these policies. For this to happen, the assessment on which these policies are based, needs to be carried out in a public-private partnership.

The interface between the role of governments and civil society in assessing corruption could be illustrated in the following way by superimposing the public sector (left circle) and NGO sector (right circle):
- Area 1: assessment related to measures for streamlining corruption prevention in law enforcement (customs, police, etc), prosecution; this area is strictly (inter)governmental, assessment is confidential;
- Area 2 (the area of public-private cooperation): assessment of the institutional and legislative adequacy and efficiency (including performance of public administration and judiciary), international assistance evaluation, general evaluation of political and institutional reforms, etc.
- Area 3: monitoring by and of the media, monitoring of corruption inside civil society, monitoring of public attitudes (trust in institutions).

A positive example in encouraging public-private partnerships in anti-corruption is the Southeast European Legal Development Initiative (SELDI). It is an effort of leading not-for-profit organizations, representatives of government and intergovernmental institutions and experts from the countries of Southeast Europe aimed at public-private coalition building for legal development in the countries of Southeast Europe.

SELDI was launched by the Center for the Study of Democracy (CSD), a Bulgarian policy institute and the International Development Law Institute (IDLI), an inter-governmental organization based in Rome, to build upon the success of the Coalition 2000 process the Judicial Reform Initiative for Bulgaria (JRI), and other previous efforts in Bulgaria by these two organizations aimed at promoting the rule of law and a institutional environment beneficial to the transition process and economic development. SELDI is distinguished from the other region-wide initiatives as being the first NGO-led effort to encourage public-private
cooperation as an instrument for regional development. The Initiative provides a forum for cooperation among the most active civil society institutions, public figures and government and international agencies in Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia.

Recently, coalition building and monitoring in anti-corruption has been the most active area of work for the Initiative. The overall objective of the SELDI anti-corruption component is to introduce a region-wide institutional framework for public-private cooperation in countering corruption in the countries of Southeast Europe. It is proceeding through a two-step process: diagnosing corruption and assessing the institutional environment followed by the development and endorsement of a Regional Anti-Corruption Action Agenda supported by an awareness campaign. The achievements of the Initiative in this area so far include three unique products:

- The first ever region-wide corruption diagnostics carried out in Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia on the basis of a uniform methodology.
- Training for watchdog capacity for a critical number of civil society organizations in SEE.
- A comprehensive assessment of the institutional environment as regards public administration, the judiciary, economy, civil society and media and international cooperation against corruption in all seven target countries as a basis for defining common actions needed.

The emerging picture indicates predictably similar problems facing a number of public agencies, notably law enforcement and judiciary. In addition, believing that the lack of an efficient public-private mechanism to tackle soft security issues (illegal trafficking in drugs and human beings, commercial fraud and money laundering, organized crime, etc) in SEE is a key deficiency to any regional plan for stability and restoration of the rule of law in this part of the world, the SELDI anti-corruption team is working in cooperation with public and international bodies on a policy analysis and recommendations report on the impact of these illegal activities on corruption in the region.
Legislative reforms

The proposal of the Organization for Security and Cooperation in Europe (OSCE) for the creation of a legislative clearing house is under discussion within the framework of the Third Table. OSCE and the Council of Europe intend to open the legislative clearing house as a web site based on the specific expertise in the spheres of their competence. The target of the Stability Pact in this sphere is to facilitate the implementation of legislative reforms, which might lead to a democratic transition and to ensuring a legislative framework for the functioning of fair regimes. In a long-term perspective the approval of the EU legislation in the sphere of the judiciary and internal affairs, which currently is developing very dynamically, creating prerequisites for integration in the Union, is envisaged. Bulgaria has made substantial progress compared to its regional partners in the adoption of EU standards and practices. The three screening sessions of EU acquis adoption progress indicate the substantial headway Bulgaria has made in this sphere and its leading position compared to all other EU candidate states. With the progress of the EU accession talks, the difference in the legislative frameworks of Bulgaria and the other Southeast Europe states, which do not target an immediate acceptance of the EU acquis, will become more and more substantial.

On a national level, Bulgaria should make additional efforts for the amendment to the Civil Code (connected to the forthcoming accession of Bulgaria to the Lugano Convention on the Jurisdiction and Settlement on Judgments Awarded on Corporate Lawsuits and the two relevant Brussels conventions), the drafting and the approval of the Protection of Personal Data Act (which is a pre-condition for concluding an agreement with Europol), the regulatory framework related to the foreigners' residence in Bulgaria and the possibilities for extradition, drafting of a new Penal Code, taking into account all requirements of the acquis in the sphere of criminal law, legal cooperation in criminal lawsuits, the final demilitarization of Border Police, the full harmonization of the visa regime with the EU standards, etc.

Bulgaria's further efforts are likely to be focused not so much on the Stability Pact requirements but on the progress of the EU accession talks and will target the effective implementation of legislation - namely the improvement of the administrative potential, the further upgrading of the equipment and the personnel training.

In reference to the above arguments, the Bulgarian government would need to differentiate among the mechanisms for participation in possible future activities of the Stability Pact in the legislative sphere, led by the understanding that the major trends are defined by the
process of acceptance of EU legislation in the framework of the EU accession talks. In this context Bulgaria might be a leader in sharing its experience on the prevailing number of issues involved in the sphere, for which the relevant progress has not been achieved as of yet and no EU financing and technical aid has been planned.

Judicial reform and judicial cooperation

The judicial reform in Bulgaria made a radical progress in 1999 with the amendments of the economic, procedure and institutional legal acts. The reform targets to meet fully the social needs of a new legal framework matching the new social and economic processes in the country for achieving legal stability and confidence in a modern European judicial system. The elements of this system are the development of the legal base, training and the reform of the judicial administration. In the nearest future the measures for the practical implementation of the new laws will become a priority, mainly as regards the organization, the funding and the qualification schemes. Meanwhile the reformed system is not an ideal one. The Program for Development of the Judicial Reform, developed by a number of NGOs, of representatives of the government institutions and experts in the framework of the Judicial Reform Initiative, outlines measures which could emerge as the basis for future projects to be discussed in the framework of the Third Table of the Stability Pact. These could include completing the legislative reform, as well as the organizational structure reform, the magistrates training programs, the incentives for professional NGOs and the judicial awareness programs, and the creation of an independent judicial police.

Bulgaria could propose to the Third Table a development of a regional basis of regulations for legal assistance in penal suits, i.e. the introduction of informal contacts among the law enforcement organs. Currently the Southeast Europe states countries are "indebted" for matching Bulgaria’s for its prompt assistance in criminal cases - the supreme judiciary institutions in Bulgaria, the Supreme Cassation Prosecutor Office and the Specialized Investigation Service, are entitled, according to the effective Judiciary Act and the Penal Code, to render legal assistance and engage in investigation on criminal cases in line with effective international agreements. A similar institutionalization at the highest possible level
in neighboring countries will facilitate the cooperation and will shorten the time for fulfilling requests received from Bulgaria - a process which currently takes years to complete.

A proposal for the more active involvement of the judiciary organs in the international dialogue seems appropriate. It was in the past year that active contacts were established between Bulgaria's Supreme Cassation Prosecutor and the similar institutions in the Balkan countries. The intensification and the possible institutionalization of such contacts and initiatives might be offered for discussions within the framework of the Third Table. The schemes might include mutual exchange of information on the legal framework and the national structures, which are to implement the international cooperation in the different spheres connected with security and combat against crime as well as with the establishment of operative contacts among the judiciary organs and the exchange of contact persons and useful addresses. The development of programs for joint training of experts from the countries in the region within the framework of the Council of Europe and the European Union could be proposed.

In the framework of SELDI, areas of law of common concern, regional challenges for the civil law, procedural law and commercial law, and combating serious crime - corruption, trans-border and banking crime, money laundering, etc, are highlighted. Cooperation among magistrates and judicial institutions is of primary importance for the effective implementation of legislation and the rule of law. SELDI seeks to provide regularity in the institutional as well as personal exchanges, important for developing regional mechanisms of cooperation. The establishment of a SEE Judicial Network could be encouraged among the relevant competent judicial authorities and will be the mechanism for exchange of experience as well as a forum for discussion of practical and legal problems, possible legislative changes and joint/coordinated measures.

The Council of Europe program for institutional reforms, envisaging an action plan for training of representatives of the judiciary, for strengthening its independence and for the improvement of the efficiency of the judicial administration has received a broad support within the framework of the Third Table. The Guiding Principles and Goals in the Sphere of Justice, and the German proposals for boosting the legislative reform and for cooperation of the lawmaking activities are of great interest as well.
Police reform and police cooperation. Border and customs control

Projects for the training on regional level of high ranking police officials, of experts in the sphere of organized crime and border control are currently discussed within the framework of the Third Table. Bulgaria attributes special attention to the possibility for the establishment of a regional training center. The second group of projects focus on the capacity building in the police sector as a pre-requisite for future activities. Bulgaria has already proposed two initiatives indicating the expertise and good results achieved by this country in the respective sectors. Under the first initiative, the National Center for Combating Drugs could evolve into a regional institution after an initial stage including the implementation of concrete projects coordinated by the National Center. The creation of a regional center for training of police staff for peacekeeping operations is envisaged by the second project.

The identification of the effective bilateral agreements (between the ministries of internal affairs, the security offices, for border cooperation, bilateral legal assistance agreements, etc.) between the countries in the region, which might be supplemented where possible by a general overview of their implementation, is seen as a useful step in the framework of the Stability Pact related also to the police and judicial institutions cooperation. This might lead to the drafting of unified provisions to be included in the individual agreements. The proposal for identification of the existing good practices in the judicial and homes affairs sector among the countries seems also appropriate as a subject of multilateral exchange.

The initiative of Finland for strengthening border control is of essential importance for Bulgaria. Bearing in mind its future function of an outer border line of the European Union, Bulgaria should participate very actively both in the review of the needs in this respect and in the implementation of the projects.

Another important proposal might be connected with the role of Europol, which might serve as an information clearing house for coordination of bilateral and multilateral police assistance for the Southeast Europe countries. In the framework of the cooperation on regional level with the EU member states it would be appropriate to introduce the implementation of directives regulating the exchange of sensitive information among the police offices of the Schengen states as well as the strengthening of the informal framework for intelligence cooperation so as to develop a joint assessment of the threats posed by organized and trans-border crime and of what has already been done to curb international terrorism risks.
Special attention should be paid to the improvement of the interaction among the customs authorities in order to resist illegal trafficking. Adequate customs control for revealing, detaining and confiscating of illegal imports or exports is the major factor for the increase or decrease of contraband. In case of inefficient control and corruption among the customs officers there is a practical risk that violators and criminals would not be caught and punished and in this way would create a favorable environment for trafficking. In this sense there is a clear connection between good management and low level of corruption in the customs administration and the low levels of contraband. The high corruption level of the controlling organs facilitates the development of different types of illegal trans-border trafficking. In this sphere it might be advisable to rely to a greater extend on the interaction (and mutual control) of the different national customs administrations, and the information exchange among them should be encouraged. The existing legal instruments should be further utilized for the purpose. It is deemed desirable that Bulgaria and its regional partners should join the International Convention on mutual administrative assistance for the prevention, investigation and repression of Customs offences (Nairobi Convention), as well as to initiate the implementation of the recommendations of the World Trade Organization for the combat against customs violations. The introduction of joint customs checks as a normal practice and where possible of unified customs control could also be considered.

**Combat against organized and trans-border crime**

A major result from the current efforts in the framework of the Third table in this aspect is the proposal submitted by the Council of Europe for drafting of a Program against Corruption and Organized Crime in Southeast Europe including the development of the respective legal framework, interdepartmental cooperation and specialization, relevant prevention measures, as well as regional and international cooperation.

Under the pre-conditions necessary for the development of a productive interaction among the countries in the region in the combat against organized crime, it is necessary to identify the exact needs of the above mentioned cooperation. In this respect it might be appropriate to propose drafting regular reports on the dynamics organized and trans-border crime in the region, based on the input of all the countries in the region and in cooperation with Europol. An example is the study *Corruption and Trafficking: Monitoring and Prevention*, published
by the Center for the Study of Democracy in Bulgaria. The report examines the processes of illegal trafficking and the related corruption in Bulgaria, identifying their typical manifestations and the practical assessment, prevention and control strategies and methodologies in three sections:

- an analysis of cross-border crime in Bulgaria during the 90ies;
- a review of the sociological and statistical methods of measuring illicit trafficking;
- practically oriented proposals with the aim of curbing corruption and trafficking.

These studies should analyze the criminal environment from the point of view of targeting joint measures where needed and possible. Yugoslavia may join the activities at the initial stage, but it is necessary to have them started and the door to stay open for Yugoslavia as well.

Developing projects for cooperation among the countries in the region for exchange of information concerning criminal groups, persons and companies, their activities (legal or illegal), financial transactions, etc., is of major importance in the sphere of the combat of organized crime. It is necessary to develop, alongside police cooperation, the interaction among the judicial institutions targeting the collection of evidence for criminal lawsuits. In this respect it is necessary to base the activities on the 1999 Agreement on cooperation to prevent and combat trans-border crime concluded within the framework of the Southeast European Cooperative Initiative (SECI). It envisages different cooperation formats among the law enforcement offices of the countries in the region: exchange of specialized information, cooperation in the use of modern technical means and equipment, effective coordination, etc. The abovementioned analytical studies of crime and corruption in the region should also be carried in cooperation with the SECI Regional Center for Combating Organized Crime.

Specialized targeted projects could be developed in the areas of manufacturing and distribution of narcotics, the illegal trafficking of people, forceful prostitution and contraband. It is very often that these forms of organized crime are committed by individuals, residing on the territories of a number of countries in the region, which requires coordinated joint efforts of the law enforcement agencies.
It is possible to design projects for the development of the interdepartmental approach to counteracting crime. Bulgaria may propose the relevant cooperation expertise for cooperation among the specialized departments of the Expert Group on Law Enforcement with the Ministry of the Interior, which was launched two years ago. It includes representatives of the US Administration, the Bulgarian Ministry of the Interior, the prosecution, the courts, the investigation, the customs administration and the Financial Intelligence Bureau with the Ministry of Finance.

The combat against terrorism and illegal trade in assault weapons is a major topic of discussions within the framework of the Third Table of the Stability Pact. Progress in this sphere is seen as satisfactory, namely in the cooperation of the intelligence services of the countries in the region. Bulgaria has already proved its goodwill for combat against this extremely dangerous type of crime proposing many initiatives for regional cooperation. It is in Bulgaria's national interest not to tolerate the use of its territory as a base for foreign and international terrorist organizations. Measures for building confidence, for facilitating contacts among the law enforcement institutions, for increasing the exchange of information, for joint training of personnel and for drafting and implementation of joint operations and investigations would also prove useful.

**Migration and refugees**

Within the framework of the Third Table, it is expected that the Expert Group of the European Union will have its mandate extended to include in its agenda the regional migration issues in general. The UN High Commissioner for Refugees is to play the leading role in the framework of the Stability Pact concerning refuge issues.

The involvement of organized crime in the illegal migration in Southeast Europe is as widespread as illegal migration itself. In this respect illegal migration becomes a central issue of concern. The organized illegal migration is viewed as a serious problem not only because of its destructive social and economic effects but also due to the established clear connection between it and the other forms of organized crime, availing of effective means for evading law enforcement and prosecution. As far as the groups involved in this type of criminal acts are very well organized and sometimes use methods unknown to the law enforcement institutions, it is necessary to join efforts on an international level. Concerns connected with illegal migration are due not only to the immigrant inflows but also to the fact that illegal
migration becomes a huge source of incomes for criminal organizations and thus turn into a new "business factor", which should be accounted for in the combat against organized crime.

The Southeast Europe countries, especially those from the ex-Yugoslav, Albania, Romania and Turkey, are among countries of origin of illegal immigration, as well as among the transit often connected to criminal nets in the destination states. Many criminal groups in Southeast Europe, which are engaged in drug trafficking and contraband, re-direct to the new "business" of illegal migration and trafficking of people. It is profitable market and the risks are relatively lower compared to other forms of trafficking. The groups involved in this type of trafficking are capable of providing – for a fee - transport, personal documents (IDs), even work - which is quite attractive for individuals who intend to immigrate but may not do it legally.

The countries in Southeast Europe could, with joint efforts and active cooperation among the law enforcement offices, reveal the major regional routes of illegal migration, identify the acting criminal organizations in the region and undertake a coordinated and joint efforts on issues of illegal migration. At a later stage joint investigation and joint operative measures should be included.

Very often the number of individuals seeking asylum, who might be viewed as potential immigrants, is used as an indirect indicator for the illegal migration. Under the current practices those arriving in Southeast Europe from Asia and Africa file applications for a refugee status and disappear during the procedure and usually find a channel for transfer to West Europe. In the framework of the Third Table it is possible to initiate a more intensive exchange of information among the countries in the region as well as with the European Union and mainly with Europol concerning asylum seekers and the respective trends. It would be productive to conduct a comparative analysis of the legal framework of the countries in the region concerning penalties for financing any forms of assistance to illegal migration and trafficking of people.

Bulgaria complies to a great extent with the European Union standards after it approved and enforced as of August 1st, 1999 of the Refugee Act. Under the act all issues, connected with the legal asylum status on the territory of the country, the extension of humanitarian aid, the competence of the Agency for Refugees and the local police, accelerated procedures, motives for transfer of refugees and the appeal procedures are regulated in compliance with EU acquis. In this sense Bulgaria has become one of the leading countries in terms of legal
regulations among the Stability Pact participants. The major importance on the national level should be attributed to the implementation of the legal framework and building appropriate material base as one of the priorities was to construct, possibly with European Union financing and in a close cooperation with the border control authorities, of additional transit centers.

**Social and economic measures for crime prevention**

The analysis of Bulgaria's activities for combating crime reveals similarities in a number of sectors with the countries in the region in which the drafting of projects and their submission in the framework of the Stability Pact will be of common interest and will prove very productive for the reforms. The measures should include the social and economic sphere as areas of crime prevention and strengthening of domestic security.

The social and economic measures include the completion of legislative reforms, the transparency of the privatization process and public procurement, the effective functioning of market economy and free enterprise, as well as the incentives for the industrial sectors of the economy and the free competition as measures for assuring means of legal incomes and acquisition of property to the largest possible number of citizens, and limiting the possibilities for monopolizing the market.

Efforts might be focused on restoration of the properties acquired through criminal methods, on reduction and remittance of debts of natural and legal persons, and on limiting the licensing regimes. In the framework of the projects submitted to the Stability Pact technical assistance should be sought for the civil control of the administration and the drafting of employment programs and protection against unemployment dedicated to the risk groups of the population such as Roma and young people. The above mentioned programs might be developed on a national and regional level accounting for the specific characteristics of the region - high unemployment rate, substantial migration, large scale growth of drug extracting plants, etc. In this respect it is possible to facilitate the building of a system for public control and support of the re-socialization of the individuals exposed to incriminating risks as well as for the criminals who have served their sentences. State institution such as the Child Crime Prevention Center, the Commission for Counteracting of Anti-social Acts Committed Delinquents, and in the nearest future the probation offices, NGOs, religious communities, etc. should be involved in this program. It is also possible to design special projects for
combat against the propaganda of violence and pornography in which NGOs, civil partnerships and religious communities might be engaged.

The drafting of programs for medical and psychological therapy of convicts for violence crimes - which is a common practice in a number of developed countries - for moral support of the prisoners and improvement of the educational process in prisons, for counteracting alcoholism, drug addiction and other diseases with a direct criminal effect, for legal education namely against the criminal careers, for the protection of the family, of motherhood, of neighboring and religious communities and the different civil partnerships, which are important for boosting moral values, will be useful.

* * *

The Stability Pact reflects the changed attitude of the major world geopolitical centers namely the European Union, the US and Russia, towards the developments in Southeast Europe which, in turn, resulted from the changes in the level of their respective influence in the region. It demonstrates the new approach towards security issues under the gradual establishment of a stable international order after the end of the Cold War and the regulation of the inherited or new conflicts specific for the Balkans.

It is clear that Bulgaria’s efforts for accession to European Union and NATO will depend on the success of its internal reforms. The Stability Pact focuses on the region as a whole, on the development of the processes in all countries and on the interaction among them and thus matches the political priorities of Bulgaria in the region and offers an approach compliant with this country's aspirations to combine the European and the Euro-Atlantic policies with its regional interests.

Bulgaria's leading position in almost all aspects of internal and external security discussed within the framework of the Third Table provide for the possibility of establishing of a pragmatic approach in this respect. Bulgaria’s stable political environment allows it conduct an active diplomacy and launch well motivated initiatives which might be immediately transformed into detailed projects. The extent to which Bulgaria will use the possibilities extended by the Stability Pact for boosting both its own and its neighbors' security depends
on the initiatives and the management skills of the administration to draft detailed projects and on the abilities of the diplomats to support them.
CONCLUSIONS

Against the background of late 20th century world order transformations, events in Southeast Europe provoked a new type of reaction from the international community and a new way of solving problems in the ill-reputed Balkans is on its way to be introduced. The disintegration crisis in the Yugoslav Federation and the painful efforts of all countries in the region to overcome their backwardness drew up the international community attention. As a result, meaningful political actions were undertaken in order to stabilize and develop the region and to integrated it in the European institutions.

A new comprehensive approach for bringing the Balkans closer to Europe was designed based on lesson from history, problem solving experiences from other regions, and efforts for better understanding the nature of Balkan conflicts. This approach was implemented into the Stability Pact for Southeast Europe which received wide political support from the most influential factors in the world – states and international organizations which have the capacity to provide considerable financial and technical resources in order to implement this ambitious program. Countries from the region have shown interest and political goodwill to take their share of responsibility in the mutual efforts. These efforts will facilitate the achievement of the Stability Pact goals, namely strengthening of peace and stability in Southeast Europe, and accelerating the integration of countries from the region into the European and Euro-Atlantic institutions. A further special feature of the model adopted towards Southeast Europe is that regional stabilization is sought in the framework of a system of collective security which would overcome the traditional conflict potential of the Balkans.

However, it remains to be seen whether the Stability Pact could rely on the general public support in the beneficiary countries. For that, it would need to further prove its efficiency to deliver assistance where it is most needed and to build institutional links to other initiatives and international institutions which have an influence in the region.

The donors adopted the only possible approach for collecting the necessary financial resources for the implementation of the Stability Pact projects. However, due to the fact that financial resources are offered as loans, this could lead to new excessive increase of foreign debts of the countries in the region and the Stability Pact could miss its goals.
The delayed mobilization of financial resources for the purposes of the Stability Pact could mean that its initiators are gradually shifting their emphases and priorities, thus creating the impression of insufficient capacity for the implementation of the initiatives. A disappointment in this aspect might create new problems for the region as a whole and for the individual countries bearing in mind the high expectations associated with the Pact. Special measures are needed to highlight that regional cooperation is not encouraged just “by default” - in other words, because of institutional inertia and lack of fresh ideas for integrating the region in the EU. If the ongoing initiatives have only peace-keeping role and are designed only to bring the region closer to EU values and standards and do not lead to real integration of Southeast Europe in its structures, then these initiatives will fall short of the historical responsibility and the existing chance to unite Europe. Further, the steps taken so far within the Stability Pact indicate a risk that it could turn into a clumsy, overly bureaucratic mechanism which is not capable of efficient decisions making.

On the other hand, continuing hostilities and lack of cooperation “on the ground”, could lead to “donor fatigue” in the developed countries. Balkan problems seem to start wearing down on the western public and public interest in Europe and the US diminishes which further reduces the chance to have optimistic expectations come true.

The Stability Pact stakeholders are mostly interested in promoting regional cooperation but the countries in Southeast Europe do not possess the potential to ensure region’s prosperity on their own. There is little to prove that either the people, or the governments believe in this cooperation. Their goal is EU integration.

In order to achieve its goal, all countries in Southeast Europe should be actively involved in regional cooperation. Despite the formation of favorable perspectives which occurred after President Kostunica came into power, and the official acceptance of Yugoslavia in the Stability Pact in October 2000, there are still many uncertainties around the future of Yugoslavia, as well as Macedonia.

The most difficult task for the Stability Pact would be to find a mechanism which both encourages regional cooperation and joint efforts and accounts for individual progress of the countries and their varying affiliation with other international institutions. It seems that the Stability Pact neglects the inevitable discussions and difficulties in elaborating the national
concepts for development of the countries in Southeast Europe and their cohesion with the Stability Pact and other initiatives for overcoming region’s economic backwardness. The Pact needs to ensure that assistance in structural reforms in the countries of Southeast Europe is committed to integrating their economies in the new international economy. It will not be easy to prevail over Balkan countries’ “selfishness” in putting forward Stability Pact projects which is a condition for providing priority to projects for benefit to the whole region.

The Stability Pact was developed based on the early ‘90s idea for creation of an European economic area. At that time, this model reflected the common wish of EU and EFTA to establish a common market without it coming under the jurisdiction of the *acquis communautaire*. However, the difference now is that unlike Switzerland, Norway, and Iceland, the countries in Southeast Europe have aspirations to become EU members.

The Stability Pact is contributing to making regional infrastructure part of the European networks. However, the projects are very capital intensive and the pressure on the countries in the region to meet the major part of financing does not promise fast creation of transport and communication preconditions neither for regional cooperation nor for European integration as well. The Stability Pact should secure not only construction of individual sites but comprehensive development of transport systems in Southeast Europe. The transport projects should also take into account the export perspectives of the countries in the region.

It is important for Bulgaria to adhere to the strategy for EU accession and to participate in the regional reforms for cooperation, and especially in the Stability Pact. In line with the above-mentioned, the following could be recommended:

1. Without diminishing other aspects of the Stability Pact, Bulgaria needs to make sure that solving the economic problems of the countries in Southeast Europe is done in the context of the European integration perspectives of the region. In this respect, it is necessary to maintain cooperation with the other candidate countries in order to balance Bulgaria’s European orientation and development of regional cooperation in the framework of the Stability Pact.

2. Within the framework of the Stability Pact, Bulgaria has to continue to play a stabilizing role in the Balkans and to share best practices in the process of reforms and
integration to EU with the countries which are behind in economic and political transformations.

3. Bulgaria needs to ensure that efforts for promoting a stabilization economic policy within the Stability Pact are such that receive wide public support.

4. Stability Pact efforts should be based on the understanding that capital resources need to ensure economic growth by stimulating production of goods and services, introduction of modern technologies and development of appropriate marketing strategies. The economic growth in the countries in Southeast Europe depends to a greater extent on foreign demand and the Stability Pact has to find ways to address this problem. Opportunities exist for opening of US and EU markets for goods and services from these countries.

5. The Bulgarian government should ensure equal opportunities for Bulgarian companies in the procurement of goods, services, and engineering activities in the framework of the Stability Pact projects.

6. Bulgaria has to contribute to the establishment of a common approach in outlining of measures for absorption and efficient use of the Stability Pact resources. It is necessary to enhance the use of grant making within the Pact. At the same time, it is important for the countries in Southeast Europe to pay more attention to their own sources of growth, such as increased domestic consumption, investment projects, etc. Regional cooperation would have an even more important role if common mechanisms for protections against financial destabilization from external shocks are established.

7. Bulgaria could initiate the creation of analytical centers for identifying of regional problems and development of solution projects. These could also serve as resource centers for monitoring of regional developments and providing training and capacity building for both governmental and non-governmental organizations. Such center should operate on the basis of a public-private partnership.

8. On the basis of its achievements, Bulgaria could play a leading role in the harmonization of the commercial, investment, and transportation legislation of the countries in Southeast Europe. Also there are conditions for initiating the establishment of regional commodity exchanges for grain, metals, and probably other goods.

9. Bulgaria should initiate an experience sharing mechanism with respect to its progress in EU accession preparations.
10. With a view of speeding up the transit of goods across border check points and streamlining customs controls, Bulgaria could initiate a project for the connection of all customs administration of the Southeast European countries into a computerized system.

11. In connection to regional capital market development, Bulgaria could highlight the role of private sector resources and stock exchanges, as well as joint measures for encouraging foreign investment in the region. In order to overcome inefficient use of local capital resources, the adoption of a code for avoidance of regional double taxation could be initiated.

12. Bulgaria has already accumulated experience in setting up modern accounting system, thus, it would be appropriate to propose in the line of the Stability Pact to launch a process of drawing closer the accounting standards of the countries from the region.

13. The experience in bank privatisation in Bulgaria suggests that there are opportunities to attract resources from the Stability Pact for harmonizing of bank services in the countries in Southeast Europe.

It would be too optimistic to expect that in the near future common mechanisms for management of economy processes in Southeast Europe would be constituted. However, it would be possible on the basis of equally acceptable standards to create conditions for cooperation. It is of common interest to the countries in Southeast Europe that these standards are based on the prospects related to EU integration. It would also be an appropriate way for Bulgaria to achieve its mission as a factor for the “Europeanization” of the Balkans.
Appendix

Gross Domestic Product (Millions of US Dollars)

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## Economic Growth Forecast for the SEE Countries

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### Distribution of Trade Flows of the Seven SEE Countries, by Major Partners, 1998, Millions of US Dollars

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Source: The Road to Stability and Prosperity in South Eastern Europe
A Regional Strategy Paper:
Chapter 3: Trade Integration for South Eastern Europe in the Context of the Stability Pact
## Overall Export and Import of the SEE Countries
(Millions of US Dollars)

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Source: Investment Guide for Southeast Europe
### Relative Share of the SEE Countries in World Trade (Millions of US Dollars)

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### Bilateral Agreements for Free Trade Zones between SEE countries

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<th>Bulgaria</th>
<th>Greece</th>
<th>Macedonia</th>
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* Zone for free trade with industrial goods and an improved access to agricultural goods through the European Association Agreement

**Free trade zone through the Central European Free Trade Agreement
### BULGARIA’S STABILITY PACT PROJECTS

#### Urgent funding

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<tr>
<td>Modernization of Danube ports</td>
<td>5 mil. Euro</td>
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<td>Modernization of Sofia airport</td>
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#### Funding in up to 2 years

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Total: 827 mil. Euro