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Regional cooperation in the Western Balkans

Milica Delevic



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Regional cooperation in the Western Balkans is an issue that has been much discussed. Nor has there been any shortage of action to match the talk. As a result, the countries of the region are today much more closely connected through various cooperation schemes than they were seven years ago. This is a success that should not be underestimated. If the present situation is compared to the one prevailing in 2000 – an *annus mirabilis* for the region as democratic changes took place first in Croatia and later in Serbia – there are lots of developments of which the countries in the region as well as external countries involved in facilitating their cooperation can be proud. Today, when we look at the Western Balkans, we see an emerging region in transition, where economic development is underway and in which cooperation is increasingly seen as an obvious choice, rather than a last-resort option. The end of 2006 brought the signature of the new and modernised CEFTA (Central European Free Trade Agreement), which will, when ratified, establish a free trade zone in the Western Balkans and beyond. In June 2006, the treaty establishing the Energy Community of South East Europe, creating a legal framework for a regionally integrated energy market for electricity and natural gas networks and for integration of that market into the wider EU market, entered into force. The previous month bilateral agreements between the EU and external countries were signed regarding the single market in aviation services, with the European Common Aviation Area destined to become the framework for the extension of the Single European Sky to the region. Fighting organised crime, introducing integrated border management and dealing with environmental challenges also have a regional dimension, inviting countries to combine their efforts if results are to be achieved. There are also initiatives for cooperation in facing the difficult past which the countries share (e.g. refugee return, war crimes issues), but also in preparing for the brighter, European future to which all of them aspire.

Yet not everything is rosy. There are still acute social problems within the region – delayed integration and the violent conflicts that followed the disintegration of Yugoslavia have left a bitter legacy of severe unemployment, especially high among the young, the uneducated and women. Infrastructure is mostly poor and in need of repair, after having suffered years of neglect. The region is still blighted by both drug and human trafficking and other forms of organised crime. This is all aggravated by outstanding constitutional and political issues that need to be resolved, as uncertainty exacerbates existing problems rather than creating a favourable climate for their resolution. To make matters worse, the EU integration process seems to have been plagued with controversy about ‘absorption’ and ‘integration capacity’ as well as ‘enlargement fatigue’, leading citizens of the countries in the region to question whether the prospect of membership promised to them is in fact a credible one.

When these problems are taken together, it seems only logical to wonder about the irreversibility of the process – is the level of cooperation and interdependence achieved so far enough of a guarantee for good neighbourly relations and behaviour among regional countries in the future? Is it possible that nationalism will flare up again? Or, in other words, can the achieved level of cooperation survive challenges posed by the expected resolution of remaining status issues? When will the process of dissolution of existing new states and the creation of new ones, pejoratively referred to as ‘Balkanisation’, stop? What sort of framework can best support cooperation among the countries of the region and what are the right policies for encouraging such cooperation?

The second set of questions relates to the relationship between the common goal of EU membership, on the one hand, and cooperation among the countries in the region, on the other. The EU perspective, as the goal of EU membership is often referred to, has been the main stimulus for regional cooperation so far. The EU is built on a foundation of regional cooperation. This experience led to awareness among its member states that political understanding and economic and social prosperity depended on close cooperation with neighbouring countries across the broadest possible range of areas. Achieving reconciliation through integration with neighbours was seen as an exercise that can be repeated among the countries of the region, most of which emerged in the previous decade amidst much bloodshed. Believing that cooperation is the

way to overcome hatred and divisions, and also maintaining that it is a vital for integration into European structures, the EU made regional cooperation a prerequisite for progress towards EU membership. Countries to be covered by this approach were referred to as countries of the Western Balkans region, which included, in fact, states affected by security concerns posed by Bosnia and Herzegovina and Kosovo. Moreover, the countries designated by this name, at the time when it was invented (towards the end of the 1990s), had no contractual relationship with the EU, which was another common denominator among them.

Since the Stabilisation and Association Process (of which regional cooperation among the countries included in it constitutes an important part) was established in 1999, regional countries have made considerable progress in terms of their goal of achieving EU membership – at different paces however. Croatia and Macedonia are presently candidate countries, Albania has signed and Montenegro initialled the Stabilisation and Association Agreement, while Bosnia and Herzegovina and Serbia are negotiating. Serbia's negotiations were restarted in June 2007, after being suspended for a year for lack of cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY), while the process of the European integration of Kosovo is taking place within the framework of the Stabilisation and Association Process 'tracking mechanism'. What does this 'variable geometry' mean for cooperation in the region? And, moreover, can one still apply the name 'region' to this group of states? Does the fact that some countries are more advanced in terms of their prospective accession to the EU imply less political pressure against regional cooperation at home? If yes, is less ill-will towards immediate neighbours, encouraged by the prospect of a more secure European future, enough to offset the fact that the region is 'withering away' as countries are integrating the EU at various speeds, with a growing gap between those that are well on the way to becoming EU member states and others that are not? And, most importantly, how secure, in view of the talk about 'absorption', 'integration capacity' and 'enlargement fatigue', is the European future of the countries covered by the Stabilisation and Association Process? Equally importantly, is it secure for all of them to the same extent?

As if previous sets of questions are not enough, there are also questions related to 'regional ownership' of the cooperation process, i.e. the willingness and ability of regional elites to identify

initiatives of common and mutual interest and translate them into common projects. While it is beyond doubt that the extra-regional environment, most importantly the EU, favours and facilitates cooperation via a range of mechanisms, to what extent is there a consensus among local actors on the importance of regional cooperation? If there is a consensus, is it accompanied by recognition of areas where cooperation would be beneficial and by readiness to engage in the exercise? Or is it the case that the elites merely do no less, but also no more, than the EU requires for the progress of each particular country towards membership? From this perspective, what are the chances and challenges that the Regional Cooperation Council, due to come into existence in 2008, will be facing? Can it contribute towards solving bilateral and multilateral problems and be a factor that can help keep regional countries united in their European goals? Can it encourage regional ownership of the cooperation processes and, if so, under which circumstances and what sort of leadership and structure?

It seems to be an opportune moment to ask these questions – the process of resolving the Kosovo issue is entering its final phase and the outcome is far from clear. Major Western powers, several dissenting voices in the EU notwithstanding, are backing the plan of the UN envoy for Kosovo, Martti Ahtisaari, proposing ‘supervised’ independence. Russia, on the other hand, is expected to oppose any deal that Serbia does not endorse – and Serbia has so far flatly rejected the Ahtisaari proposal. As a result, the issue can easily be postponed again, or a compromise may be reached to defer formal independence.

Elections in Serbia, which were to determine the government that will have to deal with the consequences of whatever decision is finally taken regarding Kosovo, were held in January. They may not have resulted in as many votes being cast for democratic parties as might have been hoped, but they brought enough for the democratic government to be formed. Despite this, Serbian pro-democracy parties spent nearly four months wrangling over governmental posts, especially for the control of the police and the security services. Opinions were, however, voiced¹ that the long delay could have also been attributed to politicians’ unwillingness to shoulder the burden of implementing a UN resolution on Kosovo’s independence. After a brief episode in which the leader of the extreme nationalist Radical Party was elected parliamentary speaker, a deal was finally struck and the new government was

1. See Aleksandar Vasovic, ‘Kosovo factor delays formation of Serbian government’, *Balkan Insight*, no. 80, April 2007.

sworn in, half an hour before the constitutional deadline expired. Just like a man who, after having complained about living in a small apartment, is advised to take in his entire extended family, starts expelling them one by one, and is only too happy to return to his initial situation, so too Serbian citizens and the EU were glad to see the old political elite, which only a week previously had looked so unpromising, back in power again. The possibility of reopening suspended talks with the EU without first arresting the Bosnian Serb wartime commander Ratko Mladic was also mooted.

Will the new government be stable enough to ensure that the reform process in Serbia becomes irreversible despite the coming challenges both within and outside the country? The five priorities the government has set for itself are: Kosovo; cooperation with the ICTY; EU integration; the economy, and the fight against corruption. Coming up with this list was maybe enough for the government to be formed, but its stability will depend on achieving substantial agreement on concrete steps to be taken to achieve those aims – including what steps are to be taken if some goals considered desirable are not to be achieved. It is, however, worth keeping in mind that the parties associated with the Milošević regime, which got 1.4 million votes in the January elections, are standing ready to exploit any sign of government weakness, incapacity to deliver or being ‘soft’ and ‘giving way’ on Kosovo.

Citizens of Kosovo were, on the other hand, promised independence by June 2006. Earlier this year, two people died and more than 80 were injured in clashes with the police, which occurred in demonstrations organised against the UN peace plan, perceived by some within Kosovo as offering too many concessions to the Serbian minority and to the government in Belgrade. At present, although some are sceptical about pledges that Kosovo’s status will be settled in the next few weeks, preparations are under way for desired future developments – recently, Kosovo’s President Sejdiu nominated a commission that will be tasked with drafting Kosovo’s constitution according to a UN plan that envisions internationally monitored independence for the territory. Prolonging the solution or maintaining the *status quo* is likely to lead to an escalation of tensions in the disputed territory and will, in the view of some (discussed in detail in Chapter Four), make the creation of conditions that will put Kosovo on the road to economic development difficult.

The countries of the region are divided. Albania is strongly backing the proposal drafted by the UN envoy as the best solution for Kosovo, Serbia and the region. The position of other countries is more delicate – Bosnia and Herzegovina, given the fraught relationship between its two entities, is hostage to stalled constitutional reforms, while FYROM, with a sizeable Albanian population, is going through a political crisis undermining its government, after the Albanian party threatened to leave the ruling coalition. Montenegro has only celebrated the first anniversary of its independence and would not be happy to see a souring of its relations with Serbia – or any other regional country – while Croatia, although the furthest ahead in the EU integration process, is still afraid that unfortunate developments in the region, of which the EU sees it as a part, may have negative repercussions on its accession.

Given the fact that the possibility of serious problems in the region cannot be entirely ruled out, this *Chaillot Paper* will try to provide a background against which both cooperation among the countries of the region and their integration in the EU, as major vectors of long term stabilisation, can be better understood but also effectively encouraged. In order to do so, the paper will first examine notions of the region, how it came into being, and explore the implications for cooperation and also what forms of cooperation in the region exist (Chapter Two). It will then turn to expectations of regional cooperation, trying to establish if they differ among external actors encouraging cooperation and regional actors taking part in it (Chapter Three). The most important parts of the study will be devoted to examining the realities of regional cooperation – Chapter Four will deal with the economic dimension and Chapter Five with cooperation in the political and security areas. These chapters will include an overview of cooperation achieved so far, but will also identify challenges and opportunities awaiting cooperation in the future. Finally, Chapter Five will draw together different lines of analysis and try to put forward recommendations aimed at making 2007, but also the years that come after, years of cooperation and integration in a region which has traditionally known little of either.

Is there such a thing as the Western Balkans region?

Being categorised as part of the Balkans has never been a prize for which the countries of the region cared too much, as the term has always had negative connotations: once known as ‘the European part of Turkey’,² its history is associated with political violence, ethnic conflicts and the fragmentation of states. This has inhibited a sense of belonging to a particular regional community, and hence also the development of any regional strategy. Different notions and formulations – South-East Europe, the ‘South-East Europe 5’ or ‘South-East Europe 7’, or the ‘Western Balkans’ – have developed partly to avoid these negative connotations, but have merely added to the confusion. This chapter therefore examines what might be said to constitute the region, and asks to what extent the region is indeed a reality to be reckoned with, or is merely a product of political engineering by external actors.³

The Balkans is the historic and geographic name used to denote the territory in southeast Europe south of the rivers Sava and Danube. It is often referred to as the ‘Balkan Peninsula’, as it is surrounded by water on three sides – the Black Sea to the East and branches of the Mediterranean to the South and West. Geographically, the countries belonging to the Balkans include Albania, Bosnia and Herzegovina (BiH), Bulgaria, Croatia, Greece, Macedonia, Montenegro and Serbia. Turkey, although it occupies a small part of the territory of the Balkans, is – geographically speaking – principally in Asia; while Moldova, which has close cultural and ethnic links with the Balkan peoples, is usually considered an ‘East European’ country.

The main outer geographical boundaries remain unchanged, yet the number of countries in the Balkans is constantly increasing. Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia were constituent parts of the Socialist Federal Republic of Yugoslavia, which disintegrated in 1991. Four new states

2. August Zeune, quoted in Predrag Simic, ‘Do the Balkans exist?’, in Dimitrios Triantaphyllou (ed.), ‘The Southern Balkans: Perspectives from the region’, *Chaillot Paper* no. 46 (Paris: EUISS, April 2001), p. 20.

3. See Othon Anastasakis and Vesna Bojicic-Dzelilovic, *Balkan Regional Cooperation and European Integration*, The Hellenic Observatory, The European Institute, The London School of Economics and Political Science (London: LSE, July 2002), p. 39.

were formed on its territory – Bosnia and Herzegovina, Croatia, Macedonia and the Federal Republic of Yugoslavia (FRY, comprising Serbia and Montenegro). After the NATO intervention in 1999, Kosovo, an autonomous province of Serbia, effectively became a UN protectorate and thus only nominally part of Serbia. In 2003, FRY was transformed into the State Union of Serbia and Montenegro, a loose union in which the two republics were nearly fully sovereign. After three years of the union's troubled existence, in May 2006 Montenegro held a referendum on independence that was followed by secession. Will this newest state in the Balkans (and Europe) be the last one to be formed in the region? The answer to this question depends on the outcome of the Kosovo status process.

The fragmentation into ever-smaller states for which the Balkans is famous threatens to continue, as representatives of the Republika Srpska frequently mention the possibility of a referendum that would enable this part of Bosnia and Herzegovina to join Serbia, while the idea of establishing closer ties with Croatia is dear to the hearts of Bosnian Croats. If fragmentation in the region continues, the stability of the former Yugoslav Republic of Macedonia (FYROM), brought about by the Ohrid Agreement in 2001, could easily be threatened. Radmila Sekerinska (former Macedonian deputy prime minister in charge of European integration), for one, believes it would be very risky to stake one's money on the claim that, after the status of Kosovo is resolved, attempts to create further new states will cease in the Balkans.

Although geography invites the conclusion that this is a coherent region, history suggests otherwise. Throughout history, this part of Europe was always incorporated into larger political entities: the Austro-Hungarian or Ottoman empires; the Soviet-era COMECON or the non-aligned movement; and later, the EU and NATO.⁴ Not only were the countries of the region incorporated into larger entities, they were divided between them and therefore were, for most of their history, the borderland between empires, religions and civilisations; or, most recently, between 'ins' and 'outs' of the EU and NATO. This has resulted in division of the region along multiple lines of cleavage – religion, nationality, cultural heritage, politico-economic system and level of economic development.

4. *Ibid.*

The beginning of the nineteenth century saw the development of national programmes by most Balkan peoples, each of which emphasised the idea of an ethnic or ‘Greater’ nation-state that rested on claims to historical or national rights, and inspired wars of liberation and national revolutions. These brought into conflict not only the various national projects but also the Great Powers, which tried to prevent any of them from establishing ethnic borders or attaining hegemony. Interrupted by periods of peace, the longest of which was the Cold War period, during which the situation in the Balkans was frozen, conflicts continued throughout the twentieth century. As a result, a total of seven wars took place in the Balkans during the twentieth century – the First and Second Balkan Wars, the First World War, the Greco-Turkish War, the Second World War, the Civil War in Greece and the series of wars of Yugoslav succession in the 1990s.⁵

Such a history prevented the region from developing into a more homogeneous and independent economic and political entity, and meant that the term ‘Balkans’ is still today indelibly linked with violence, religious strife and ethnic cleansing. As a result, a regional identity resting on some shared assumptions and understandings of regional, extra-regional and international realities has never developed. An extensive survey conducted in 2001 among policy-makers and policy-influencers in the Balkan countries confirms that a shared notion of the region of South East Europe (SEE) or the Balkans does not exist.⁶ The survey found little agreement among the interviewees when asked to identify the countries making up the region. Considerations such as historical heritage, levels of political and economic development, and the degree of integration with the EU proved to have an important influence on where the borders of the region were drawn, and the notion of the region varies from country to country. In other words, differences matter more than similarities, as demonstrated by a comment posted at the website of the Belgrade-based B92 radio station, which described the region as ‘a group of countries sharing space without sharing time’.⁷

Both geography and history are important determinants of the level of economic integration among countries, because of the trading relationships that are connected with geography and the regional trading patterns that are the legacy of history, as Vladimir Gligorov puts it.⁸ Being geographically close should induce countries to engage in trade among themselves (trade creation), while

5. Predrag Simic, *op. cit.* in note 2, p. 21.

6. Anastasakis and Bojicic-Dzelilovic, *op. cit.* in note 3, p. 39.

7. See: <http://blog.b92.net/node/1764>.

8. Vladimir Gligorov, ‘Trade and Investment in the Balkans’, in Vladimir Gligorov and Hermine Vidovic, ‘On the Way to Normality – The States on the Territory of Former Yugoslavia in the Postwar Period’, WIIW Paper no. 250, October 1978, pp. 1-7. See: www.wiwi.ac.at/balkans/files/gligorov.pdf.

shared history, by leading to a regional identity and a consensual notion of the region, should encourage countries to trade with regional countries rather than with countries external to the region (trade diversion). Yet, looking at the level of trade and investment in the region in 1998, Gligorov found that instead of diverting trade to the region, history had discouraged the Balkan countries from engaging in regional trade exercises, thus preventing them from exploiting geographical proximity as a means of achieving increasing benefits from intra-regional trade. This led him to question not only whether the region exists at all in terms of trade and economic integration, but also whether a region will develop here in the future. Although this study was conducted during the bleak decade of the 1990s, its thesis is confirmed by Milica Uvalic, who demonstrates that even in 1989, thus *before* the wars and the disruption of trade and investment occurred, the shares of mutual trade among the SEE countries were very low,⁹ and the SEE region in 1989 was not at all economically integrated. Although the SFRY was the most integrated part of the region, subregional autarky and fragmentation of the Yugoslav market had been growing since the mid-1970s.¹⁰ This led her to conclude that there were, in fact, two subregions: the first, economically relatively integrated, encompassing the six republics of the former Yugoslavia; and the second, with weak mutual trade links, consisting of Albania, Bulgaria and Romania. Trade flows between the two subregions were negligible.

In a situation where there is no shared notion of the region but only various, often contradictory, notions held by the respective regional countries themselves, what constitutes the 'region' is frequently defined from the outside. Most recently, this task was assigned to the EU, which, by virtue of its power of attraction and hence power to promote certain norms of appropriate state behaviour, became perceived as the actor best able to bring stability to this traditionally unstable region.¹¹ Even the EU, however, took some time to develop its idea of the region.

When the former Eastern bloc broke up, three main groups of countries emerged, as Simic argues.¹² The first, to the east of the continent, consisted of the countries that emerged from the former Soviet Union, vaguely organised as the Commonwealth of Independent States (CIS). The second denoted the central and east European countries (CEECs), which successfully embarked on political and economic transition and on the road towards EU

9. Milica Uvalic, 'Trade Liberalisation in Southeast Europe – Recent Trends and some Policy Implications', paper presented at the UN-ECE Spring Seminar 2005, p. 5. In the case of Bulgaria, 13.4% of its exports went to, and 6.5% of its imports came from, the two other major SEE countries, Romania and SFRY. For the other SEE countries regional trade at that time was even less important, so the share of the three SEE countries in Romania's exports and imports in 1989 amounted to only 3.2% and 4.4% respectively.

10. Throughout most of the 1970-1989 period, for all Yugoslav republics 'exports' to the other republics within the SFRY were more important than exports abroad. See Milica Uvalic, *op. cit.*, pp. 5-6.

11. Dimitar Bechev, 'Carrots, sticks and norms: the EU and regional cooperation in Southeast Europe', *Journal of Southern Europe and the Balkans*, vol. 8, no. 1, April 2006, p. 28.

12. Predrag Simic, *op. cit.* in note 2, p. 18.

accession. The third group, the countries of southeast Europe, was very heterogeneous and burdened with underdevelopment, ethnic conflicts and the deleterious consequences of the break-up of the former Yugoslavia. A glance at the 'Role of the Union in the World' section in the Official Bulletin of the EU reveals that the same logic was followed by the EU prior to 1996. The newly-independent States of the former Soviet Union (Belarus, Moldova, Uzbekistan, Russia, Ukraine etc) were grouped together with Mongolia, their relations with the EU taking place within the framework of the Partnership and Cooperation Agreements. The CEECs (Bulgaria, Romania, Poland, the Czech Republic, Slovakia, the Baltic republics and Slovenia) were another group, whose relations with the EU were defined by the Europe Agreements and Accession Partnerships. The third group, which included the Balkan or South East European countries, was categorised under the heading 'Mediterranean and Middle East', more specifically 'Northern Mediterranean', where the countries of the former Yugoslavia, except Slovenia, were clustered with Albania, Malta, Cyprus and Turkey – a very heterogeneous group. The former Yugoslav countries and Albania had no contractual relations with the EU; Cyprus and Malta were included in the accession process that resulted in the 2004 enlargement; while Turkey had signed an Association Agreement with the EU (which referred to the possibility of membership) back in 1963.

However, once the Bosnian war was brought to an end, the rationale for defining a new regional grouping emerged. It was clear that the new Dayton constitutional framework for BiH was dependent on the relationship between Sarajevo, Belgrade and Zagreb. Albania and Macedonia were added to this core group because stabilisation efforts could hardly be successful if those two countries were not included, due to the existence of a sizeable Albanian population within the Yugoslav province of Kosovo and also in Western Macedonia.¹³ Although the new region of the 'Western Balkans' was baptised in 1999, it had in fact come into existence by 1996, being referred to in EU sources variously as 'certain countries of South East Europe', or 'countries of the region for which the European Community has not adopted directives for the negotiation of association agreement' or 'Bosnia and Herzegovina and the immediately adjacent area'. Only after the Stabilisation and Association Process (SAP) was adopted in 1999 did the term 'Western Balkans' become customary. It was the same

13. Dimitar Bechev, *op. cit.* in note 11, p. 32.

old Balkans minus the south (Greece) and the east (Romania and Bulgaria). This study will use the term ‘Western Balkans’ to denote Albania, Croatia, BiH, Macedonia, Montenegro and Serbia (including Kosovo according to UNSCR 1244), while ‘South East Europe’ will be used to denote the Western Balkans six plus Bulgaria and Romania. The exclusion of Greece, Bulgaria and Romania did not occur for geographic, historical, cultural or other reasons, but for the simple fact that Greece had been an EU member since 1981, while Bulgaria and Romania, having been relatively stable during the turmoil in the Western Balkans that occurred in the 1990s, were much more advanced on the road towards membership of the EU.

The relationship of the countries towards the EU thus became the main defining criterion of the Western Balkans region – it consisted of the countries that were not expected immediately to join the EU and so remained, as François Heisbourg has put it, ‘a major piece of unfinished business’ for the EU.¹⁴ The high importance attached by external actors to the stability of the region seems to have driven the political engineering that defined the region and in which the regional countries had very little say. Or, in the words of Dusko Lopandic (Serbian Assistant Minister for International Economic Relations), external actors, not historical or other objective factors, are the key – the region is what the EU defines as such.¹⁵

Which cooperation?

This section will look at major forms of regional cooperation that developed in SEE after the end of the Cold War.¹⁶ Just as the region itself was defined by external actors, initiatives for regional cooperation also originated predominantly from outside, championed by such actors as the EU, NATO, the US and the international financial institutions (IFIs), who were interested in the political and economic stability of the region and whose initiatives often ran in parallel to each other, or overlapped, were poorly funded and lacking in clear and attractive incentives.

14. François Heisbourg, ‘The Balkans: Europe’s Unfinished Business’, in *International Herald Tribune*, 15 April 2005, p. 6.

15. Interview with Dusko Lopandic, Serbian Assistant Minister for International Economic Relations, 11 August 2006, Belgrade.

16. For a detailed overview of initiatives for multilateral cooperation in the Balkans in the period from the First World War to the end of the bipolar era, see Dusko Lopandic, *Regional Initiatives in South Eastern Europe* (Belgrade: European Movement in Serbia, 2001), pp. 35-55.

Cooperation initiatives aimed primarily at the Western Balkans

It was only after the war in BiH ended that initiatives for regional cooperation started emerging. The logic behind them was simple – if the Dayton Peace Agreement was to work, cooperation between Belgrade, Zagreb and Sarajevo was necessary. A new system of relations among the former warring parties, and in the Balkans as a whole, needed to be developed. The first such initiative was launched by the French, and subsequently adopted by the EU: the Royaumont Process for Stability and Good Neighbourliness in South East Europe, which brought together the then five Western Balkan countries, Bulgaria, Hungary, Romania, Slovenia and Turkey, the EU 15, the US, the Russian Federation, the Council of Europe and the OSCE.¹⁷ The process was designed to prepare, select and finance projects that would consolidate stability and ensure good neighbourliness in the region. Until it was incorporated into the Stability Pact, the Royaumont Process involved strengthening inter-parliamentary activities, organising seminars and conferences as well as NGO meetings and was, as Lopandic notes, a low-profile initiative without serious implementation.¹⁸

Also in 1996, the Southeast European Cooperative Initiative (SECI) was launched, aimed at supporting the Dayton peace accord implementation. The only US initiative so far, SECI concentrated almost exclusively on economic cooperation and reconstruction of the region, mostly through private funding, in the fields of infrastructure, trade, transport, energy, the environment and private sector development, avoiding issues of a political, social or ethnic nature that would overlap with other existing political and security initiatives. According to both Lopandic and the work of Othon Anastasakis and Vesna Bojicic-Dzelilovic, SECI scores better than the Royaumont Process as it has been more focused and pragmatic, and has produced some practical achievements in issues like cross-border cooperation or the fight against trans-border crime.

In parallel to various externally promoted organisations, the post-Dayton period saw the revival of intergovernmental dialogue, which had originated back in the 1980s, among the southeast European countries. Thanks to a joint Greek and Bulgarian initiative, a Balkan foreign ministers' meeting was held in Sofia in 1996, followed by the first summit of Balkan states in 1997 in Crete. Important subsequent milestones were the Attalya Summit

17. European Commission, Bull. EU (Bulletin of the European Union), 1/2-1996, Brussels, January/February 1996.

18. Dusko Lopandic, *op. cit.* in note 16, p. 28.

in 1998, when agreement on the establishment of the Regional Centre for the Promotion of Trade was reached; and the Bucharest Summit in 2000, when the Charter on Good Neighbourly Relations, Stability, Security and Cooperation in South East Europe was signed. This launched the South East European Cooperation Process (SEECP), a genuine Balkan cooperation forum in which only countries of the region participate (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Moldova, Montenegro, Romania, Serbia, Turkey). SEECP focuses on political cooperation and dialogue, covering a wide range of issues from security, economic cooperation, humanitarian, social and cultural cooperation as well as cooperation in the fields of justice and home affairs.

Although some are of the opinion that SEECP has not had a significant impact, and criticise it for operating mostly at the level of rather vague and generalised declarations, it remains the only initiative generated from within the region that was not a product of direct outside pressure. The very fact that the countries of the region regularly come together at the highest political level shows the importance the countries themselves attach to this forum.¹⁹ However, not all of them would subscribe to the maximalist vision of cooperation, as outlined on the website of the Greek Ministry of Foreign Affairs (Greece presided over SEECP until May 2006), according to which 'solutions to the problems of the region should emanate from the countries of the region'.²⁰ Others, such as the Romanian former Foreign Minister Mircea Geoana, seem to have advocated rather more limited aims such as improving the Balkans' external image or 'rebranding' the region.²¹

As an attempt by neighbouring states to cultivate their relations in a friendly manner, SEECP has, in the view of Goran Svilanovic, former FRY foreign minister, contributed a lot to improved overall relations among the countries of the region; and it has come to be recognised by the EU as 'the voice of the region', as noted in the General Affairs Council (GAC) Conclusions of 19 November 2001. This prompted the EU to establish an Informal Consultative Committee or Troika, bringing together representatives of the European Commission, the Stability Pact and SEECP to ensure synergy with regional initiatives. In view of the future reshaping of the activities of the Stability Pact (which will be discussed in detail below) and the transfer of its responsibilities to the region, SEECP is well placed to broaden its role – provided it

19. See Final Report of the Senior Review Group on the Stability Pact for South Eastern Europe, 2006, p. 3.

20. See: <http://old.mfa.gr/seeep/seeep.html>.

21. Mircea Geoana, quoted in Dimitar Bechev, *op. cit.* in note 11, p. 42.

undergoes a substantial institutional reform, which establishes institutional structures and enhances its operational capacities.

The Kosovo crisis of 1998-1999, which culminated in the NATO intervention in FRY in 1999, demonstrated the limits of the then existing initiatives for regional cooperation. SEECP found itself divided during the crisis, with FRY opposing the SEECP declaration on the issue, and subsequently being excluded from SEECP in June 1999 (with a promise that it would be re-admitted in the event of a regime change). While the war in Kosovo raged, German foreign minister Joschka Fischer launched a post-war initiative on a 'Stability Pact for South Eastern Europe', supported by the Council of the European Union.²² The Stability Pact (SP) was meant to contribute to overcoming the chronic instability and frequent local conflicts in the Balkans, to foster regional co-operation and to support the Euro-Atlantic integration of the regional countries. Although put together in a rather hasty manner, the SP was welcomed in the region, which saw it as a new opportunity for forging political links with the West and attracting much needed funding to cope with the costly consequences of conflict and the region's troubled transition.

The SP, formally placed under the auspices of the OSCE, was established as a new scheme for intergovernmental cooperation between twenty-eight countries and a range of international organisations. Partners from the region are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, Macedonia, Romania and Serbia.²³ Its principal forum is the Regional Table, which includes all of the governments and international organisations participating in the SP and is chaired by a Special Coordinator. In addition, there are three Working Tables: on democratisation and human rights; economic reconstruction, development and cooperation; and security issues. The European Commission assumed a leading role in the Working Table II, dealing with policy areas such as trade facilitation and liberalisation, infrastructure development, energy and social cohesion; while it shares with the World Bank the responsibility of coordinating economic assistance to the region. In the beginning, the SP was perceived in the region as a channel for a dramatic injection of international aid, and hence as the answer to all of the most pressing problems of South East Europe. In the event, it turned out to be a loose coordinating structure presiding over a range of existing international efforts. With the appointment of Erhard Busek as

22. The Stability Pact for South Eastern Europe is not to be confused with the 1994-1995 Pact for Stability in Europe, the aim of which was to encourage the CEECs to reach bilateral good-neighbour agreements on borders and the treatment of minorities. For more, see Karen Smith, 'The Evolution and Application of EU Membership Conditionality', in Marise Cremona (ed.), *The Enlargement of the European Union* (Oxford: Oxford University Press, 2003), pp. 118-19.

23. Other partners included the EU member states and the Commission, Canada, Japan, Norway, the Council of Europe, UNHCR, NATO, OECD, the World Bank, the IMF, the EBRD, the EIB and the CEB, as well as regional initiatives – BSEC, CEI, SECI and SEECP.

Special Coordinator in 2002, the SP was scaled down, its priorities were streamlined and it became much more closely associated with EU policy in the region.²⁴

Seven years later, the SP has important achievements of which it can be proud, despite having been the object of some early criticism and dissatisfaction,²⁵ and the fact that some of the high expectations of the early years could not be met. Most importantly, regional stabilisation has certainly been achieved to the extent to which the SP was able to support it, and the concept of regional cooperation is now firmly embedded in the region at all levels of government and society. The functioning of the SP has largely complemented EU and NATO policy endeavours in the region, thus helping countries of the region move towards their most cherished goals – European and Euro-Atlantic integration.

The time has come, however, to change the approach to cooperation in the region and to start emphasising long-term sustainability of established cooperation processes by enhancing regional commitment and ownership, and to support the countries of the region on their path towards European and Euro-Atlantic integration. After careful consideration, of which the 2006 *Final Report of the Senior Review Group on the Stability Pact* constituted an important part, a Regional Cooperation Council (RCC) has been agreed on. This will guide the phased evolution of the current SP structure into a more focused and streamlined regional set-up, increasingly owned by the countries of the region. The RCC should be able to support the whole region on its path towards EU integration, with the option (preferred, for example, by Goran Svilanovic) of eventually becoming the EU's 'SEE Dimension', similarly to the existing Northern Dimension. This would provide a framework for cooperation between SEE countries even after all or most countries are EU members.

The current close cooperation between the SP and the SEECP could either continue as now on an informal basis, or preferably it could develop into a more formal link. There are, however, important differences in the respective memberships: Greece and Turkey are members of the SEECP, but not of the SP. Although an understanding prevailed that the RCC should comprise all SEECP countries, the decision has formally been taken only at the Regional Table of the Stability Pact in Zagreb. Such a decision was not explicitly advocated by the Senior Report Group. The reason was simple: if Turkey comes in, being bigger than any other member, it

24. See Dimitar Bechev, op. cit. in note 11, p. 38.

25. See 'Democracy, Security and the Future of the Stability Pact for South Eastern Europe: A Framework for Debate', East West Institute in partnership with the European Stability Initiative, 2001, pp.6=7; Dusko Lopandic, op. cit. in note 16, p. 156; Dimitar Bechev, op. cit., p. 38.

would absorb the lion's share of the resources dedicated to the region. As for areas for cooperation, these have been carefully chosen so as not to overlap with other initiatives and not to overburden the limited administrative capacities of the countries of the region, while at the same time being in line with overall EU priorities for the accession process, including economic and social development, infrastructure, justice and home affairs, security cooperation and building human capital.

Cooperation of some Western Balkans countries with neighbouring regions

Many of the Balkan countries can be considered to belong to other regions as well – something which they may even desire if, due to the reasons concerning the aforementioned negative connotations, they prefer not to be primarily associated with the Balkans. Some Balkan countries belong also to Central Europe, the Mediterranean or the Black Sea regions. In this sense, the Balkans are, to quote Vladimir Gligorov, a 'region of overlapping regions'.²⁶ Therefore, regional initiatives in the neighbourhood are also of great importance and need to be examined. Most of these initiatives were launched in the period 1988-1992, and were driven by the disintegration of the Soviet bloc, particularly of the Council for Mutual Economic Aid (COMECON) on the one hand, and the need for new forms of inter-state cooperation channelled towards integration with the EU, on the other.²⁷

The *Central European Initiative* (CEI) was launched in 1989 on the basis of an Italian proposal by Italy, SFRY, Austria and Hungary, to be joined later by Czechoslovakia and Poland and to expand by 1997 as far eastwards as Belarus and Moldova. It is a body of international cooperation whose strategic function is to contribute to the economic development of central Europe, broaden opportunities for dialogue over the whole area and prepare non-EU members of the CEI for future membership of the Union. The *Black Sea Economic Cooperation* (BSEC), initiated by Turkey in cooperation with Russia in 1992 and including Albania, Bulgaria, Greece, Romania and Serbia as Balkan members, aims to foster interaction, stability and prosperity as well as good neighbourly relations in the Black Sea region. The *Adriatic-Ionian Initiative* (AII) is a forum for debate and cooperation, which brings together the Adriatic and Ionian coastal countries (Albania, BiH,

26. Vladimir Gligorov, op. cit. in note 8, p. 2.

27. Dusko Lopandic, op. cit. in note 16, p. 25.

Croatia, Greece, Italy, Montenegro, Slovenia and Serbia), with the aim of fostering cooperation in the economy and tourism, sustainable development and environmental protection, education and culture and combating organised crime.

The *Central European Free Trade Agreement* (CEFTA) was established in 1992 by Hungary, Czechoslovakia and Poland. As the same countries formed the so-called *Visegrad Group* in 1991, CEFTA originally represented the economic component of the Group. The goal of the members was to develop political and economic cooperation on the way to NATO and EU membership. In this vein, CEFTA was designed to liberalise trade flows in the region. The key conditions for joining CEFTA are membership in the World Trade Organisation (WTO) and the conclusion of an association agreement with the EU. While the door of the Visegrad Group remained closed to other CEECs (as they were not perceived to be as far advanced in transition as the Group members), CEFTA slowly drew new members in: Slovenia (1996), Romania (1997), Bulgaria (1999), Croatia (2003) and Macedonia (2006). However, most of CEFTA's members (Poland, Hungary, the Czech Republic, Slovakia, Slovenia) left the organisation in 2004, when they joined the EU, followed by Bulgaria and Romania in 2007.

The original CEFTA agreement eliminated duties on approximately 40% of industrial goods. Through a series of additional protocols, mostly signed in 1994 and 1995, trade in industrial goods and some agricultural products was further liberalised. By 1997, CEFTA had abolished duties on all industrial goods, apart from a minor list of sensitive goods. According to the gravity model developed by Adam, Kosma and McHugh, it had a positive effect on regional bilateral trade.²⁸ Furthermore, intraregional trade increased and complemented the rapid increase in trade with the EU. Yet despite the success in promoting regional trade, the EU remained the dominant trading partner for the CEECs – thus inviting the conclusion that the agreement had only a limited effect on reducing the CEECs' dependence on the EU.

EU regional initiatives in the Balkans

During the late 1980s and early 1990s, the European Union did not develop a specific policy towards South East Europe but tried to apply policy originally designed for the Central and East European countries. However, the wars that kept exploding on the territory of

28. See Antonis Adam, Theodora Kosma and James McHugh, 'Trade Liberalization Strategies: What Could South Eastern Europe Learn from CEFTA and BFTA?', *IMF Working Paper* no. 03/239, 2003.

the former Yugoslavia and the EU's failed efforts to put out fires in particular countries clearly demonstrated the extent to which the achievement of lasting stability required a distinctive, coherent approach that would provide a regional context for what was clearly a regional problem. This section will examine how the EU developed tools for influencing politics within and among the Western Balkan states. Learning how to exploit the prospect of EU membership to encourage regional cooperation was an important part of that process.

Although the EU approach towards the CEECs was essentially bilateral, there was an understanding that parts of membership conditionality required interstate cooperation. With the initial aim of preventing countries with unsettled border issues or minority conflicts from joining the EU, the 1993-1995 Pact for Stability (or the Balladur Pact, as it came to be called after the then French Prime Minister who proposed it) proved to be a powerful incentive for CEECs to reach bilateral 'good-neighbourly' agreements on borders and the treatment of minorities. From then on, 'good neighbourliness' started featuring as an addition to the three basic Copenhagen criteria and was meant, more than anything else, to prevent the enlargement from 'importing foreign policy problems into the EU'.²⁹ Regional cooperation was thus viewed positively and encouraged but was never made a precondition for progress towards the EU; and regional cooperation efforts did not displace the centrality of the EU integration goal, nor the dominant bilateral pattern of relations between the EU and each of the CEECs. The CEECs showed little enthusiasm when Brussels tried to organise them into multilateral talks, fearing that this might either result in the pace of EU integration being set by the laggards, or might prove to be a tactic for delaying membership.³⁰

Western Balkan countries were treated rather differently. In 1996, the EU developed the foundations of what came to be known as its 'regional approach'. In its 1996 *Report to the Council and Parliament*,³¹ the European Commission defined the objectives, conditions and principles to be applied to relations between the EU and 'those countries of the region for which the European Community has not adopted directives for the negotiation of association agreement', which boiled down to Albania and countries of the former Yugoslavia except Slovenia. The EU approach was intended to be part of a gradual consolidation of peace. Therefore the agreements with each of the countries concerned were to

29. See Karen Smith, *op. cit.* in note 22, pp. 118-19.

30. See Dimitar Bechev, *op. cit.* in note 11, p. 30.

31. European Commission, 'Commission communication to the Council and Parliament on common principles for future contractual relations with certain countries in south-eastern Europe', COM (96) 476 final, Brussels, 1996.

be designed to offer a substantial incentive to political stability and as an instrument for economic development and cooperation between them, between those countries and other neighbours, and with the European Union. While being consistent, agreements had to take account of the special nature of each country's individual situation. Their conclusion was to depend on the willingness of the countries concerned to work towards consolidating peace and to respect human rights, the rights of minorities and democratic principles and, in particular, on their readiness to cooperate with neighbours.

How all this was going to work was further clarified in April 1997, when the Council adopted principles of conditionality that were to govern the development of the EU's relations with 'certain countries of South East Europe' (Bulletin of the European Union, no. 4-1997). The rationale was simple – progressive implementation of conditions, some of which were to apply to all countries and some (like those relating to obligations arising under the peace agreements) were to apply only to certain countries, would lead to progressive improvement of relations with the EU. While trade preferences, financial assistance and the establishment of contractual relations were to be subject to different degrees of conditionality, the readiness of each country to engage in cross-border cooperation was to be monitored at all stages of the development of relations.

By making regional cooperation a prerequisite for integration, the EU went further than in the case of the CEECs, where cooperation was merely encouraged. For the Western Balkans countries, cooperation was made compulsory. Although the aim of the EU's regional approach was to foster regional cooperation, conditionality was applied to countries on a case-by-case basis, which tended to result in fragmentation. So, for example, when FRY, Croatia and BiH failed to meet the condition of satisfactory compliance with the International Criminal Tribunal for the former Yugoslavia (ICTY), this resulted in their lagging behind in the EU integration process and, in the case of FRY and Croatia, penalties were imposed.³² Macedonia and Albania, however, scored better in complying with EU conditions, so both received trade preferences and aid through the EU's PHARE programme, although the weakness of their states and the backwardness of their economies prevented them from moving much faster than the previous three. Croatia, in particular, was acutely aware of its own greater capacity to advance faster than any of the rest towards EU membership,

32. See Milada Anna Vachudova, 'Strategies for Democratization and European Integration in the Balkans', in Marise Cremona (ed.), *The Enlargement of the European Union* (Oxford: Oxford University Press), p. 148.

and so was particularly critical of the EU's regional approach. It made strenuous efforts to distance itself as far as possible from the Western Balkans region, even attempting to rebrand itself (as Slovenia had done before) as 'Central European' rather than 'Balkan'.³³ Thus the EU's efforts at fostering regional cooperation could themselves prove a source of tension and division.

In May 1999, while the war in Kosovo was going on, the European Commission presented the rationale for moving towards a more ambitious vision for the region's development. The Stabilisation and Association Process (SAP), as the new approach was called, was intended to help the region secure political and economic stabilisation while also developing a closer association with the EU.³⁴ The SAP contained three promises. The first was the promise of economic and financial assistance. Initially, that was to be achieved through the PHARE and Obnova programmes, and, from 2001, through the CARDS programme, as well as through financial aid and balance of payments support. The second promise was to liberalise trade between the EU and the SAP countries, which led to autonomous trade measures in 2000 (renewed in 2005), allowing duty-free access to the EU market for practically all products originating from the region. And the third, most important, promise was that of eventual EU membership, embodied in the Stabilisation and Association Agreements (SAAs), which were to be concluded once the EU's conditionality was met. Regarded as the centrepiece of the SAP, SAAs were, once signed, to be considered the first formal step in the EU's accession process, to be followed eventually by candidacy and the opening of negotiations for full membership.

Building on the regional approach, the SAP recognised the importance of a credible prospect of EU membership as the main incentive for reform and further underlined the need for the countries to engage in regional cooperation, which would bring greater economic and political stability to the region, and so promote faster integration to the EU. It was stressed, however, that no country should suffer as a result of another state's lack of commitment or refusal to cooperate, thus implying that the specific situation of each country would be taken into account.

Just as 1989 was the *annus mirabilis* for the CEECs, so 2000 proved to be for the Western Balkan countries, as electorates first in Croatia and then Serbia ousted their nationalist governments and brought to power broad coalitions of parties committed to

33. See Romana Vlahutin, 'The Croatian Exception', in Judy Batt (ed.) 'The Western Balkans: moving on', *Chaillot Paper* no. 70 (Paris: EUISS, October 2004).

34. See 'Communication to the Council and European Parliament on the Stabilisation and Association Process for countries of South Eastern Europe', COM (99)235, Brussels, May 1999.

democratisation, market reforms and EU membership. The significance of these changes went far beyond the countries concerned, as governments committed to democracy, the market economy and EU integration were now in place in all regional countries. Under these circumstances, the potential of the SAP could be exploited to the full. At the Zagreb summit in November 2000, after the changes had taken place in both Croatia and Serbia, the countries of the region (by then routinely referred to as the Western Balkans) agreed to a clear set of objectives and conditions in return for the EU's offers of the prospect of accession and assistance programmes to support that ambition. Regional cooperation was an important part of that deal.

While regional cooperation was slowly progressing once the SEE countries had thrown their political support behind the project, the different countries advanced at an uneven pace towards EU integration. By the end of 2001, only FYROM (in March) and Croatia (in July) had concluded SAAs with the EU. For the FRY, opening SAA negotiations was conditional on further democratic and economic reforms (including satisfactory compliance with the ICTY) and on renegotiating the relationship between Serbia and Montenegro as constituent parts of the federation. Albania was on the threshold of negotiating an SAA, while BiH could not, at that time, even be considered a self-sustaining state.³⁵

Aiming to strengthen reform efforts in all the countries of the region, front-runners and laggards alike, the EU-Western Balkans Summit in Thessaloniki in 2003 reinforced the European perspective of the Western Balkans and introduced new instruments into the SAP, which were inspired by the pre-accession process of the CEECs.³⁶ Reiterating that 'the future of the Western Balkans is within the EU', the Thessaloniki summit stressed that the pace of further movement of the regional countries towards the EU was in their own hands and would depend on each country's performance in implementing reforms and respecting the Copenhagen criteria and the SAP conditionality. The centrality of the regional approach was underlined, but the principles of 'own merits' and 'catching up' also featured prominently.³⁷

Striking the balance between the regional approach and bilateralism proved to be difficult – ever more so as Croatia and, to a lesser extent, Macedonia progressed faster than the others. In December 2004, Croatia became the first Western Balkan country to become a candidate for EU membership, at the time that Alba-

35. See the First Annual Report on the Stabilisation and Association process for SEE.

36. See Communication of the European Commission, 'The Western Balkans on the road to the EU: consolidating stability and raising prosperity', Brussels, 27 January 2006, for the detailed overview of new instruments and next steps.

37. See Council Conclusions of 16 June 2003 for details.

nia was still negotiating its SAA, while BiH and the State Union of Serbia and Montenegro had not yet begun negotiations but were still waiting for a positive Feasibility Study from the Commission that would attest to their readiness to open SAA negotiations. By the start of 2007, all countries had made important steps forward, but the gaps between them remained wide. The EU agreed in October 2005 to open accession negotiations with Croatia, which began in June 2006. Macedonia's membership application was accepted in November 2005, but accession negotiations will not be initiated until a number of further conditions have been met. After three years of often fitful progress, Albania signed its SAA in June 2006. SAA negotiations finally opened with BiH in November 2005, and progressed well from a technical point of view, but the conclusion of an SAA is dependent on overall progress in addressing key priorities, notably police reform, ICTY cooperation, public broadcasting and public administration. The State Union of Serbia and Montenegro also began SAA negotiations in October 2005, but these were put 'on hold' in May 2006, when Serbia failed to meet its promise to deliver indicted war criminals to the ICTY. After Montenegro decided by referendum on 21 May to leave the State Union, the EU resumed SAA negotiations with the new state under a new mandate and Montenegro's SAA was initialled in March 2007. After the formation of the new Serbian government and its first steps aimed at cooperating with the ICTY, most importantly the arrest of Zdravko Tolimir, considered to be a chief ally of the Bosnian Serbs' wartime commander Ratko Mladic, resulting in a positive report from the Chief Prosecutor of the Tribunal, Carla Del Ponte, SAA talks were restarted in June. However, signing the agreement and acquiring candidate status will remain conditional on full cooperation with the ICTY. Kosovo is included in the Stabilisation and Association Process through the SAP Tracking Mechanism, which was established in November 2002 as a forum for dialogue between Kosovo and the European Union and to ensure that Kosovo benefits fully from the various instruments of the SAP.

Assessing the achieved progress and looking forward to the coming challenges, in February 2006 the Commission presented a Communication to the Council entitled *The Western Balkans on the road to the EU: consolidating stability and raising prosperity*. The document, endorsed at the informal meeting of the EU foreign ministers in March 2006, has two main aims. The first is to reaffirm

the EU's commitment to the region, which seemed to wane somewhat after French and Dutch voters rejected the draft EU constitution amidst rising anti-enlargement rhetoric. Second, it proposes ways and means to strengthen the EU's efforts in SEE. On both counts, it was deemed insufficient by the region – firstly, the European perspective of all countries of the Western Balkans was not perceived to be as clear as the one offered at the Thessaloniki summit while secondly, it was questioned whether benefits it offered were adequate to meet the challenges awaiting the region in 2006.³⁸

Summarising a decade of EU efforts to provide an appropriate policy framework for the Western Balkan countries, it would be fair to agree with Milada Vachudova that the EU did succeed in developing better, more suitable tools for influencing politics in the region, aided by the fact that domestic conditions, after democratic changes in Croatia and Serbia in 2000, became more conducive to EU influence.³⁹ The trigger for the development of those instruments was undoubtedly the need to stabilise the region. This is clearly demonstrated by the fact that the launch of the most important EU regional initiatives coincided with either peace (the 'regional approach' developed after Dayton) or war (the SAP developed during the Kosovo war) in the Western Balkans. Moreover, the region itself was defined as a nexus involving two security problems – Bosnia and Herzegovina, involving Serbia and Croatia, and Kosovo, involving Serbia, Albania and Macedonia.

Once basic stabilisation was achieved, the development of relations with the EU took precedence. The result has been somewhat perverse – the Western Balkans region, itself created by grouping the states that lagged behind in the EU integration process, is constantly subject to fracture as certain regional countries progress faster towards the EU. The attractive power of the EU is so strong, as Dusko Lopandic says, as to be a cause of fragmentation in the region. So, many have argued, the heterogeneity of national transition processes and, therefore, of the level of bilateral relations with the EU, driven by conditionality, creates asymmetries and tensions that threaten to undermine regional cohesion. Thus stabilisation of the region and its integration in the EU, while meant to be parts of the same package, seem also to entail a contradictory logic: while for stabilisation, the regional dimension is crucial, integration – even within the regional framework – is an essentially bilateral exercise.

38. Milica Djilas, 'Communicating the Future', *Transitions Online*, 24 February 2006.

39. Milada Vachudova, *op. cit.* in note 32, p. 143.

Nevertheless, this dilemma may prove to be more apparent than real. For example, there are signs that Croatia, having gathered confidence and feeling more secure now that it is firmly embarked on the path to accession, might become more interested in developing its role in the region and more ready to engage constructively with its neighbours. Now that it can afford to no longer feel penalised by its regional ties, which in the past led it to be the most critical of and resistant to the EU's regional approach, it might be willing to devote more attention to engagement with the region as a matter of its own self-interest (for example, in trade and economic cooperation) as well as being a way of demonstrating to the EU that it has useful assets to contribute to the EU's overall goals of regional stabilisation (in terms of local knowledge and established contacts in the region). On the other hand, it is also noteworthy that whenever a country has been 'promoted' forward on the EU path, the response of its regional neighbours has been unambiguously positive and welcoming. The laggards seem to take courage from, rather than resent, rewards given to the 'front-runners' when and where they are due. The lesson may turn out to be that the EU's regional approach will only deliver the anticipated results if the EU itself shows it is not dragging its feet and remains as serious as ever about the 'Thessaloniki commitment'.

Just as the region means different things to different people, so too expectations of regional cooperation vary among those encouraging it from the outside and those directly participating in the exercise. This is not surprising given that the definition both of the region itself and of the necessary degree of cooperation among its countries seems to come from the outside. All too often it is a matter of ‘we pretend to be cooperating, and they pretend to be serious about integrating us in the EU’. So assessing what people in the region expect regional cooperation to achieve, and how their expectations differ from those of EU policy-makers, should contribute to developing a more effective and sustainable regional strategy.

Saying ‘regional cooperation’ but having ‘European integration’ in mind

All West Balkans authors writing on the subject of regional cooperation and all the interviews in the region conducted for the purpose of this paper confirm that eventual integration in the EU is the most cherished objective of these countries. Insofar as EU integration goes hand in hand with regional cooperation, the former is the decisive factor in stimulating the latter. This is not at all surprising. It was the prospect of EU membership that provided the decisive impetus in the 1990s for the CEECs’ efforts to foster stability, democratisation and economic reform. Thus the EU, by virtue of its attractive power and the importance the CEECs attached to membership, proved to be the ‘anchor’ for political and economic transition.⁴⁰ For the Western Balkans, having emerged from terrible wars and still facing important challenges, the ‘European perspective’ – insofar as this implies eventual EU membership – is a guarantee not only of the irreversibility of reforms, but also of peace and regional stability. There is a feeling that the EU ‘owes’

40. Tim Judah, *The EU must keep its promise to the Western Balkans* (London: Centre for European Reform, 2006).

something to the region, whose suffering it was unable to prevent, contain or stop despite numerous political and diplomatic efforts.

Now that the governments of all regional countries are committed to EU integration, the EU has the leverage to foster cooperation among them; but this shared political goal also offers an opportunity for cooperation *per se*. Evidence of this came in May 2003, when the presidents of Croatia and Macedonia and prime ministers of Albania and Serbia wrote a joint letter urging the European Union to give a clear message and impetus to the regional countries to continue on their way to EU integration as the 'task of unifying Europe will not be complete until the whole Southeastern Europe is safely integrated into the EU'.⁴¹ Moreover, most regional countries have signed bilateral protocols on cooperation in areas relevant to the European integration process. Being the most advanced on the path towards the EU, Croatia is a natural leader in this area of cooperation. It has signed such protocols with all other regional countries and has acted as host, since 2004, to regular meetings of regional ministers in charge of EU integration. The modalities of cooperation, as Dario Mihelin (advisor to the Croatian Minister for Foreign Affairs and European Integration of the Republic of Croatia) points out, include joint events – meetings, conferences, consultations, seminars, exchange of civil servants etc.

The reasons for cooperation of this sort are easy to understand. It is mostly a matter of exchanging experiences, which is deemed to be mutually beneficial without involving heavy commitment of human or material resources. Where substantial material resources are involved, however, as in the field of translating the EU *acquis communautaire*, cooperation is somewhat more limited. For example, Croatia has translated more of the *acquis* than any other country in the region, but, having financed the whole enterprise itself, is not willing to share freely all of its translation with the other countries whose language would permit this (Bosnia and Herzegovina, Montenegro and Serbia), but rather makes certain pieces of the translated legislation available upon request. Cooperating in the EU integration process is also easy, as Milan Simurdic, (former ambassador of the State Union of Serbia and Montenegro to Croatia) once put it, to the extent that it is geared towards the future and does not involve issues that touch upon the difficult past. Despite a general readiness to cooperate in the EU integration field, however, several problems are emerging.

41. *International Herald Tribune*, 22 May 2003.

The first is the fact that, within the framework of the Stabilisation and Association Process (SAP), devised for the Western Balkan region as a whole, the different countries are progressing – or lagging behind – at their own pace, which makes the multilateral framework difficult to sustain. As Croatia’s President Stipe Mesic famously remarked, while all the countries of the region might begin their efforts to join the EU at the same time, their progress should be subject to the ‘regatta principle’, which would allow each country to join when it is ready, and not the ‘caravan principle’, which would imply waiting while the others catch up. Although 2005 was a good year for the Western Balkans as a whole, when all countries made some progress on their path towards the EU, there still remain significant disparities between them. Moreover, although Albania signed an SAA in June 2006, Montenegro initialled an SAA in March 2007 and Serbia’s SAA talks resumed in June 2007 after being frozen for a year, there is a fear in the region that the dynamics of the integration process will not match expectations. The fact that Croatia is now a candidate country with accession negotiations proceeding at full speed, while Serbia is going through the first stage of SAA negotiations with difficulty, has raised fears in other countries of the region. For example, Osman Topcagic (head of the BiH EU Integration Office) explains that countries of the region fear they may become hostages to Serbia, which has lots of problems to solve, while at the same time they fear that Croatia will move ahead too fast, and become an EU member, while the others will permanently remain outside. This may contribute to reigniting tensions, while depriving these countries of a wider (EU) context for solving them. As a recent article in *The Economist* put it, the regatta principle assumes the crew of each boat is trying to sail in the same direction – but what if some start ‘sailing apart’?⁴²

The second problem relates to the credibility of the EU membership promise. The EU is still committed to including the Western Balkans in a further enlarged EU, as the Commission’s Enlargement Strategy paper of November 2005 noted: ‘a convincing political perspective for eventual integration into the EU is crucial to keep reforms on track’.⁴³ The political will to deliver on this promise, however, seems to be waning among both politicians and citizens in the EU member states. The music to which the Western Balkan countries are listening is the same, but the mood has changed. And substantially so.

42. ‘Sailing apart?’, *The Economist*, 13 September 2006.

43. European Commission, *Enlargement Strategy Paper 2005*, Brussels, November 2005, p. 2.

After the 2005 referenda on the EU constitution in France and in the Netherlands encountered a majority 'no' vote, it became popular to talk about 'enlargement fatigue'. Although a mere 3% of the French who voted against the constitution admitted to doing so because of opposition to further enlargement,⁴⁴ the 'no' vote still triggered a discussion on whether future enlargements would be acceptable to EU citizens, which exposed a widespread scepticism about accepting any future new members.⁴⁵ According to the Eurobarometer polls conducted in spring 2006, only 45% of people in the EU-25 would support enlargement, while in Germany, France and Austria the percentage seems to be even smaller – 30% or less.⁴⁶ This reflects a feeling in the wake of the 2004 enlargement that the EU had reached its 'natural' geographical borders.⁴⁷

To many in the region, EU politicians seem to be appeasing domestic public opinion rather than bringing serious arguments to the debate. Calling for a slowdown, freeze or even a permanent halt to enlargement looks like a way to avoid addressing other issues closer to home that contributed to the failure of the referenda, such as stubbornly high unemployment, ageing workforces, badly targeted welfare systems⁴⁸ or, more generally, a feeling that the EU is to be blamed for the perceived negative impact of globalisation on people's daily lives. Voices opposing enlargement regularly make the headlines, creating the impression in the Western Balkans that the future of enlargement is hanging in the balance,⁴⁹ an impression reinforced when alternatives to membership start being floated, such as the 'strategic partnership' offered by Nicolas Sarkozy or 'privileged partnership' by Angela Merkel. Although it may be the case that these proposals are mainly directed at the case of Turkey, this is not usually explicitly stated and so uncertainties and anxieties are heightened in the Western Balkans too.

Finally, at the informal meeting of the EU foreign ministers in Salzburg in March 2006, the notion of 'absorption capacity' came to the fore. This term relates to the need for a thorough reform of the EU's institutions and decision-making procedures before enlarging, as admitting new members to the club under present conditions could bring the Union to a standstill. The Nice Treaty, which remains in force after the failure of the EU Constitutional Treaty, only provides for 27 members. Although the ability of the EU to take in new members was a 'consideration' already noted in

44. 'A weakening magnet', *The Economist*, 30 March 2006.

45. Marie-Janine Calic, 'The Western Balkans on the Road Towards European Integration', Friedrich Ebert Stiftung: *Internationale Politikanalyse Frieden und Sicherheit*, December 2005, p. 4.

46. Quoted in Tim Judah, *op.cit.* in note 40; see also *Standard Eurobarometer* no. 65, Spring 2006.

47. Aurore Vanlin, 'Adieu, Europe?', *Open Democracy*, 29 June 2006.

48. Katinka Barych, 'We are in a mess – but it's not EU enlargement's fault', *European Voice*, 26 January-1 February 2006.

49. European Stability Initiative, 'Beyond Enlargement Fatigue. The Dutch Debate on Turkish Accession', April 2006, p. 1.

the 1993 Copenhagen criteria, following the accession of Bulgaria and Romania in January 2007, the EU is no longer in a position to absorb new members unless institutional questions are sorted out. This sounds especially threatening to the already nervous and suspicious Western Balkan states. As *The Economist* mischievously put it, the debate about ‘absorption capacity’ makes the EU sound like communist-era toilet paper – ‘ever tougher and less absorbent’.⁵⁰

And tougher it is going to be, although the absorption capacity was, in the 2006-2007 Enlargement Strategy, renamed as the less controversial ‘integration capacity’. To be reviewed at all key stages of the accession process, the EU integration capacity implies ensuring that the EU can maintain and deepen its own development while pursuing its enlargement agenda, and is to be assessed on the basis of the institutional impact, EU policy impact and EU budget impact of the enlargement process. Although having confidence about the EU’s integration capacity is an important vehicle for safeguarding public support for enlargement, maintaining rigour in the process and applying strict conditionality is perceived as essential.⁵¹ An interview with Franz-Lothar Altmann confirms this – enlargement fatigue is obliging the EU to become more careful, not appearing too positive or too willing to compromise. Feeling under pressure both from public opinion and from politicians in several EU member states, the Commission must, if the enlargement train is to keep going, show that negotiations are real, and that the candidates are subject to stringent scrutiny. This is already being felt in Croatia: its chief negotiator Vladimir Drob-njak says that the experiences from accession negotiations that Slovakia is now willing to share are of very little help, as the process has become much more difficult. Bosnia and Herzegovina has also become aware that criteria are stricter and scrutiny more exacting, leading the President of Bosnia and Herzegovina to complain to Reinhard Priebe (then director of the Western Balkan division in the Commission) that Bosnia should not have to pay the price for mistakes the EU made in previous enlargement processes. As Osman Topcagic recalls, Priebe was quick to answer that the EU makes no mistakes, but merely acquires new experiences.

The fact, however, remains, that, although declaratively still committed to the Western Balkan membership, the credibility of the EU promise has weakened from the region’s perspective. And for conditionality to work, credibility is crucial. If the incentive is

50. ‘The Absorption Puzzle’, *The Economist*, 26 June 2006.

51. European Commission, *Enlargement Strategy and Main Challenges 2006 – 2007*, Brussels, November 2006.

not credible, the EU's insistence on fostering regional cooperation is easily interpreted as a means of postponing membership, or even as an alternative to full membership. This seems to be especially alarming for frontrunners in the EU integration process, for whom regional cooperation can easily appear to be trap, in which they risk being bundled together with the laggards and losers. On the other hand, being a frontrunner also entails special responsibility for the region, as Gerhard Erler (Minister of State at the German Federal Foreign Office and President of the South East Europe Association) mentioned at a regional conference in September 2006.⁵² For Drobnjak, Croatia's special responsibility is always to remember where it came from and always to try to ensure that everything that has been open to Croatia will also be available to other countries of the region. For Altmann, Croatia's responsibility is to negotiate fast and well, and to prove it is possible for a Western Balkan country to meet the membership criteria.

Aware of the importance of the membership promise in the regional countries, but also of the change of mood in the EU member states, the EU is finding creative ways of confirming the European perspective without committing itself in term of dates. This mostly means introducing a number of 'in-between' or 'intermediary' steps that create an impression of movement and progress. Awarding candidate status to Macedonia without setting a clear date for opening accession negotiations is a good illustration.

The fact that countries progress at their own speed towards becoming members of the EU makes maintaining a multilateral framework difficult, and also has important implications for regional cooperation. Some of these are positive, as for example peer pressure, which may serve as an incentive for laggards to try and catch up with their neighbours: 'if it was possible for the others, then it must be possible also for us'. To quote Radmila Sekerinska, it is human not to want to be the worst or to be left behind. Another positive implication for regional cooperation is that once a neighbouring country becomes an EU member or candidate, additional funding for cross-border cooperation at the local level opens up. Gordana Lazarevic (Serbian Assistant Minister for International Economic Relations) points out, however, that 'God is in Heaven, and Brussels is too far away' – meaning that for some parts of the region, like most of Bosnia and Herzegovina and parts of Serbia, there is still no border with the EU, no cross-border cooperation programmes, and so it is extremely dif-

52. Organised jointly by the South East Europe Association, the Stability Pact and the Croatian Chairmanship in Office of the SEECP in Zagreb.

difficult to explain the benefits of the EU integration process and to win their confidence in it. But having neighbours progressing down the EU integration path does provide opportunities for the others as well.

There are, however, negative implications of the divergent pace of EU integration within the region. A country at a more advanced stage benefits from access to more EU funds, which gives that country a big advantage and separates it further from the region. That is why the European Stability Initiative advocated in 2005 that all five titles of the new Instrument for Pre-Accession Assistance (IPA) introduced in 2007 should be made available to both official and potential candidates. Key titles of pre-accession assistance, aiming at preparing candidate countries for the management of structural and rural development funds – regional development, rural development and development of human resources, were not to be available to the potential candidates in the Western Balkans, depriving them of assistance needed to tackle deep social and economic problems.⁵³ Although the Commission has since clarified that the potential candidates will be able to secure a certain amount of such assistance under the other three titles, it insists on maintaining the distinction between the candidates (Croatia and FYROM) and the still ‘potential’ candidates of the rest of the region in order to have some inducement to hold out to the latter.

To sum up, regional countries are united in their wish to join the EU and the importance of having the EU integration process as a common denominator and a basis for cooperation among them can hardly be overstated. On the other hand, the fact that countries are progressing at variable speed, especially if the EU’s approach unwittingly fosters the attitude of ‘let the last one in close the door’, creates tensions among the countries and hardly entices them to engage in more regional cooperation. It is quite clear that, once conditions are satisfied, countries must be promoted to a more advanced stage of integration. Not to do so on grounds that the other regional countries are lagging behind will hardly make countries more enthusiastic for either EU integration or regional cooperation – Montenegro’s fears that it might be denied membership of the Partnership for Peace because of Serbia’s and BiH’s lack of cooperation with the ICTY, although a matter of Euro-Atlantic rather than EU integration, is a case in point. However, the essentially bilateral nature of the EU integration

53. European Stability Initiative, ‘Breaking out of the Balkan Ghetto: Why IPA should be changed’, June 2005. See: www.esiweb.org.

exercise means that, if the regional approach is to be promoted, ways have to be found to make the progress of each country a 'win-win' situation for the others.

What do the countries from the region expect – or not – from regional cooperation?

That regional cooperation is desirable is hardly disputed by anybody in the region. This may be partly for reasons of political correctness – having asked to join the EU, and knowing regional cooperation is a prerequisite for progress, one cannot but support the exercise – at least publicly. However, it is also genuinely understood in the region that there are gains to be made from cooperating with the neighbours. The aim of this section is not to discuss possibilities for cooperation in particular areas, as this will be examined in the following chapter, but to merely outline the expectations.

The simple fact that the Western Balkan countries share common geography or are destined to live in the same space is the first and most obvious factor conducive to cross-border cooperation in the Western Balkans. Also the existence of regional issues, or issues requiring collective and multilateral action by some or all the states in the region in order to achieve benefits which cannot be attained by individual states acting in isolation, together with shared problems derived from the transition, underdevelopment and the lack of security in the region, is recognised as a major factor stimulating cooperation.⁵⁴

The development of regional infrastructure related to transportation, energy and communications networks have provided major incentives for cooperation in the region.⁵⁵ The regional capitals are still not all connected with each other by regular flights, as the Stability Pact's Special Coordinator, Erhard Busek, frequently points out. Montenegrin Deputy Prime Minister in charge of EU integration, Gordana Djurovic, says, 'For me, regional cooperation is finishing the part of the Adriatic-Ionian highway passing through Montenegro'. Yet building infrastructure is not always uncontroversial, as the case of the Peljesac bridge demonstrates. Croatia's intention to build the bridge, which will connect Peljesac with the mainland, has run up against Bosnian concerns that the bridge will disrupt its free access to the sea and its plans for future

54. Othon Anastasakis and Vesna Bojicic-Dzelilovic, *op. cit.* in note 3, p. 6.

55. *Ibid.*

development of its port of Neum. An agreement on the height of the bridge, which would allow uninterrupted access to the port of Neum and hence put Bosnia's worries to rest, has recently been reached.

Other frequently mentioned possibilities for cooperation are tourism and the Danube River as resources shared by most countries of the region. Trade and the economy are also often mentioned by EU officials as areas for cooperation where the potential gains are as yet unexploited. Afraid of 'political engineering in Brussels laboratories', Croatia's chief negotiator, Vladimir Drobnjak, warns, however, that the market should be left to determine where cooperation is beneficial, and he lists culture as one of the promising possibilities. The fact that the book trade between all the countries speaking 'our language' (as Bosnian-Croatian-Montenegrin-Serbian is sometimes called in an effort to sound neutral) is flourishing has recently been identified by *The Economist*, as well as a generally more favourable climate for cultural exchanges – e.g., joint film production, playing songs from other countries.⁵⁶ But all these efforts centred on 'our' language and re-establishing cultural ties have a flavour of reviving the former Yugoslav space, rather than offering cooperation possibilities for the whole region. Even in this context, a balance between having 'too much Yugoslavia and too little EU'⁵⁷ needs to be carefully managed. It is one thing to reestablish broken ties among ex-Yugoslav republics and quite another to be seen as wanting to reestablish former Yugoslavia.

The countries of the region also share the experience of the ravages of war. Post-conflict reconstruction in Croatia, Bosnia, Kosovo and Macedonia has had an important regional dimension. To address this need, the European Commission and World Bank set up a Joint Office for South East Europe in 1999 to coordinate international assistance for the reconstruction and development of SEE. Today, with reconstruction tasks mostly completed, the war legacy, which most of the regional countries share, relates mainly to security problems and spillover effects triggered by the wars such as crime, corruption, illegal immigration and cross-border environmental damage.⁵⁸ Because of their regional character, these issues are also accepted as areas where cooperation can be beneficial.

However, there are matters that the Western Balkan countries do *not* see as amenable to treatment by means of regional coopera-

56. 'Talking Business', *The Economist*, 31 August 2006.

57. Aleksandar Mitic, 'Too Much Yugoslavia or too Little EU?', *Transitions Online*, 6 February 2006.

58. Anastasakis and Bojicic-Dzelilovic, op. cit. in note 3.

tion. As Goran Svilanovic points out, solving bilateral problems is certainly one of these. The list of unresolved bilateral problems in the region is, indeed, rather long: there is the dispute between Serbia and Macedonia over access to the Prohor Pcinjski monastery (occasionally, visas for priests are also required); as well as tensions generated by the religious dispute between the Macedonian Orthodox Church and the Serbian Orthodox Church (although, in general, these have not spilled over into relations between the two countries); outstanding border demarcation issues between Serbia and Croatia, and between Serbia and Bosnia and Herzegovina; the suit pending against Serbia before the International Court of Justice filed by Croatia and the fallout from the recent ICJ judgement in the case of Bosnia and Herzegovina against Serbia; issues related to the Croatian treatment of the Serbian national minority in Croatia, and so on. None of these problems is addressed in multilateral fora. Regional organisations remain a vehicle for creating overall better relations, but bilateral problems will continue to be solved bilaterally.

What are the EU's expectations?

Unlike the countries which make up the Western Balkans, the EU is in a position to set conditions. This makes figuring out its expectations much easier. This section will review development of the EU requirements related to regional cooperation, with the aim of establishing what results the EU expects from regional cooperation in the long run.

Ever since the EU developed its regional approach, it has made economic and financial cooperation conditional upon the commitment of the Western Balkan countries to cooperate with one another. This entailed general conditions conducive to cooperation, such as undertaking political reforms aimed at democratisation, respect for human rights and the rule of law; demands related to implementation of the Dayton Peace Agreement (in particular the right to return for refugees and displaced persons and respect of minority rights); as well as unilateral commitment by each of the states to cooperate with its neighbours in areas such as energy, the environment and transport. These demands were backed by intensified political dialogue with the EU, and the inclusion of suspension clauses.⁵⁹

59. See Bull. EU (Bulletin of the European Union), 10-1996.

Later on, when principles of conditionality governing the development of the EU's relations with 'certain countries' of SEE were adopted, participation in the PHARE programme was made conditional on, among other things, 'undertaking significant steps towards cooperation with neighbours and the establishment of open relations, including the free movement of people and goods'. Establishing contractual relations with the EU was dependent on proven readiness to enter into good neighbourly and cooperative relations with neighbouring states, while there were concrete demands for each country covered by the regional approach.⁶⁰

Once the Stabilisation and Association Process was adopted in 1999, demands for regional cooperation became ever more pronounced. Support for the consolidation of democracy, the rule of law, economic development and regional cooperation are specified as the SAP's main objectives, together with establishing a formal framework for political dialogue, at both bilateral and regional levels; introducing one or more free trade areas, when sufficient progress has been made on economic reform; social and civil society cooperation; and cooperation on education, science, technology, energy, the environment and culture.⁶¹

The Zagreb summit of November 2000 was important in securing the agreement of the regional countries to a clear set of objectives and conditions in return for the EU's offer of a prospect of accession and an assistance programme to support that ambition under the conditions that the SAP entailed. The Final Declaration stated that 'democracy and regional reconciliation and cooperation, on the one hand, and the *rapprochement* of each of these countries with the EU, on the other, form a whole'. Having in mind '*rapprochement* with the EU', the heads of regional states or governments committed themselves to establishing regional cooperation conventions between their countries providing for a political dialogue, a regional free trade area and close cooperation in the field of justice and home affairs, in particular for the reinforcement of justice and the independence of the judiciary, for combating organised crime, corruption, money laundering, illegal immigration, trafficking in human beings and all other forms of trafficking. These conventions are all incorporated in the SAAs. Aware of the fact that time was needed for most of these initiatives to bear fruit, the EU immediately pressed for settling the question of the succession of the SFRY and establish-

60. See Bull. EU 4-1997.

61. See Bull. EU 5-1999.

ing diplomatic relations between the countries in the region where they did not yet exist.

There was also some money earmarked for regional cooperation. Soon after the Zagreb summit, the EU launched a single Community aid programme for the countries participating in the SAP, entitled CARDS (Community Assistance for Reconstruction, Democratisation and Stabilisation). Its programme budget for the period 2000-2006 was 4.65 billion euros. Promotion of closer relations and regional cooperation among countries, and between them, the EU and the CEECs was one of the priorities.

The bulk of this money was to be channelled through national CARDS support programmes, as experience from other support programmes had shown that this form of subsidiarity ensured greater levels of national commitment and ownership, better targeting and impact of projects, and greater efficiency in implementation. However, approximately 10% of available funds (197 million euros in 2002-2004 and 85 million in 2005-2006) were to be allocated through the regional programme to help countries achieve the regional cooperation objectives of the SAP. Four priority areas were identified where CARDS regional funds would have the greatest impact on the realisation of the SAP's regional cooperation objectives – promoting integrated border management approaches, including development of border regions through regional development programmes and cross border cooperation programmes; supporting democratic stabilisation and civil society, including minority rights, media and good governance; building the capacities of state institutions; and reinforcing regional infrastructure and environmental development.⁶²

As the SAP gained momentum, demands for regional cooperation became ever more concrete and ever more numerous, as the annual 'Progress Reports' (introduced as monitoring tools for SAP) demonstrate. Together with evaluating progress and identifying future tasks, the annual reports also provide the background for understanding the rationale behind regional cooperation, beyond the obvious need to stabilise the region. Cooperation is seen as an integral part of the preparation for integration into the EU structures;⁶³ as a means of preparing countries to interact with neighbours as the EU member states do; as a channel through which the EU can share its own experience of regional cooperation and integration; and also as a means of enhancing political understanding and economic and social prosperity within the region.⁶⁴

62. CARDS Assistance Programme to the Western Balkans: Regional Strategy Paper 2002-2006, Brussels, October 2001.

63. Commission of the European Communities, 'Bosnia and Herzegovina: Stabilisation and Association Report 2003', COM(2003) 139 final, SEC (2003) 340, Brussels, March 2003.

64. Commission of the European Communities, 'Federal Republic of Yugoslavia: Stabilisation and Association Report 2002', COM(2002) 163, SEC (2002) 343, Brussels, 4 April 2002.

A new impetus to regional cooperation was provided at the Thessaloniki Summit in 2003, which reaffirmed that 'European integration and regional cooperation go hand in hand'. Underlining the European perspective of the Western Balkans, the heads of state and government gathered at Thessaloniki decided to strengthen the SAP and to 'enrich' it with elements drawn from the experience of enlargement to Central and Eastern Europe. Modelled on Accession Partnerships, devised for the CEECs, European Partnerships were launched for the SAP countries. Their task was to identify priorities for action in supporting the efforts of each particular country to move closer to the EU. Although these tasks were numerous in the regional cooperation area and some of them were country-specific, most could be grouped within several broader issue areas.

The first such issue area relates to the general pressure to solve bilateral problems and to continue improving overall political relations with the aim of developing 'a network of relationships based on trust and confidence', reconciliation and more frequent and substantial multilateral and bilateral contacts in the region. Within this broader context, special attention was paid to ensuring that those SAP countries that were parties to peace agreements honoured their obligations. Similarly important was the issue of refugees and displaced persons, and their property and tenancy rights, which had long been an important matter for a regional focus.

The need for regional cooperation in the area of justice, freedom and security proved to be another focus of EU concern, especially after the Thessaloniki agenda emphasised the growing importance of Justice and Home Affairs (JHA) issues in the relations between the EU and the Western Balkans. This gave rise to many initiatives for cooperation in the fight against organised crime and in border management, which have an important regional dimension, as well as to a number of projects, financed by the CARDS regional funds, in the JHA area.

Removing barriers to trade in the region, most of which were introduced with newly created borders, was an important source of the EU pressure on the Western Balkan countries. Aiming to create stronger incentives for economic development and growth, the EU pushed first for establishing the network of bilateral free-trade agreements among regional countries, which led to the signature of the new and modernised CEFTA of which all regional countries are members in December 2006.

Energy and transport, and, in general, infrastructure (encompassing both opening of markets and development of interconnected infrastructures) were also recurrent themes in regional cooperation. Efforts aimed at encouraging cooperation in the energy sector led to the signature of the Energy Community Treaty in October 2005 between the EU and SEE partners. The Treaty, which entered into force in July 2006, creates the legal framework for a regionally integrated energy market for electricity and natural gas networks and for integration of that market into the wider EU market. As for transport, the Memorandum of Understanding on the development of the SEE Core Regional Transport Network, deemed by the Commission to be one of the main building blocks for efficient planning of public investment in transport, was signed in June 2004, while an agreement on a European Common Aviation Area was signed by the countries of the region and the European Commission in May 2006.

All of this shows how the region as a whole is gradually being associated with key European policies such as trade, justice, freedom and security, transport, energy and cross-border cooperation, with the Commission making an important contribution in the process. What appeared at the outset as a fairly vague commitment to regional cooperation has become a concrete list of tasks that countries have to accomplish in the course of EU integration – and a rather long one. Referring to the SAP requirement for regional cooperation, the European Partnerships of 2004 routinely mentioned ratifying and fully enforcing all concluded FTAs, implementing the MoU on the Development of the SEE Core Regional Transport Network and making progress in meeting commitments under the 2003 Athens MoU on the Regional Electricity Market in SEE. In 2006, conclusion and implementation of agreements with neighbouring countries on free trade, cross-border cooperation, the fight against organised crime, trafficking and smuggling, judicial cooperation, border management, environment, transport and energy as well as work towards the future regional FTA in SEE, were also specified.

Is the proliferation of demands related to regional cooperation becoming a problem in itself? This chapter's brief examination of the respective expectations of the parties demonstrates that perceptions of the benefits of cooperation are not that different in the region and in the EU, which implies that the increase in demands is not problematic as such. This holds true especially for coopera-

tion in the areas of infrastructure, transport, energy and trade. Moreover, the limited size of each Western Balkan country and the fragmentation of the economic space in the region leave no other option other than to embark on intense regional cooperation as the only sustainable way forward⁶⁵ – a point which is recognised no less in the region than in the EU. In some areas, where the EU has a pronounced interest, the cooperation exercise even goes beyond the region. This is clearly the case with the Energy Treaty, which, in effect, provides for integration of the energy market of the region with that of the EU.

Problems might arise, however, where there is a substantial difference in emphasis between the region and the EU. The ultimate goal of regional countries is integration in the EU, while the ultimate goal of the EU is to ‘transform the countries of the Western Balkans into democracies and thriving market economies with strong and competent institutions, ensuring the rule of law, respect for human rights and protection for minorities’.⁶⁶ In the region, EU integration is the driving force for more regional cooperation. In the EU, achieving a satisfactory degree of regional cooperation is seen as a major step towards stabilisation, and just one of many steps contributing to further EU integration. While the position of the region is thus very clear, that of the EU may be less so. It is open to interpretation to what extent the EU demands regional cooperation as a stabilisation exercise and to what extent as an indispensable part of the European integration agenda.

Although the EU frequently underlines the complementary character of regional cooperation and EU integration, the fact remains that it introduced the concept of encouraging regional cooperation primarily as a means of breaking the cycle of violence and counter-violence in the region. Promoting the message that ‘regional cooperation pays’⁶⁷ was an important part of the process. While little can be said against regional cooperation as a means of helping a particular country or group of countries to ‘develop the working methods and practices which are integral to EU membership’,⁶⁸ it is still unclear whether the EU’s rationale is to ensure stability, or to speed up the EU integration of the region. Martin Dangerfield⁶⁹ considers both priorities as mutually reinforcing. In his opinion, regional integration/trade liberalisation is clearly functional for the purposes of promoting EU accession, while a more diverse set of activities, targeting regional hard and soft security problems, have more to do with basic, region-wide

65. Reinhard Priebe, ‘The European Perspective of the Western Balkans, its Regional Dimension and the Contribution of the Stability Pact’, in ‘Five Years of Stability Pact: Regional Cooperation in Southeast Europe’, *Südosteuropa Mitteilungen* no. 04, p. 44.

66. *Ibid.*, p. 41.

67. Gernot Erlner, ‘The Stability Pact, the Stabilisation and Association Process and the New EU Strategy: An Attempt to Set out the Political Context’, in ‘Five Years of Stability Pact: Regional Cooperation in Southeast Europe’, *Südosteuropa Mitteilungen* no. 04, p. 12.

68. Stabilisation and Association Report 2002, *op. cit.* in note 64.

69. Martin Dangerfield, ‘Regional Cooperation in the Western Balkans: Stabilisation Device or Integration Policy?’, *Perspectives on European Politics and Society*, vol. 5, no. 2, Autumn 2004.

aspects of Europeanisation and is hence more of a 'foundation course' for EU accession than integration proper.

Although this sounds like a plausible explanation, it is doubtful whether it strikes the balance between expectations in the region and in the EU. It therefore seems that all actors participating in regional cooperation are united in supporting the exercise but for different reasons. More precisely, they expect different 'pay-offs' from regional cooperation. The aim of the Western Balkans countries is to further their prospects of accession to promised EU membership, while the EU stresses the intrinsic benefits of cooperation, and more recently has become more ambiguous about the timetable of integration. This seems to invite the conclusion that the existing consensus on regional cooperation cannot be taken for granted. It needs to be revisited and adjusted to the real needs and evolving circumstances of the SAP region, on the one hand, and to the real perceptions of what the EU is ready and willing to offer, on the other.

Realities: the economic dimension

The countries included in the region of Southeast Europe, as demonstrated in previous chapters, have been integrating into the EU at different speeds. As a result of countries ‘graduating’⁷⁰ from Southeast Europe and becoming part of the EU, the region has been shrinking. Bulgaria and Romania, who joined the EU in January 2007, have already been excluded from the region, while the rest has been divided into two groups of countries: candidate countries (Croatia and FYROM) and potential candidate countries (the remaining countries). The region will be even smaller once Croatia joins the EU and will continue to shrink as other countries advance on their way to EU membership.

What does this shrinking or ‘withering away’⁷¹ of the SEE and of the Western Balkans region mean for regional interests? Will they also disappear? The answer is clearly ‘no’, but the mere fact that parts of the region are already integrated in the EU while the remaining countries are realising the same ambition at various paces implies that the EU engagement in fulfilling those interests is at least as important as is political will and recognition of the need for cooperation in regional capitals. This chapter will investigate the interplay of the three (recognition of the need for cooperation, political will in the region and the EU’s involvement) in serving and promoting regional interests in the fields of the economy and infrastructure together with identifying political factors that can foster or hinder cooperation efforts.

Regional economic overview

The 1990s were a turbulent decade for the SEE. The reasons for this, according to Vladimir Gligorov, have partly to do with the violent conflicts taking place on the territory of Yugoslavia, partly the lack of political support for transition, and partly the not always clear nature of international involvement and intervention. Within

70. Vladimir Gligorov, *Southeast Europe: An Emerging Region in Transition. EU integration and effects on Austria*, Study prepared for the Bundesministerium für Wirtschaft und Arbeit., Wiener Institut für Internationalen Wirtschaftvergleich (Vienna Institute for International Economic Studies), 2006, p. 2.

71. Ibid.

the past decade, the countries of the region have been beleaguered by military, economic and political crises and conflicts including the collapse of pyramid schemes in Albania, the conflicts in Croatia, BiH and Kosovo, and the serious debt burden that was incurred under the former regime of the FR of Yugoslavia. These external and internal shocks directly affected neighbouring countries: for example, through influxes of refugees, disruptions in transport and trade, and loss of investor confidence. Good economic news started coming from the region only after 2000, when political changes took place first in Croatia and later in Serbia. Even after that date, Macedonia went through a serious internal conflict in 2001, Serbia suffered a setback after its reform-minded Prime Minister, Zoran Djindjic, was assassinated in March 2003, while Montenegro gained its independence only in the spring of 2006. Also, in parts of Bosnia and Herzegovina economic development has started improving only in the last couple of years.⁷²

It is fair to say that economic growth did return to the region and has remained, for the most part, at a relatively high level ever since. Average growth rates in most countries of the region have been between 4% and 5% in the last few years and can be assessed to be sustainable.⁷³ This is partly the result of post-conflict and post-depression recovery and partly of lower political risks and improved opportunities for trade and investment. In the long run, however, as Gligorov documents, the sustainability of development in the Balkans depends on the speed of reindustrialisation. This process needs to be supported by investments in infrastructure and in reconstruction in general, which is proceeding unevenly in the region.

Trade has also picked up since the year 2000. Imports have continued to grow, but so also have exports of goods and services. Initially, trade with the EU had been growing faster than regional trade, but that has changed in the last two years or so. Still, most countries in the region import much more than they export and thus have large trade deficits in their balance of payments. Those are partly the consequences of significant inflows of aid and also of remittances, but are increasingly being financed by foreign investments. Inflows of foreign investments have been delayed and have become significant in SEE only since the turn of the new century. With the stabilisation and institutional transformation of the region and with the improved prospects for EU integration, investment risks are declining and foreign investors are taking

72. *Ibid.*, p. 3.

73. The data in this section rely mostly on Vladimir Gligorov, *Western Balkans Economic Development since Thessaloniki 2003*, report prepared for the Informal Meeting of Ministers of Foreign Affairs in Salzburg in March 2006; Vladimir Gligorov and Wiener Institut für International Wirtschaftvergleiche (WIW), *op. cit.* in note 70.

advantage of this emerging and fast-growing region. Indeed, in some cases, significant and sustained foreign interest in investment is yet to happen, especially in BiH, FYROM and even Serbia. Therefore the low levels of investment so far should not be taken as indicative of the potential for investment in the region; rather a significant pick-up in direct and other forms of FDIs should be expected in the future. The main intraregional investment is from Slovenia, which is a member of the EU, and Croatia. There is little investment by multinational companies who are optimising over the whole region and investing in the region or outside of it.⁷⁴

Although affected by trends in growth and trade, the overall levels of employment remain low and unemployment figures are high. The unemployment rates vary from 14-15% in Croatia and Albania to around 20% in Serbia, more than 25% in Montenegro and over 30% in Bosnia and Herzegovina and FYROM. The scarcity of employment is certainly the key economic, political and social problem in the region. At the same time, wages are relatively high, making the Western Balkans less competitive than the Eastern Balkans, not to mention other low-wage regions in Europe and in the world. This requires additional attention to be paid to developmental policies, especially to investments in infrastructure and human capital.

Indicators of macroeconomic stability have been improving in most of the countries of the region. Inflation has been relatively low or decelerating or stabilising. Public sector balances have been improving and the fiscal balances are mostly sustainable even with foreign aid decreasing. The main risk to price and exchange rate stability may come from social pressures leading to an increase in wages and other forms of income. In Serbia and in Croatia, long-term macroeconomic stability might be threatened by the growth of foreign debt, which is not a cause for worry in the rest of the region. This leaves the external imbalances – trade and current account deficits and, more importantly, high and persistent unemployment – as the key problems for the region in the coming period.

74. Vladimir Gligorov, 'Western Balkan Free Trade Area', *European Balkan Observer*, vol. 3, no. 3, p. 17.

Table 1: Overview of developments 2004-2005 and outlook for 2006-2007

	GDP			Consumer prices			Unemployment, based on LFS ¹			Current account					
	real change in % against previous year			change in % against previous year			rate in %, annual average			in % of GDP					
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2007		
			forecast			forecast			forecast			forecast			
Bulgaria	5.7	5.5	5.5	6.1	5.0	8	5	12.0	10.1	9	8	-5.8	-11.8	-14.1	-13.2
Romania	8.4	4.1	5.0	11.9	9.0	8.5	8.0	8.0	7.2	7	7	-8.4	-8.7	-9.5	-9.5
Croatia	3.8	4.3	4	2.1	3.3	3.5	3	13.8	12.7	12.5	12	-5.1	-6.3	-6.5	-6.2
Macedonia	4.1	3.6	3.5	-0.4	0.5	3	3	37.2	37.3	37	37	-7.7	-1.4	-3.1	-2.9
Turkey	8.9	7.4	5.5	8.6	8.2	9.0	6.0	10.3	10.3	11.5	11.0	-5.2	-6.4	-7.0	-6.5
Albania	6.7	5.3	5.2	3.0	2.4	2.5	2	14.4	14.2	14	14	-4.7	-6.7	-6.8	-6.5
Bosnia and Herzegovina	6.0	5.5	6	0.7	2.9	6	4	43.9	45.4	46	46	-20.9	-22.5	-20.1	-18.2
Montenegro	3.7	4.1	5	2.4	2.3	3	3	27.7	28.0	28	28	-7.8	-8.6	-9.1	-7.9
Serbia	9.3	6.3	4	11.4	16.2	15	15	18.5	20.8	22	23	-12.6	-8.8	-10	-10

Note: 1 = Labour Force Survey.

Source: Vladimir Gligorov, *Southeast Europe: An Emerging Region in Transition. EU integration and effects on Austria*. Study prepared for the Bundesministerium für Wirtschaft und Arbeit, WIIW, 2006.

The situation in Kosovo is, however, still quite bleak and good news is yet to come from there on the economic front. Reliable data on economic activity in Kosovo are scarce. The level of GDP per capita is estimated, according to the EBRD Strategy for Serbia 2007, at around 1,100 euro, well below the regional average. Unemployment continues to be widespread, and is particularly problematic among young people. There is extensive poverty although according to the World Bank Country Brief 2006, this is mainly 'shallow poverty' – most of the poor are close to the thresholds that classify them as such. Generating new sources of economic growth is hence one of the most important challenges ahead. In an effort to provide an analytical basis for Kosovo's development strategy, the Riinvest Institute from Pristina examined a variety of 'what if' scenarios. While they all indicated that political and institutional developments are crucial, the '*status quo*' scenario, in which resolution of Kosovo's political status is delayed, forecasts stagnation or economic growth of no more than 1-3% per year, thus leading to increased political and economic instability. Only a more dynamic growth scenario, in which the economy grows 7% annually, is likely to help Kosovo overcome its deep imbalances. If this is to happen, according to the Riinvest Institute, enhanced institutional capacity is required.⁷⁵ Kosovo does not currently assume any sovereign debt-servicing obligation, which may change if, depending on the outcome of ongoing status talks, a share of sovereign loans currently serviced by Serbia is transferred to Kosovo.

Generally speaking, good prospects for positive developments in the region depend, therefore, on two factors. The first relates to calibrating political risks related to remaining unresolved questions as well as to the need to continue with the process of institution-building throughout the region. The second concerns the importance of EU integration for the region, as it ensures institutional transformation and modernisation that is of vital importance to the region's long-term political and economic development. If both these factors work to the benefit of the region, the Western Balkans can emerge as an economic region with significant potential, which Gligorov⁷⁶ compares to that of Central Europe or of the other peninsulas in the South of Europe. If not, however, the regional aspect will continue to play a relatively unimportant, if no longer negative, role.

75. Muhamet Mustafa, 'Can Kosovo be Economically Viable?', *Balkan Insight*, no. 85, June 2007.

76. Vladimir Gligorov, op. cit. in note 70.

Unexploited gains from regional trade?

There is a consensus among policy-makers and experts alike that the solution to the decade-long crisis in the Balkans lies in the integration of the Balkan countries' economies. All agree that establishing institutions supporting competitive markets together with integration into European markets, is the key to economic recovery and regional stability.⁷⁷ In the area of economic cooperation, trade liberalisation has become one of the principal instruments for promoting regional cooperation and has been strongly encouraged by the EU ever since it started championing regional cooperation among the Western Balkan countries. Why is this so?

One explanation, best described by Vladimir Gligorov, sees the Western Balkan economies as a sort of 'Arizona Market'. The Arizona Road was the name given by the American military to the North-South highway in Bosnia and Herzegovina, while the Arizona Market was the largest black market in the Balkans, established after the war, enabling Catholics, Orthodox Christians and Muslims to trade together. Everything, from carpets to washing machines and bootlegged CDs to counterfeit designer-label clothes, was sold there. Despite the fact that the market had also been a fertile breeding ground for a growing grey economy and organised prostitution, it was deemed positive inasmuch as it brought former warring partners together in pursuit of profit and not conflict. Put differently, intensive commercial interaction is understood as triggering the process of building mutual trust thus leading, in the long run, towards both peace and prosperity. This explains why statements about 'politics following business' and 'business knowing no frontiers' can often be heard from regional and the EU politicians.⁷⁸ In this vein, liberalising trade in the region is seen as helping stabilise the region politically and initiate building of regional institutions.

Another explanation relates to the possibility of repealing the commercial logistics of trading that emerged following the dissolution of the former SFRY and which levies huge costs on importers and exporters. Newly-established borders messing up the movement of goods and complicating the coordination of cross-country infrastructure accentuate the costs already imposed by geographical conditions. A third explanation expects increased intra-regional trade flows, which should take place through trade liberalisation among the SEE countries, to create stronger incentives for economic development and growth, while

77. Bartolomiej Kaminski and Manuel de la Rocha, 'Stabilization and Association Process in the Balkans: Integration Options and their Assessment', *World Bank Policy Research Working Paper* no. 3108, August 2003, p. 2.

78. See, for example, Stipe Mesic in Martin Dangerfield, 'Regional Cooperation in the Western Balkans: Stabilisation Device or Integration Policy?' *Perspectives on European Politics and Society*, vol. 5, no 2, Autumn 2004.

the benefit accruing to each country from trade integration depends on the nature of the agreement, position of the national economy in regional terms, and the country's potential and policy for economic development.⁷⁹ All explanations start from the same premise, however – that there are unexploited gains for the regional countries that regional trade integration might unblock. So what are the real prospects and what has been achieved so far?

As demonstrated in Chapter One, there was very little trade between Albania, Bulgaria, Romania and SFR Yugoslavia before 1989, though there was substantial trade within SFRY.⁸⁰ These two groups of countries, as Milica Uvalic documents, were, in fact, two subregions of the SEE region, with little trade between them. During the 1990s, the volumes of trade of SEE countries fell sharply under the impact of the very deep recession of the early 1990s, the break-up of the Yugoslav monetary and economic union, imposition of trade and other barriers by the newly-created states and the subsequent wars which disrupted infrastructure and communications. The EU emerged as the most important trading partner for the large majority of the SEE countries – Albania, Bulgaria and Romania quickly reoriented their trade from traditional partners towards the EU primarily, while most of the SFRY successor states also succeeded in making the EU their most important trading partner, given the preferential access to the EC markets SFRY enjoyed since the early 1970s. Trade between the two SEE subregions had not been subject to major changes – the already marginal economic links between the two had in no way been strengthened, while the trade links among Albania, Bulgaria and Romania became even weaker. In the former SFRY subregion, however, some trade with former trading partners was maintained – in the case of Bosnia and Herzegovina even a rather significant amount.⁸¹ The periods when conflict had subsided were not marked by a recovery in trade, as the political environment prevented any rehabilitation of old trading relationships.⁸²

It is against this background that the EU introduced autonomous trade measures for the Western Balkans in 2000 (renewed in 2005), enabling duty-free access from the regional countries to the EU markets for practically all goods (except wine, fish and baby beef). This was only the beginning of the process of the WB-EU trade liberalisation, which was to proceed asymmetrically, envisaging initially a greater opening of the EU markets than those of the Western Balkan countries. At about the same time, a

79. Milica Uvalic, quoted in Silvana Mojsoska, 'Foreign Trade of the Republic of Macedonia: policy and performance', *South East European Journal of Economics and Business*, no. 1, February 2006.

80. Milica Uvalic, 'Trade Liberalisation in Southeast Europe – Recent Trends and some Policy Implications', paper presented at the UNECE Spring Seminar, 2005, p. 6.

81. *Ibid.*, pp. 7-9.

82. Antonis Adam, Theodora Kosma and James McHugh, *op. cit.* in note 28, p. 7.

more favourable climate was created for developing regional linkages within the Western Balkans region after the political changes took place in Croatia and Serbia and after all regional countries signed up to regional cooperation as part of the SAP at the Zagreb summit in late 2000.

If we look at the period 2001-2005, we see that all Balkan countries increased their export shares to the region and all of them, except for FYROM, experienced a substantial drop in their export shares to their main EU trading partners.⁸³ The highest export share in intra-regional trade (intra SEE 7) occurs in FYROM (39%), SMN (35%) and Bosnia and Herzegovina (32%), which is the reason why Gligorov maintains these are the three core countries in the Balkans. According to Gligorov, the key trade flows in the region are those that go in and out of Bosnia and Herzegovina and those that connect FYROM and Serbia, in some cases via Kosovo. Other trade flows are small and do not have a huge potential to grow. Much more important trade flows exist between the countries of the region and the EU and with the rest of the world, especially with Russia. A similar situation occurs with regard to import shares – the largest importers in intra-regional trade are Bosnia and Herzegovina (35%), FYROM (27%) and SMN (19%). For all SEE countries, except Bulgaria, the import shares from their main EU trading partners once again dropped sharply.

83. Vladimir Gligorov, op. cit. in note 70, pp. 24-6.

Table 2: Foreign trade in Southeast Europe – Exports total (fob¹)

		2004	2005	I Q ² 2006
Albania	EUR mn ³	487	530	144
	change in %	22.0	8.8	19.2
B&H	EUR mn	1441	1934	551
	change in %	21.4	34.2	38.9
Bulgaria	EUR mn	7985	9454	2667
	change in %	19.7	18.4	28.2
Croatia	EUR mn	6452	7092	1950
	change in %	18.0	9.9	30.7
Macedonia	EUR mn	1348	1640	375
	change in %	11.5	21.7	2.0
Romania	EUR mn	18935	22255	6213
	change in %	21.3	17.5	22.0
Serbia	EUR mn	2867	3684	944
	change in %	17.5	28.5	26.8

Notes: ¹ fob = free on board; ² IQ = first quarter; ³ mn = million.

Not all trade is, however, legal – a joint study conducted by the European Movement in Serbia and the Kosovar Institute for Policy Research and Development⁸⁴ revealed the existence of thriving illegal trading activity between Kosovo and Serbia. When trade data from Serbian and UNMIK authorities were collected and analysed, even with allowances made for data from slightly different periods and categories, they showed that less than 38% of Serbian exports to Kosovo recorded in the UNMIK Customs Service database seem to have paid their taxes in Serbia. The same holds true for Kosovo exports to Serbia. This occurs due to legal loopholes, multiple borders, border infrastructure and a general lack of governance and cooperation. Implications of the inability of the administrations in Kosovo and Serbia to derive revenue from trade flows are clear, but there is more bad news. The current trade regime does not allow for strong incentives for the institutionalisation of economic development; it strengthens middlemen, who appear to reinforce monoethnic linkages rather than creating an opportunity for multiethnic partnerships. This implies that, whatever Kosovo's final status turns out to be, trade between

84. See European Movement in Serbia and Kosovo Institute for Policy Research and Development (KIPRED), 'Joint European Vision: Free Movement for Goods and People in Kosovo and Serbia', *Slovak Foreign Policy Affairs*, no. 11, November 2005.

Kosovo and Serbia needs to be regulated in order to serve the interests of entire communities, not just those of certain business groups.

Table 3: Foreign trade in Southeast Europe – Imports total (cif¹)

		2004	2005	I Q ² 2006
Albania	EUR mn ³	1849	2107	540
	change in %	11.8	14.0	29.6
B&H	EUR mn	4758	5715	1045
	change in %	11.9	20.1	-0.3
Bulgaria	EUR mn	11620	14682	3933
	change in %	20.9	26.4	32.8
Croatia	EUR mn	13342	14922	3936
	change in %	6.3	11.8	27.3
Macedonia	EUR mn	2358	2593	546
	change in %	15.6	10.0	2.1
Romania	EUR mn	26281	32569	8567
	change in %	24.0	23.9	28.5
Serbia	EUR mn	8663	8354	2028
	change in %	31.2	-3.6	32.9

Notes: ¹ cif = cost, insurance and freight; ² IQ = first quarter; ³ mn = million.

Source: Vladimir Gligorov, *Southeast Europe: An Emerging Region in Transition. EU integration and effects on Austria*. Study prepared for the Bundesministerium für Wirtschaft und Arbeit. WIIW, 2006.

85. This was preceded by eliminating administrative barriers to trade, freezing any new measures to restrict trade and coordination of a reduction in trade barriers towards each other. See Adam, Kosma and McHugh, op. cit., p. 7) did not start from scratch as several countries that emerged from the collapse of the former SFRY had established bilateral free trade arrangements with each other even before signing the MoU – there were six pre-MoU FTAs in the region (Macedonia had FTAs prior to its MoU with Bulgaria, Croatia and FR Yugoslavia).

86. Intra-regional policy-induced integration (as noted in Adam, Kosma and McHugh, op. cit., p. 7) did not start from scratch as several countries that emerged from the collapse of the former SFRY had established bilateral free trade arrangements with each other even before signing the MoU – there were six pre-MoU FTAs in the region (Macedonia had FTAs prior to its MoU with Bulgaria, Croatia and FR Yugoslavia).

Towards a regional free trade area

The increase in intra-regional trade was underpinned to a great extent by regional trade integration championed from the outside. This made up for the lack of political will evident in the region at the beginning of the process and paved the way for a recognition of the need for cooperation. In June 2001, under the auspices of the Stability Pact for SEE, a Memorandum of Understanding (MoU) was signed on trade liberalisation and facilitation⁸⁵ to encourage the development of a network of bilateral free trade agreements (FTAs) and, by aspiration at least, the dismantling of regional non-tariff barriers.⁸⁶ This initiative encompassed countries from the

West Balkans as well as the candidate countries from the East Balkans and even Moldova. Among these countries, 32 agreements were signed, but it is only since 2004 that about two thirds of these FTAs have effectively been applied. The main reason was the transformation of the FRY into Serbia and Montenegro, which took place in 2003, giving rise to the renegotiation of several FTAs. The unsettled relationship between Serbia and Montenegro was not the only unfinished state formation/building process that affected FTAs – UNMIK, on behalf of Kosovo pursuant to UN resolution 1244, signed FTAs with Albania and FYROM, which provoked protests from Serbia and Montenegro (SMN), but did not lead to disruption of existing FTAs between either SMN and Albania or SMN and Macedonia. FTAs with BiH and Croatia, signed later, went almost unnoticed and hence without protests.

The trade agreements contained provisions envisaging: elimination of tariffs on 90% of goods in intraregional SEE trade, elimination of non-tariff barriers in intraregional SEE trade, enhancement of trade in services in the SEE region, trade facilitation, harmonisation with EU trade standards and application of trade remedies according to WTO rules.⁸⁷ Early successes in meeting the targets, especially in the cases where integration did not start from scratch, have to be, as Adam, Kosma and McHugh warn, interpreted with care. The reason relates to the fact that targets are easy to achieve when intraregional trade flows are low and comprise a comparatively small number of products. This holds true especially in the case of agricultural products, which include a very small number of tariff lines, and, because of the high degree of protectionism, are not traded much within the SEE countries. Although tariffs in many lines of goods and services had been reduced, if not abolished entirely, there were still a number of complexities, anomalies and exemptions – the most serious of which are in agriculture (covered only partly) and in public procurement and services, which were exempted.⁸⁸ Even when the enforcement of FTAs started in 2005, it was practically obstructed on many occasions. Some of the countries suspended parts of the agreements, but many did not have sufficiently organised customs services which could cope with the large number of legal documents that these agreements represented.

Moreover, bilateral agreements differed among themselves – previously existing FTAs differed significantly from the general framework outlined in the Memorandum of Understanding

87. Predrag Bijelic, 'Trade Policy of the European Union as a Factor of Regional Trade Integration in Southeast Europe' *Discussion Paper* no. 36, The Centre for the Study of Global Governance, London School of Economics and Political Science (LSE), 2005.

88. David Kernohan, 'Reverse Balkanisation? Trade Integration in South-East Europe', *CEPS Working Document* no. 249, August 2006, p. 7.

(MoU), each agreement contained its own specific list of protected items – and therefore this approach created rather tangled and intricate, spaghetti-like trading relationships,⁸⁹ which were seen as confusing and judged partly responsible for failures to capitalise on trading opportunities. The fact that the agreements needed to be harmonised in areas related to ‘behind the border’ issues such as public procurement and services and, most importantly, cumbersome rules of origin that applied to each country individually, clearly demonstrated how limited the bilateral approach was. Moreover, the various bilateral deals were also difficult to administer. Where disputes arose, enforcement mechanisms were easily ignored, as existing trade agreements on agriculture between BiH, Croatia and Serbia demonstrate. In theory, their bilateral treaties completely liberalised this trade. But after the transitional period expired, when Bosnian farmers were unable to cope with competition from their stronger neighbours, Sarajevo unilaterally re-imposed protectionist tariffs, which caused rifts that remain unresolved. Thus, while the MoU certainly accelerated regional trade liberalisation, the project was judged by Adam, Kosma and McHugh to be coming to an end back in 2003. If liberalisation was to proceed further, and if intra-regional trade were to come closer to its potential, then a more ambitious multilateral approach was required.

At the meeting in Sofia in June 2005, SEE trade ministers began a process to integrate the existing network of bilateral FTAs into a single regional FTA. They also agreed to implement a programme to reduce or eliminate non-tariff barriers (NTBs) and to work towards further harmonising regulations for trade in services. This was to usher in a new era of regional trade cooperation, increased investment opportunities and harmonisation with international standards, but was also, in the words of an EC official,⁹⁰ to turn the existing spaghetti-bowl ‘into a flat lasagne’. The idea was not new. It was suggested within the Stability Pact at the beginning of the work on trade liberalisation in SEE, but was deemed not to be politically feasible at the time. As it did not occur in the beginning of the liberalisation process, more ambitious ideas emerged over time. The 2005 report of the International Commission for the Balkans⁹¹ recommended that the whole of the Western Balkans join the customs union of the EU and Turkey. This would have, however, been a much longer process, requiring significantly more technical agreements and administration. It

89. See Adam, Kosma and McHugh, *op. cit.* in note 28, p. 8.

90. Quoted in Anna McTaggart, ‘EU Hails Balkan Free Trade Deal as Milestone’, *Balkan Insight* no. 56, 26 October 2006.

91. See: www.balkan-commission.org.

would also require regional countries to remove tariffs altogether, when they still rely on these as an instrument of their trade policy and as a source of budget revenue. Finally, the EU, having dealt with cases of fraud in the region, where goods from outside have been passed off as indigenous so as to enable them to enter the EU market, was also doubtful about the value of a customs union in the region.

Multilateralising existing bilateral agreements was perceived as less controversial, although not devoid of negative political connotations. After the goal of regional FTA was underlined at the informal meeting of the EU ministers of foreign affairs in Salzburg in March 2006, there were unfavourable reactions in Croatia, most of whose citizens saw their destiny in Central Europe, not the Balkans. Moreover, the fact that the geographical composition of the zone was almost identical to that of the former Yugoslavia (minus Slovenia, plus Albania) fuelled fears that what lay beneath the idea was a political agenda aimed at resurrecting that state, from which Croatia split amid much bloodshed in 1991 – and which it is constitutionally barred from entering again. It was finally agreed, at the SEE Summit in Bucharest in April 2006, to proceed towards integrating the Western Balkan countries in a modernised CEFTA, which would thus become a vehicle for further trade liberalisation in the region. CEFTA was to be modernised inasmuch as eligibility criteria were to be relaxed allowing all countries/territories in SEE, even those without a concluded SAA or not being WTO members, to join. Kosovo, represented by UNMIK, was included in the process according to the UN resolution 1244. The extent to which it is often forgotten that Kosovo was not an independent state is best illustrated by the fact that the UNMIK representative had to object to the phrase that the goal of all parties was to join the EU, as this was not something the UN Interim Administration Mission in Kosovo could share with the other signatories. For Kosovo, however, totally surrounded by the region, without at the same time having a high degree of integration with its neighbours, trade liberalisation and economic integration are a must. This will hold even more true once it ceases being dependent on aid and transfers.

Opportunities, but also threats

The new text, also known as CEFTA 2006, is a trade agreement incorporating new provisions such as trade in services, intellectual property rights, public procurement and investment promotion and will be completely in line with the rules of the WTO and with the parties' obligations towards the EU. It is to have clear and effective procedures for dispute settlement and a mechanism to improve compliance by all parties both with the agreement and with WTO rules as well as to facilitate the gradual establishment of the EU-Western Balkan countries zone of diagonal cumulation of origin, envisaged in the European Commission (EC) Communication of January 2006. 'Providing a suitable framework to manage the agreement and review its efficient implementation', a phrase featured in the Bucharest 2006 Joint Declaration, opened the way for establishing a small secretariat, which will support the Joint Committee in supervising and administering the implementation of the agreement. The new body will be located in Brussels, to make sure disagreements among regional countries regarding the host are avoided, and is seen even by sceptics as a positive development, as regular meetings would lead to more understanding of common interests and help all regional countries come together and put a good case for Brussels to be more committed to their development and integration. There will also be a unified system for resolving trade disputes.

The mood of policymakers and the business community in the region is generally positive. Chambers of commerce in regional countries recognised the need to launch the Forum of Chambers of CEFTA 2006 members, with the aim of exchanging views on implementing obligations emanating from the CEFTA 2006. Together with an increase in trade, an increase in investment is expected as well, inasmuch as the launching of the CEFTA succeeds in inciting investors to develop regional strategies and making them look at the region as a whole rather than at the markets on a country-by-country basis. The fact that the regional countries are too small to be attractive to foreign investors was not decisively overcome by previously existing bilateral FTAs, as rules of origin that applied to each country individually prevented the investors from taking advantage of tariff-free access to the EU market made possible by autonomous trade measures adopted for the Western Balkans. Under the new CEFTA, a producer of a commodity can produce spare parts in one country and assemble in another and

export both within and without the region; the producer only has to prove that the commodity originates from the region rather than from one country in the region, which should increase both investment and trade. The environment for trade and investment could be even better, and the opportunities offered by CEFTA exploited to the full, if countries in the region commit themselves to certain rules and policies towards investments in the region and outside of it. The Regional Framework for Investment (RFI), which the SEE ministers endorsed in June 2006, might be a step in this direction, as it consolidates into a single Framework the good practices and policy principles that have emerged through the work of the OECD and the Investment Compact under the Stability Pact and contributed to improvement of the regulatory and institutional framework in the SEE countries.

The launching of CEFTA does not inspire only hopes – there are worries too. The most important one relates to the fact that the competition policy, which remains under the competence of national authorities, is not developed to the same extent in all countries. This might result in big companies in one regional country taking advantage of their size in other countries, which is a situation of which smaller countries are afraid. This question was to a great extent prompted by an agreement on joint operations between Serbia's Delta and Croatia's Agrokor, each a leading retail conglomerate in its national market and each drawing on an extensive local agricultural production capacity. The merger, expected to be finished in a year, is perceived by Drobnjak as demonstrating true economic cooperation, one which by far exceeds everything previously devised in the Brussels laboratories. Although this might indicate that the period during which politics dominated economics, causing disruption in large-scale cross-border economic partnerships, has come to an end, not everyone is happy about the proposed merger.

The first reason is that it might not be the end of politics but rather a different way of politics – one where politicians protect big domestic actors at home and help them abroad, building on the national sentiment, which has become extremely strong after the conflicts of the nineties, that national interest is best promoted by buying national goods. Both Delta and Agrokor seek new markets outside Serbia and Croatia – Delta with projects in Montenegro and FYROM and Agrokor in BiH and Serbia. And as Bozidar Djelic, Serbian deputy prime minister, jokingly remarked at a

regional conference on economic cooperation recently organised in Belgrade by the weekly *Ekonomist*,⁹² it would not be the first time that Serbia and Croatia have divided Bosnia between themselves ... The second reason relates to the fact that both Delta and Agrokor are uncomfortably close to monopolistic positions at home, so their combined operations would further limit room for manoeuvre and might have the effect of blocking or even grabbing market shares from aspiring competitors such as Slovenia's Merkator or Veropoulos of Greece.⁹³ Or, as regional director of Metro Cash and Carry remarked at the *Ekonomist* conference, this resembles an incestuous marriage of two Balkan tycoons interested in defending themselves from global competition, the only one which can bring healthy competition and lower prices. Starting from the premise that what was good for one company was surely good for its owners, but not necessarily for the whole region, he questioned if the interests of the region were best served by one huge company which resists global competitors. Fears might turn out to be unjustified and benefits may well prevail, but even the possibility of this not being the case should be a signal for the Commission to work with the regional countries to make sure regional cooperation and integration are beneficial for all.

Negotiations on tying the Balkan trade knot were not easy. The first reason relates to the fact that there was, actually, very little room for manoeuvre, as solutions had to be found within the framework of existing FTAs, on one hand, and WTO rules, on the other. The second deals with the fact that a number of regional countries went through elections during the negotiations period which resulted in a change of government (Macedonia) or lack of new government (it took more than two months to form the government in Montenegro and even more so in BiH), which often made the negotiating positions of these countries somewhat difficult to configure. So, negotiations that seemed to have the rather easy task of multilateralising existing FTAs turned out to be, in the words of one negotiator, a nightmare. The extent to which this was the case is best illustrated by the fact that Serbia and BiH backed out from initialling the agreement together with the other regional countries on 9 November. The reason concerned the fact that their late appeals regarding trade with Croatia, calling for revision of existing trade rules, were rejected.

In the end, all regional countries signed the CEFTA agreement in Bucharest on 19 December, preventing a 'gaping hole in the

92. See *Ekonomist magazin* no. 338, 13 November 2006.

93. Vesna Hadzivukovic, 'Boost for Cross-Border Economic Cooperation', *Balkan Insight*, 9 November 2006.

trading area',⁹⁴ which would have resulted from the failure to include Serbia and BiH. BiH secured protection of some agricultural products, while the issue of Serbia's protection of domestic cigarette production was to be dealt with within the country, before ratification, all of which led the deputy Prime Minister of the Croatian Government to announce the agreement as 'the victory of Croatian diplomacy'.

Although greeted as a landmark historical event and a tremendous success for the region, proper implementation of the agreement will, as Erhard Busek rightly notes, necessitate considerable care and attention from all members, requiring them to develop a perspective on the region as a whole and beyond their national agendas. There are authors, like Kernohan, who consider regional FTAs as being too little, too late for the region, and are doubtful that CEFTA includes a sufficient component of agriculture and services and whether it entirely does away with trade frictions due to rules of origin, other NTBs and so does little to end a general pattern of inwardness and unreasonably restricting trade in order to protect domestic industry. He therefore maintains that, although in principle a subtle realignment of regional trade in goods and services would not only greatly enhance intra-regional trade but also provide a platform for more infrastructure, more direct investment and an improvement in the region's endemic balance of trade problems, in reality serious increases in intra-regional trade would almost certainly require stronger trade policy medicine in the form of a customs union. On the other hand, Gligorov's opinion is more positive. He notes that, given the fact that countries were at a different stage in their negotiations with the EU and some of them are yet to join the WTO, the creation of a regional free trade area cannot have a huge impact on trade and investments in the region, but cannot, by the same token, hurt that much. It would, however, lead to normalisation and liberalisation in the region and (hopefully) to increased visibility and interest in the region within the EU, which are not unimportant goals, together with getting the countries in the region used to the idea that they are part of a common market, which they will become anyway once they join the EU.

94. Saida Mustajbegovic and Anna McTaggart, 'Tobacco Tests the Limit of Balkan Free Trade', *Balkan Insight*, no. 60, 23 November 2006.

Infrastructure

Tariffs and NTBs are not the only obstacles to regional trade liberalisation and integration. The availability of infrastructure services and cooperation in providing them proves to be the key to both sustainable economic growth and successful trade liberalisation and integration. As was the case with regional trade integration, the EU engagement happened first, while political will from the regional capitals and recognition of cooperation as the best means of serving the interests of regional countries came later. Another similarity with regional trade integration relates to the interference of political issues and their potential to stall the cooperation process.

The first step that had to be taken was reconstruction. Following the Kosovo crisis in 1999, the international community intensified the effort required to help reconstruct the war-torn countries of SEE and to support them in their drive towards political stability and economic prosperity. In financial terms, more than 6 billion euros have been made available in annual commitments of official aid to the region, while the reconstruction efforts in Kosovo, Serbia and Montenegro and Macedonia required special donor conferences, with funds being pledged and disbursed against clearly identified needs.

As important as the provision of financing was the need to coordinate. This held true for both donors, who wanted to ensure compatibility and policy consistency within programmes where multiple donors were involved, and recipients, who were expected to develop and implement their reform programmes based on national strategies that also foster regional cooperation. As for donor coordination, the Joint Office for SEE was set up in 1999 to support the European Commission/World Bank in their role as coordinators of international assistance for the reconstruction and development of SEE. Regional countries, on the other hand, were expected to participate in a way which helps develop regional perspectives and adequate prioritisation of regional infrastructure investments and thus ensure both political benefits and better standards of living for all countries of the region.

Parallel to reconstruction, efforts were undertaken for infrastructure development. In building the strategic approach towards infrastructure investment, the World Bank document 'The Road to Stability and Prosperity in South Eastern Europe' and the EIB's 'Basic Infrastructure Investments in South Eastern

Europe – Regional Project Overview’, were of crucial importance. In May 2001, the Infrastructure Steering Group was set up following a meeting of the Stability Pact Working Table II with the aim of facilitating the development of regional infrastructure in SEE. The Group consisted of experts from the European Commission, World Bank, EBRD, EIB, the Council of Europe Development Bank and the Office of the Special Coordinator of the Stability Pact. Its work was to be a part of an overall effort to enhance integration of the SEE countries, both in terms of regional integration among themselves and in terms of integration to the EU, through developing infrastructure within a regional approach, instead of on a national level. It works in the framework of sector-focused regional infrastructure strategies (Energy and Transport infrastructure study prepared by the EC, a water strategy prepared by the EBRD, and Air Traffic infrastructure developed by the EIB), which should facilitate coordination between donors and allow adequate prioritisation of the regional infrastructure investments in SEE.

Common problems, shared solutions? Economics (and politics) of cooperating in energy and transport

The energy sectors of the countries of this region share a number of important physical and institutional characteristics – primary sources of energy are limited (many countries produce low-quality lignite and there is some hydroelectrical production, while only Croatia and Romania have some limited production of oil and gas), which makes the region heavily dependent upon the import of primary energy, particularly of oil and gas. Moreover, energy infrastructures were the subject of significant damage during the conflicts of the 1990s and suffer from various inefficiencies at all levels of the chain.⁹⁵ The aim of the development of energy infrastructures is therefore, according to the 2001 transport and energy strategy, to ensure an adequate supply, security of supply and the necessary interconnection between the region and the neighbouring systems.

Cooperation in the energy sector counts, as noted in the Commission’s communication of January 2005,⁹⁶ as one of the most encouraging developments, despite the fact that the process attracted less media attention than trade integration and that the regional public is hence less aware of it. Building on the signed

95. See European Commission, ‘Transport and Energy infrastructure in South East Europe’, Brussels, October 2001, p. 20.

96. See European Commission, ‘The Western Balkans on the road to the EU: Consolidating stability and raising prosperity’, COM(2006) 27, Brussels, January 2005.

Memoranda of Understanding 2002 and 2003 (the 'Athens' Memoranda), the Energy Community Treaty was signed in October 2005 between the EU and nine partners from the region (Bulgaria, Romania, Croatia, BiH, Serbia, Montenegro, Albania, UNMIK – Kosovo and Macedonia⁹⁷). The Treaty, which entered into force in July 2006, creates the legal framework for a regionally integrated energy market for electricity and natural gas networks and for integration of that market into the wider EU market. In practice, this means that the SEE countries will have to establish compatible national electricity and gas models in line with relevant EU directives (electricity, gas, environmental impact assessment, reduction of sulphur content of fuels and large combustion plants) and secondary legislation. At the same time, it aims to establish common rules for generation, transmission and distribution of electricity and gas, as well as to establish state-level national energy authorities, regulators and transmission system operators together with compatible state and regional electricity and natural gas market action plans and to open up the markets in line with EU commitments but with a suitable transition period. Modelled on the European Coal and Steel Community Treaty that was the basis for the EU, the exercise is supposed to be mutually beneficial – the EU will benefit from greater security for the supply of gas and power transiting these countries, while the non-EU countries' energy markets will operate more efficiently by applying EU rules. Furthermore, their consumers will benefit from more competitive markets and the targeting of subsidies where they are most needed.

There is little doubt that an open, free energy market in the region will bring benefits in terms of attracting investments, increasing interconnectivity and the reliability of supply. But for these promises to materialise, reforms must be implemented. Generation, transmission and distribution must be unbundled, tariffs must be appropriate and set by independent regulators, bills must be collected and utilities allowed to operate on a sound commercial basis. Investment frameworks must be fully predictable over the long period of time needed for energy investments. If these reforms are not implemented, there is a risk that electricity will, as underlined by Laurent Guye, Director for Working Table II of the SP, just transit through the region – thanks to the liberalised access to transmission networks – to reach more reliable markets outside the region.⁹⁸ Therefore the coming period will be a phase

97. Moldova, Norway, Turkey and Ukraine joined the Energy Community as observers at the first meeting of the Energy Ministers after the entry into force of the treaty.

98. See WTII Meeting, Belgrade, 28 May 2006 at www.stability-pact.org.

of reforms and investment in the energy sector. That this is felt also in the companies throughout the EU – potential investors, looking for strategic partners but also for political support in the region and outside of it, is best illustrated by rumours, sparked by an article in the Czech daily *Tyden*, that the Czech electrical company CEZ hired ex-US Secretary of State Madeleine Albright to lobby for CEZ in the Balkans, where this company is targeting its acquisition policy.

The need to comply with the obligations emanating from the Energy Community Treaty is not the only challenge the region is facing in the near future. Bulgaria, the number one exporter of electricity in the region, decommissioned two more units of the Kozloduy nuclear plant (the first two were closed in 2002) in order to comply with obligations conditional on its accession to EU membership. This will have consequences in terms of less electricity in the region and likely higher prices. There are alternatives in the region – lignite-fired power plants in Kosovo and Serbia, which are the least costly options. Effective implementation will require, however, a good, reliable investment climate, a political solution to the status question and a fair degree of regional cooperation.

Both because of its geographical position and because of its large coal deposits, Kosovo's importance cannot be overstated. Yet the energy sector, in particular the current financial and operational status of the Kosovo Electricity utility KEK, remains a crucial and challenging issue. Kosovo's electricity supply situation is still today very difficult, as stated in the 2006 SAP Report. The distribution network is in a very poor state after years of underinvestment and poor maintenance. Mining of the dominant fuel, coal, also suffers from underinvestment. The utility KEK lacks adequate funds to invest in and properly maintain the electricity supply system. Cash collection rates, although markedly improved, remain at unsustainably low levels and technical losses and theft remain high. Therefore shortages and disconnections are common, which aggravates the political situation in the country – the poor electricity situation is often attributed to the incompetence of the administration, political conspiracies and problems but also a conscious effort aimed at jeopardising the lives of Kosovo inhabitants.⁹⁹

Frequent power shortages are an anomaly for a territory with tons of coal reserves, sitting at the centre of a region with a growing energy demand in Europe. In October 2006, the World Bank

99. See, for example, the weekly *Vreme*, no. 826, November 2006.

approved a grant aimed at developing the enabling framework to allow private investors to start bidding for building a new power plant and opening a new lignite mine in a socially, environmentally and financially sustainable manner. This brings Kosovo a step closer to a more steady and reliable electricity supply and also provides an important boost to its economy while opening, at the same time, a possibility for a greater supply of electricity to an integrated and growing SEE electricity market. Analysts,¹⁰⁰ however, warn potential investors, of which there is no shortage, that Serbia still counts on the energy reserves in Kosovo. The Serbian Energy Strategy, adopted in 2005, which sees the lignite reserves in Kosovo as the most important mineral deposits that Serbia relies on and can exploit in the future, reinforces this understanding.¹⁰¹

Reforms and development of energy reserves notwithstanding, the countries of the region are highly dependent on the import of primary energy, particularly of oil and gas. Any increase in natural gas demand, however, depends on the rate of expansion and interconnection of the natural gas system in the region. These systems are not well developed and integrated in SEE. For this reason, the full market potential for gas will only be realised with the construction of new gas transport pipelines, the development of a gas distribution infrastructure and greater integration of gas markets in the region. According to the 2001 strategy, the priorities for oil and gas are to strengthen and complete the region's oil network to ensure supply to the region and transit to neighbouring regions and to continue the study of new supply routes and pipelines contributing to the security of oil supplies.

These new routes and pipelines seem to be fuelling 'Balkan dreams over overnight riches'¹⁰² as, after years of conflicts and political instability, regional countries hope to boost their economies by becoming key links connecting Europe and Asia. At least three trans-Balkan projects are in preparation, competing to bring Caspian oil and gas to the West – Albania, Bulgaria, and Macedonia (AMBO pipeline) aiming to carry oil from the Caspian region to the Black Sea port of Burgas in Bulgaria and then through Macedonia to the Mediterranean port of Vlore in Albania; the Burgas-Alexandropoulos pipeline, a joint project of Bulgaria, Greece and Russia, designed to bring Russian crude oil to the Mediterranean and bypass the crowded Turkish straits; the Constanta-Trieste line involving Romania, Serbia, Croatia and Slovenia. Thus, although it is obvious that a fair degree of cooper-

100. See, for example, Martin Dvorzak, a former UNMIK official at: www.b92.net/biz/vesti/tema.php?id=127&start=140&nav_id=216937.

101. See: www.prsp.sr.gov.yu/download/strategijaenergetike.zip.

102. Marian Chiriac, Jane Dimeski and Ekaterina Terezieva, 'Oil Pipelines Fuel Balkan Dreams Over Overnight Riches', *Balkan Insight*, 16 November 2006.

ation is required if any of the pipelines is to be completed, it is also clear that there is lots of competition, as all of the three, according to the writers Chiriac, Dimeski and Terezieva, face delays, owing to shortages of investors and funds and poor decision-making. Although the Commission's communication of January 2006 announced the EU's objective to increasingly focus on ensuring interconnections of international energy networks, including pipelines, in the region, it may well be that Russia, whose oil will be pumped through the region, has the final say. This will provide Russia with even more leverage in the region, which is not to be underestimated in view of the importance it already has through its power to block, as a permanent member of the Security Council, the final status of Kosovo if it is not to its liking.

Transport

Transport infrastructure and facilitation is a cornerstone for economic development. Yet, transport infrastructure in SEE is, as noted in the 2001 strategy, generally below European standards and has been severely affected by direct and indirect war damage, which destroyed or rendered unusable important components of the infrastructure, as well as by neglect and underinvestment. Disruption on the main corridors has led to diversion on traffic towards other, less adapted routes, while priorities have also changed for political reasons – in Croatia, for example, priority was given to corridor V (north-east/south-west) instead of corridor X (former 'transYugoslav' north-west/south-east). That is why the signature of a Memorandum of Understanding on the Development of the SEE Core Regional Transport Network in June 2004, after two and a half years of reflection and consensus building by SEE countries and the European Commission, is considered an important achievement which crowned the efforts of the regional countries and the international community to develop a strategy for regional transport in SEE. The basis for the definition of the Core Network has been set by the 2001 Transport and Energy Strategy Paper. It was further clarified and elucidated by the TIRS (Transport Infrastructure Regional Study) and the REBIS (Regional Balkans Infrastructure Study – Transport) technical studies of 2002 and 2003, respectively. It was also the result of intensive interaction between the EC and the main IFIs within the Infrastructure Steering Group for SEE.

Albania, BiH, Croatia, UNMIK-Kosovo, FYROM, Montenegro and Serbia endorsed the MoU, thereby committing themselves to cooperate for enhancing the development of a regional transport network in SEE. The MoU provides for reciprocal consultations on transport policy and for institutional reforms needed to make investments sustainable and opens the door to implementing a major infrastructure programme. It includes 4,300 km of railways across the SEE countries, 6,000 km of roads, major ports and airports and the inland waterways Danube and Sava. The South East Europe Transport Observatory (SEETO), hosted by Serbia and supported by the CARDS 2006 Regional Programme, provides technical services needed to support the process of coordination. It is responsible for developing the multiannual indicative plans which determine the conditions of transport on the principal network, define the measures for ensuring better cooperation and designate the priority projects – a multi-annual plan for 2007-2011 was endorsed in December 2006. Bulgaria and Romania did not participate in this process, as they were included, being candidates for EU membership, in the EU effort to define the trans-European transport networks for the Member States and the accession countries. In the long term, the proposed SEE Core Regional Transport Network should be part of the extension of the major trans-European axes of the Trans-European Networks (TENs) to the neighbouring countries. In the short term, however, the most important task is the progressive consolidation of SEETO's role – given the difficulty of making a choice among different infrastructure projects catering to the needs of different constituencies, it is crucial that the prioritisation be increasingly undertaken by the countries of the region, on the basis of an agreed methodology and with due consideration for regional integration criteria, which is precisely what SEETO is all about.

Another area of cooperation relates to air transport. In May 2006, the EU and transport ministers of (then) eight SEE partners as well as of Iceland and Norway signed a political agreement to create a European Common Aviation Area (ECAA), which will become the framework for the extension of the Single European Sky to the region. It is the first comprehensive aviation agreement accomplished since the adoption by the Council, in June 2005, of a roadmap aiming to develop the Union's external aviation policy, part of which is the aim to create a wider Common Aviation Area with neighbouring countries by 2010. By extending the applica-

tion of the complete EC aviation law (including issues such as economic regulation, aviation security, airport security, air traffic management, environmental protection, passenger protection and competition rules) to ECAA partners, the Agreement will ensure high and uniform safety and security standards across Europe as well as uniformly applied competition rules and consumers' rights. It will, at the same time, provide for new market opportunities for the European aviation industry by creating a single market for aviation, which is probably the reason why *acquis* was extended to the region in this area and not, say, in land transport, where framework cooperation is not Trans European Networks, reserved for member states and accession countries, but SEE Core Regional Transport Network. Air traffic between the EU and SEE has seen significant growth recently (121% since 2001). As existing restrictions on flights between the EU and the region will be removed, a level playing field for European carriers will be created and the trend for growth would be accelerated. Tourism, which is a huge growth area in SEE, and the high number of under-utilised airports, will create opportunities for further growth to be attained, as well as creating investment opportunities and enabling capital flow from both sides as a result of relaxing current restrictions on airline ownership and control rules.

To cater for special issues related to the Danube and Sava rivers, the Commission and the Stability Pact helped initiatives like the Danube Cooperation Process and the International Sava Basin Commission. Launched in May 2002 and gathering the 13 countries sharing a considerable part of the hydrological catchment area of the Danube River with the European Commission and the Stability Pact, the Danube Cooperation Process aims to broaden and deepen present Danube cooperation and give clear political and economic dimensions to it, without creating new institutions. The Framework Agreement on the Sava River Basin and the Protocol on the Navigation Regime, both signed in 2002, promote regional cooperation throughout the Sava River Basin on issues related to navigation, economic development, comprehensive water management and environmental protection. The Sava Commission was established in June 2005 and has its secretariat in Zagreb.

Conclusion

On the whole, that there are strong reasons for fostering regional cooperation in the areas of the economy and infrastructure is beyond doubt. But it is also obvious that the simple fact that there are gains to be had from cooperation is not enough – political will from the top and the EU engagement are also crucial. The latter, by paving the way for a more enlightened understanding of self-interest within regional countries, is usually a precondition for the former. Furthermore, cooperation progresses faster and is more encouraged in areas where it helps serve the interest of the EU together with the interest of the regional countries. That was the reason behind the extension of the Community *acquis* in the areas of energy and aviation to the region. When it comes to trade, land transport and environment the EU is committed to supporting cooperation but remains, at present, outside the cooperation framework.

It is, however, clear that some of the key trade, energy and transport routes pass precisely through those countries which might, in various ways, be affected by the political and economic consequences of Kosovo's constitutional status, once it has been decided. On the one hand, a pressing need to enhance institutional capacity, which is, according to the above-mentioned analysis of the Riinvest Institute, necessary for more dynamic economic growth in Kosovo, is undoubtedly one of the reasons for resolving the political status of Kosovo sooner rather than later. On the other hand, the economic development of Kosovo, which is totally surrounded by the region and hence in the long run politically and economically dependent on it and especially on the immediate neighbours, would be impossible without a state of political normality in the region. The same holds true for further trade liberalisation and transport integration as well as full exploitation of the energy potential of the region. Therefore, the political status of Kosovo has to be resolved in a way which will not preclude regional cooperation.

This chapter proves that there are gains to be achieved from cooperating in these areas, but also warns that the way the Kosovo issue is resolved might determine whether the full potential for cooperation is achieved or not. Similarly important is the awareness of the (EU) light at the end of the transition tunnel as, without it, fostering trade and economic cooperation is likelier to result in all the bad, rather than good, things associated with the 'Arizona market'.

Realities: the political-security dimension

When one looks at political cooperation in the region, it is obvious that levels of regular bilateral and multilateral contacts have increased, and that a need for regional cooperation is more readily recognised than before. Regional security, however, still casts a shadow over the development of the region. This relates to the Kosovo issue and to international military presence in the region, but also to the fact that the Western Balkans is extremely vulnerable to organised crime and other new security challenges that can affect the EU as well.¹⁰³ Promoting security within the region but also making sure insecurity does not spill over into neighbouring countries makes the EU interested in fostering cooperation in areas of politics and security among the Western Balkan states. Initiatives in this area are numerous, and, again, most of them do not come from within the region, but from the outside. Criteria for success seem to be, as in the field of economics, political will in the region, recognition of the need for cooperation and the involvement of the EU.

Dealing with the past

Just as reconstruction paved the way for cooperation in trade and infrastructure, the establishment of **diplomatic relations and agreement on legal SFRY state succession issues**, which was completed by 2001, enabled a degree of normalisation in bilateral political relations among the regional countries. This opened the door for the work aimed at the development of a network of relationships based on trust and confidence. This was done to enable the region to reduce the risks of internal and external threats to stability and to ensure that difficult bilateral or wider issues such as border management and refugee return are dealt with responsibly. In this context, deepening the **reconciliation** between Zagreb and Belgrade was assessed by the SAP Report 2002 as one of the essen-

103. Branko Milinkovic, 'Jucerasnji neprijatelji, sutrasnji partneri' ('Yesterday's enemies, tomorrow's friends'), *Evropski forum*, November-December 2006.

tial elements in the stability of the region. Similarly, public apologies expressed by the President of (the then) Serbia and Montenegro (SMN) for crimes committed in Bosnia and Herzegovina and the initiative of the Presidents of Croatia and SMN to apologise for past wrongs was taken as an encouraging sign of improved relations between the countries and a willingness to promote reconciliation,¹⁰⁴ just the same as the apology of the Serbian President for war crimes committed by his countrymen in BiH.

Another issue related to the past which requires regional cooperation concerns war crime trials. A precondition for their success is establishing an adequate legal framework for regional cooperation, given that victims, witnesses, perpetrators as well as crime scenes are often to be found in different countries. Moreover, as underlined on the website of the Serbian War Crimes Court, regional cooperation is considered an important condition for the ICTY to relinquish cases to domestic courts. In October 2006, the Chief State Attorney of Croatia and the War Crimes Prosecutor of Serbia signed an Agreement establishing a mechanism for cooperation in the prosecution of citizens or residents of their respective countries suspected of committing war crimes in Croatia. The Agreement is to function within the existing legal frameworks of both states, which currently bar the extradition of nationals and the formal transfer of war crimes proceedings between courts of these states. Given these legal restrictions on judicial co-operation, the two parties state their intention to prosecute suspected war crimes perpetrators residing in their respective states through the exchange of information and evidence. In 2005, the Chief State Attorney had already signed a framework memorandum with his counterparts in Bosnia and Herzegovina and Serbia to facilitate co-operation in relation to all serious criminal offences that have inter-state aspects. These memoranda have so far facilitated co-operation in some individual war crimes cases, while the new agreement between Croatia and Serbia concerns all war crimes cases that involve these two states.

In July 2006, before striking a deal with Serbia, Croatia signed the same agreement with Montenegro, whose constitution also forbids extraditing citizens. Its conclusion allowed the Montenegrin justice system to prosecute citizens accused by Croatia of committing crimes during the siege of Dubrovnik in 1991.

Despite the fact that a large number of people indicted for crimes in Bosnia are thought to be in Serbia or Croatia, Sarajevo

104. Commission of the European Communities, 'Serbia and Montenegro Stabilisation and Association Report', COM (2004) 206 final, Brussels, 30 March 2004.

has held back from the deal, sticking to its position that they should be tried where the crimes in question were committed. This reflects the fears that, if crime trials are held elsewhere, only Bosniac indictees will be tried in the country, while trials for atrocities against Bosniacs would take place almost exclusively abroad.¹⁰⁵ The fact that individuals residing in Serbia or Croatia and wanted for war crimes in any of the three states concerned have often been able to evade such charges, as Serbian and Croatian legislation prohibits the extradition of its own citizens to other countries, was perceived as one of the biggest barriers to the successful prosecution of war crimes. One proposed solution was an agreement on mutual extradition but, according to a source in the Bosnian prosecutor's office quoted by the Balkan Investigative Reporting Network (BIRN), the governments of both Croatia and Serbia refused this.

Regional cooperation is the only answer to the **issue of refugees and displaced persons**, over one million of whom remain in the region. In addition to humanitarian and social concerns for these people, a country's willingness to achieve genuine and sustainable reintegration of minority returnees is an indicator of its political and democratic maturity.¹⁰⁶ A wide range of conditions need to be satisfied to make return sustainable, including access to reconstruction assistance, employment, health care, pensions, utilities and an unbiased education system. Regional cooperation on refugees increased through the commitment by BiH, Croatia and SMN to join forces in order to resolve the issue of refugees before the end of 2006.¹⁰⁷ According to the Sarajevo Declaration, each country should produce a 'roadmap' for the implementation of the above-mentioned goals. These roadmaps would then be unified in a joint implementation matrix. A Task Force working group has been set up to assist this process and while a certain degree of progress on technical issues has been made, deadlines are slipping and road maps are being finalised with a certain amount of delay. Therefore the progress on regional cooperation and implementation of the Declaration has been continued, but at a slower pace than expected. Three Task Force meetings were held and one Ministerial meeting, serving to reduce the number of unresolved issues to two, for the solution of which political consensus is lacking – a fair settlement mechanism in Croatia for lost Occupancy Tenancy Rights and convalidation of pension rights etc for working years spent in Serb-controlled areas of Croa-

105. Merima Husejnovic, Nidzara Ahmetasevic and Aleksandar Roknic, 'Regional Justice: Bosnia Holds Back on Prosecution Agreement', *Balkan Insight*, 22 September 2006.

106. Commission of the European Communities, 'Stabilisation and Association Process for South East Europe: First Annual Report COM(2002), 163 final, Brussels, 2002.

107. Commission of the European Communities, 'Bosnia and Herzegovina 2005 Progress Report', COM (2005) 561 final, Brussels, November 2005.

tia during the civil war. Further efforts are needed to reach agreements on the remaining issues and to fulfil the plans to present a comprehensive road map for each country and to agree on a joint implementation matrix.¹⁰⁸

In Kosovo, however, where an estimated 200,000 people have been displaced (IDPs or refugees) since 1999, the crucial substantial and sustainable return of displaced persons is being hampered by unfavourable socio-economic conditions and the precarious security situation. As of 31 August 2006, 3,236 people had returned voluntarily in 2005 and in the first eight months of 2006. The total number of minority returnees since 1999 is estimated at 15,615. Out of approximately 515 families that were displaced in March 2004, 154 have returned to their homes permanently. The signature of a Protocol on Voluntary and Sustainable Return between UNMIK, the PISG and Serbia is a positive step. The protocol seeks to improve the conditions for return and enhance capacity for implementation of the return process through provisions that range from providing access to basic services for the returnees to promoting integration of internally displaced persons.

Political dialogue, parliamentary cooperation, civil society

The SAP Report for 2003 noted an increase in the frequency and substance of multilateral and bilateral contacts in the region which was thought to prove that **political dialogue** between the countries was intensifying. Bilateral contacts are still, as indicated in Chapter Three, the most important vehicle for solving problems between countries. Although multilateral contacts seem mostly to be aimed at contributing to an overall better climate, their increase nonetheless resulted in a need felt for a strengthened political leadership by the countries of the region. More regional ownership is precisely what the Regional Cooperation Council (RCC), into which the Stability Pact should be transformed, is all about. Stronger regional ownership, requires, however, greater regional leadership and management, but also greater regional input in terms of political commitment, and not only human and financial resources.

Preparations for the Regional Cooperation Council, which will answer this need, are under way and should result in a new regional organisation in 2008. When fully operational in the

108. Commission of the European Communities, 'Serbia/BiH/Croatia 2006 Progress Report', COM (2006) 649 final, Brussels, 8 November 2006.

spring of 2008, the RCC will monitor and co-ordinate various regional co-operation processes throughout South-Eastern Europe and ensure that these are regularly assessed by the highest political structures both in the region, the European Union and other international bodies. It will also provide the SEECF with operational capacities through its Secretariat and task forces as well as acting as a forum for the continued involvement of those members of the international donor community engaged in SEE. The regional annual contribution to the budget for the RCC Secretariat has already been agreed (one million euro per annum for an initial period of three years starting from 2008) as well as division of the amount among the countries of the region. Based on the agreement by the region, the European Commission and several donor countries also announced their commitment to contribute financially to the budget of the RCC Secretariat. A decisive step in the process of transformation was taken in May 2007 when the Regional Table of the Stability Pact adopted the RCC Statute, endorsed Croatian diplomat Hido Biscevic as the RCC's first Secretary General and Sarajevo as the seat of the RCC Secretariat. Endorsement of Biscevic came as no surprise, after the government in Belgrade changed its mind and withdrew, for internal political reasons, the candidature of Goran Svilanovic. Having been chair of the Working Table I of the Stability Pact as well as SMN minister of foreign affairs, Svilanovic would have undoubtedly provided a stronger political leadership for the RCC.

Not only high-level contacts were increased, but also contacts among parliaments and civil societies of the regional countries. The growing number of bilateral and regional cooperation activities is a significant sign of the increasing desire among the parliamentarians of the Western Balkans for a stronger and also much more institutionalised exchange of experiences and expertise. Cooperation is geared towards dealing with the past, as was the Inter-Parliamentary Colloquium on Regional Reconciliation and Cooperation in the Western Balkans, organised by the European Parliament in mid-2006, or directed towards the future, as illustrated by activities initiated by the Conference of the European Integration Parliamentary Committees of States participating in the SAP (Western Balkan COSAP), reviewing the cooperation between the SAP national parliaments and the European Parliament through the activities of the Joint Parliamentary Committees.¹⁰⁹ Recognising the increasing role of parliaments in the

109. See Parliamentary Cooperation Task Force Progress Report, WTI Meeting in Bucharest, 15 November 2006, at www.stability-pact.org.

democratisation processes and in the Euro-Atlantic integration path, parliamentary cooperation was chosen as an overarching theme for the RCC activities. A network-style structure is envisaged with a small liaison office hosted by one of the SEE parliaments. This structure, which should be in place by mid-2007, should allow for coordinated exchange of information among the relevant committees on issues of importance for regional cooperation, possible training of parliamentary staff and be a counterpart for donor activities in this area.

Similarly, civil society recognises issues of regional importance and is engaging in cooperation, which is sometimes faster and easier than those between state actors. When it comes to facing the past, non-governmental organisations, like the Humanitarian Law Centre (HLC) in Belgrade, were more active in documenting crimes and advocating responsibility as well as seeking a regional approach to reconciliation through establishing responsibility for crimes, thus putting pressure on state actors in regional countries. HLC plans to transform itself into the Centre for Documentation and Human Rights Research and to initiate the setting-up of similar centres in Croatia, BiH and Kosovo, hoping that joint efforts and a regional approach will yield better results. A common European future is another area for civil society cooperation, although, as Ivan Barbalic from the European Movement in BiH notes, the desire for cooperation is often driven by a quest for money or a simple understanding that 'cooperation' brings funding and is 'flavour of the month' with the donors. Finally, there is civil society cooperation in specific issue areas, for example cooperation of human rights organisations from the region within the umbrella of the Balkan Human Rights Network,¹¹⁰ the purpose of which is to initiate and coordinate activities of member organisations with the aim of fostering human rights and democracy and to contribute to peace and stability in their countries/territories as well as in the whole Balkan region. Some are even devoted to strengthening cross-border cooperation and partner relations among local governments and non-governmental organisations, like the Citizens' Pact for SEE, which is a network of NGOs and municipalities throughout SEE, aiming to contribute to the development of the civil society and stability in the region through increased cooperation. It was founded in 2000, to counterbalance what founders perceived to be too much focus on the governmental level of the Stability Pact initiated a year earlier.

110. See www.balkan-rights.net.

The Kosovo problem in a regional perspective

Better regional cooperation and a higher degree of trust between the leaders of the region were considered an important precondition for tackling the future status of Kosovo. Despite everything achieved so far, Kosovo still has enormous disruptive potential and can easily bring cooperation back to square one – recognition and establishing diplomatic relations, with all the accompanying difficulties in conducting bilateral contacts and maintaining multilateral framework. Under the UN Security Council Resolution 1244, Kosovo's participation in regional fora and negotiation of international agreements falls under UNMIK authority. However, PISG line ministries are closely associated in these initiatives to ensure that the Kosovo government is fully capable of fulfilling its obligations under the constitutional framework for self-government. Kosovo actively participates in regional cooperation initiatives – within the Stability Pact activities, it is committed to the establishment of the Regional Cooperation Council and is party to the CEFTA 2006, the Energy Community Treaty and has also signed the agreement on the European Common Aviation Area. Serbia, on the other hand, although it does not administer Kosovo, considers it a part of its territory, which was confirmed most recently when the new constitution, in whose preamble Kosovo is explicitly mentioned, was adopted.

If the solution of Kosovo's status turns out to be independence of some sort, which will inevitably not be to Serbia's liking, the door will be opened for difficulties in political dialogue in the region. The way the SEECP was paralysed during the Kosovo crisis might be an illustration of how things could turn out. A scenario where Serbian officials refuse to take part in regional meetings if a representative of independent Kosovo is present can easily be imagined – or indeed need not be imagined, as Serbia did not participate in the EU-Western Balkans JHA forum held in Tirana on 17 November 2006 because of Kosovo PISG participation. This could not only sour bilateral contacts and mark a difficult start for the RCC, but could also undermine all regional cooperation and hence stall the progress of several countries towards membership of the EU. Even now, regional politicians face the disapproval of Serbia if they meet with the Kosovo officials – a good example is the visit of the Kosovo Prime Minister Ceku to Montenegro, which met with negative reactions in Belgrade. At the same time, the fact

that Kosovo officials are regularly received in the EU member states' capitals goes unnoticed – or provokes no comparable reaction. The message is clear: Serbia cannot cause problems to the US or the major EU countries but can surely make life more difficult for immediate neighbours if they subscribe to a solution which is not supported by Serbia. This puts a premium on EU unity, as it would be easier for the countries of the region to go along with the attitude of the EU-27, whatever this might be.

How things might develop if Serbia does not agree to the solution seems to be illustrated by the recently presented platform which Prime Minister Kostunica's party tried to make a precondition for forming the new government. The platform goes further than the rather vague commitment to Kosovo featuring in the recently adopted Serbian constitution and its acceptance would oblige the new government to always consider Kosovo part of Serbia, and warns of serious, although not specified, consequences in bilateral relations with countries not respecting this fact. In the event of the independence of Kosovo being recognised by any NATO member, Serbia's relationship with the Alliance might suffer. In the end, a new government has been formed, and the territorial integrity of Serbia is the first of its five priorities, but it is unclear whether parties constituting government agree not only on what they consider to be the desirable outcome of the Kosovo status process, but also on what to do if the outcome is not the one Serbia desires.

On a more positive note, the fact that Kosovo participates in all regional initiatives now, most recently CEFTA 2006, had FTAs signed with FYROM and Albania, which did provoke protests from (the then) SMN but no retaliatory measures, while FTAs signed with BiH and Croatia in 2006 went unnoticed, might be demonstrating Serbia's readiness to engage in cooperation even in circumstances it does not find favourable.

When all this will become clearer is far from certain. The plan prepared by Martti Ahtisaari, the Special Envoy of the Secretary General of the UN for the future status process for Kosovo, foresees a 'supervised independence' for Kosovo, meaning independence subject to various conditions and with a high level of autonomy granted to the Serbian minority. It envisages an end to the UN mission in Kosovo and an EU mission instead. For this to happen, however, a new UN Security Council resolution instead of UNSCR 1244, which ended the war in 1999, is needed. The new resolution is impossible without the consent of Russia, which repeated it

would not support any solution that had not been agreed by Serbs and Albanians time and time again, thus putting itself in a situation where anything that opened the door to Kosovo's independence would be seen as a humiliation. As a result, the issue can easily be postponed again, or a compromise may be reached to defer formal independence. This is not without resulting problems. The first relates to the difficulty of maintaining political and economic stability in Kosovo in the longer run under the 'status quo' circumstances. The second relates to the internal political situation in Serbia, where continuing dominance of the Kosovo issue on the political agenda means nationalists always have a trump card over reformists and makes it difficult for other issues, relevant for the processes of economic and political reform, to attract public attention. The third problem, even more relevant to the region, relates to reviving the idea of partition of Kosovo. Although partition as a solution for Kosovo has been proposed a number of times in the past, it was ruled out as a possible solution by the Contact Group in the beginning of the status process, as were a return to *status quo ante* and joining another state. The impossibility of agreeing on another solution might make Kosovars more ready to make a deal with Serbia and secure independence in exchange for giving up northern parts of Kosovo, which are anyway under Serbian control. While a solution that both Kosovo and Serbia would support might be a good thing, and would probably result in less pressure on BiH, as a dissatisfied Serbia would make the functioning of BiH more difficult by entertaining an ever closer relationship with Republika Srpska, the possible adverse effects of the fact that borders can be changed might be felt in FYROM and even Serbia itself, in Albanian-dominated municipalities in the south or Hungarian-dominated ones in the north, and this should not be neglected either. The most basic reason for opposing it, however, is the fact that it can hardly satisfy the aspirations of all sides – first of all, within Kosovo, where most Kosovo Serbs live in enclaves to the south of the river Ibar, just as Serb medieval churches and monasteries are scattered all over the province. That being said, Tihomir Loza¹¹¹ is correct to note that just as it is inconceivable that Serbia could one day come back south of the Ibar, it is equally difficult to imagine a full reintegration of the north into the structures of the future independent Kosovo, thus in the long run opening the possibility for at least *de facto* if not *de jure* partition.

111. *Transitions Online*, 27 March 2007.

The position of the EU is extremely important. It will, if the new resolution is agreed upon, take over the role of UNMIK and hence undertake a huge political and diplomatic investment in Kosovo, but will also, if things go wrong, have to deal with consequences in its immediate neighbourhood. The best the EU can do at present is therefore to strengthen the EU perspective of the Western Balkan countries, so as to maintain and enhance its leverage in the region; to keep a united front, preventing internal divisions from spilling over in the region and, finally, prevent the US from encouraging Kosovo to declare independence unilaterally and then recognising it, as this would cause turmoil in the region and a split within the EU.

Soft security issues

The web of organised crime feeds into nationalism and extremism in the countries of the region and exports its illicit products to the EU. Two thirds of the heroin seized in the EU, as stated in the SAP Report 2002, comes via the Balkans, while the so-called 'Balkan route' is a major corridor for trafficking in human beings, drugs and other illicit goods into the EU. Human trafficking, long regarded as a low-risk crime, generates an annual profit of about 7-10 billion dollars, which is further invested in other forms of organised crime, such as trafficking in arms or drugs. All this reinforces the perception of the Western Balkans as a hotbed of organised crime. Partly, this has historical roots – always being an 'in-between' area to a great extent inevitably meant developing an aptitude for smuggling. Moreover, given that the Western Balkan peoples were traumatised economically, they have learnt to rely on non-state economic syndicates.

While the disintegration of Yugoslavia certainly contributed to increased criminality in the Balkans, crime structures created during the 1990s have survived and are taking advantage of the existence of grey zones in the post-Yugoslav space. These grey zones, characterised by blurred responsibilities for the rule of law, transparent borders, displaced persons, unreturned refugees and a population living in dire social and economic conditions without tangible prospects, combined with frustrated paramilitary formations and corrupt high-level officials linked with organised crime, are creating fertile ground for gangsterism and the resurgence of past conflicts.¹¹²

112. Lucia Montanaro Jankovski, *Good cops, bad mobs?*, European Policy Centre, Brussels, 2005.

The prospect of enlargement is an effective way to align with EU standards in Justice and Home Affairs in candidate countries and those with hopes of one day joining the EU, both through adoption and implementation of the *acquis* and through improvements in operational contacts and cooperation, using the range of instruments focussing on priorities identified in the Accession or European Partnerships and annual progress reports. On the one hand, the EU's objective is to upgrade national capacities and intra-regional cooperation, and to support the pursuit and arrest of criminals who cross country borders. On the other, the EU's goal is to bring regional mechanisms into compliance with Union standards, such as those on the protection of personal data and compatibility with Europol.

The debate on Justice and Home Affairs in the Western Balkans has intensified after the Thessaloniki agenda emphasised the growing importance of JHA issues in the relations between the EU and the region. This contributed to making the EU the key external player in reforms in the area of JHA, particularly where policing and border security are concerned. The fact that the area of JHA is considered a major priority under the SAP is also reflected in the allocations under the European Commission's CARDS assistance programme, both at the national and regional level – roughly one euro in six is devoted to the broad areas of justice system reform, policing and the fight against organised crime, asylum and migration or integrated border management. Regional programmes further contribute to develop a detailed national strategy together with an implementation action plan, with the main objectives to provide guidance and training towards a common understanding of the EU *acquis* and of European and international standards and best practices in this area and, on the other hand, to support formal and informal networking and regional and international cooperation.

The Balkan countries are characterised by permeable borders and a porous security shield, which is being reformed by joint national and EU efforts. With the emergence of 5,000 km of new, and frequently barely managed, international borders between the states of the region, each country in the region tackling organised crime on its own would not be a rational use of resources. As a consequence, great emphasis has been placed on the establishment of effective border security systems in the region. The EU's approach to promoting **border security** in the region is embedded in the

NATO-initiated Ohrid Border Process. Launched in 2003; the Ohrid process constitutes a concerted effort by the EU, NATO, the OSCE, the Stability Pact and the West Balkan countries to establish integrated border management systems in a regional framework. Through the instrument of CARDS Regional Programme, the EU supported IBM (2 million euro), while a regional IPA project with the same aim is expected to be drafted. EU assistance for border security in the Western Balkan takes the operational form of providing policy advice and equipment, upgrading infrastructure and promoting training.

The Migration, Asylum, Refugees Regional Initiative (MARRI), formed within the context of the Stability Pact for South Eastern Europe and under regional ownership as part of the South-East European Cooperation Process (SEECP) since July 2004, is working towards the same aim. Governed by its Member States (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia), MARRI covers the areas of asylum, migration, integrated border management, visa policy and consular cooperation and the return/settlement of refugees/displaced persons. The MARRI Regional Centre in Skopje was opened in September 2004 and serves as a secretariat to the MARRI Regional Forum and to accomplish MARRI political commitments. It is currently developing specific tools on the various issues addressed by the centre and expects to provide a regional service to the EC and other international bodies given the critical importance of the issues to both the region and the EU.

The countries also need to intensify their efforts to fight **organised crime** in the region. During the last fourteen years, trans-border crime in the region has increased substantially and spilled beyond the national borders of the countries of the region. Despite the numerous efforts made to counter it, the international cooperation of law enforcement authorities could not keep up with the international cooperation of criminals, which was always a step ahead of the law. Such problems have a strong impact on international trade; they jeopardise the security of not only the region but of the rest of the European continent as well and slow down the development and stabilisation processes of the countries located in their path. The nature of the issues connected with the organised crime phenomenon in general, and trafficking in human beings in particular, demands a regional response. This emphasises the importance of a cooperative, regional approach to

problems, including cooperation with neighbours such as Romania, Bulgaria and Turkey to disrupt the East-West trafficking route.¹¹³

Moreover, as organised crime is an international phenomenon and organised crime in the Western Balkans is closely connected with organised crime in EU member states, cooperation with the EU institutions (Europol, Eurojust and other EU support where appropriate) is also crucial. According to the Strategy for the External Dimension of JHA policy, adopted under the UK Presidency, drawing up action-oriented papers on improving cooperation on organised crime, corruption, illegal immigration and counter-terrorism between the EU and relevant countries was to be accomplished within 2006 – the one dealing with the Western Balkans was agreed by the Council in June 2006. Continued progress in implementing these recommendations would help maximise the effectiveness of assistance to the region while also enhancing cooperation with the governments and institutions of the region.

At the JHA Ministerial meeting in November 2003, regional countries committed themselves to adopting specific action-oriented measures to combat organised crime as well as to improve the cooperation on migration and border management. Two regional priority measures were included in the country strategies. One of these concerns cooperation among Financial Intelligence Units in combating money laundering and the other concerns the development of cooperation between prosecutors in the region. Some progress has been achieved but this still needs to be consolidated. In March 2005, the Memorandum of Understanding for Establishing of the Public Prosecutors Network in the Countries of the Western Balkans was signed. The MoU commits signatories to cooperate closely in hunting down, investigating and prosecuting perpetrators of organised crime, criminal groups and criminal associations and will be based upon the exchange of information, documents and evidence related to all forms of organised crime within their jurisdiction, especially in case of offences committed or prepared totally or in part on their territories in which their nationals or foreign citizens are involved or of which they are victims.

The EU also needs to support the creation and strengthening of national structures in the Balkans to fight organised crime with

113. See Presidency Statement on the EU-Western Balkan Forum on Justice and Home Affairs, held on 17 November 2006.

which Europol can cooperate in the future. The **SECI Regional Centre for Combating Trans-border Crime** established at Bucharest can also play an important role in improving regional and operational cooperation in the fight against organised crime in the Balkans as a whole, aiming to achieve a unified response from its member countries with regard to fighting and eradicating organised criminal groups which operate within or beyond the region. The objective of the EU, reaffirmed at the November 2006 EU-Western Balkans Ministerial Forum on JHA (held for the first time in the region to foster regional ownership), is to strengthen cooperation between Europol and the SECI Centre by EU support to the negotiation process for the new Convention of Southeast European Law Enforcement Centre initiated by the SECI Centre member states.¹¹⁴ SECI is assisted by the Southeast European Prosecutors Advisory Group (SEEPAG), an international mechanism of judicial cooperation, formed by twelve Southeast European countries¹¹⁵ with the intention of facilitating judicial cooperation in significant trans-border crime investigations and cases. It does so by facilitating the rapid exchange of information and evidence in trans-border investigations as well as by providing guidance, assistance and feedback to lawmakers in the region on justice and law enforcement issues. As of February 2005, the SEEPAG has a secretariat in Belgrade.

The continued development of bilateral and regional cooperation between police and judicial authorities and the proper implementation of existing bilateral and regional cooperation agreements, e.g. the Police Cooperation Convention for South Eastern Europe, which was signed in Vienna in May 2006 and is in a phase of ratification, is also important. The follow-up process will design many projects to implement the Convention in the country's legal system, so that the cooperation between police services in the region will be based on that Convention. The implementation of this Convention will provide a legal framework which is comparable with the Schengen Treaty.

Effective cooperation with other regional actors such as the Stability Pact and the South-East Europe Cooperation Process (SEECPP) is also crucial. The Police Forum Initiative, which is a part of the Stability Pact Working Table III, has developed several projects related to regional police training, organised crime training networks, stolen vehicles etc. The South Eastern Police Chief Association (SEPCA) has been a close regional partner of the Police

114. See Presidency Statement on the EU-Western Balkan Forum on Justice and Home Affairs, held on 17 November 2006.

115. Albania, BiH, Bulgaria, Croatia, Greece, FYROM, Moldova, Romania, Montenegro, Serbia, Slovenia and Turkey.

Forum Initiative (PF) and both signed an agreement letter to institutionalise best cooperation. Discussions are underway with the SEPCA to determine the feasibility of SEPCA taking responsibility for ensuring ongoing cooperation on projects initiated by the Police Forum, while the RCC should be ensuring linkage between these forms of regional police cooperation and the activities of the SECI Centre.¹¹⁶

There is an increasing understanding that regional cooperation among the Western Balkan countries needs to be accompanied by a deepening of cooperation between the Western Balkan countries and the EU, which relates to the need for the involvement of Europol and Eurojust. Europol has a mandate to negotiate cooperation agreements with all countries in the Western Balkans, which are expected to be a useful contribution to the fight against organised crime (SAP Report 2004). So far, these agreements have been signed by Croatia, FYROM, Bosnia and Herzegovina and Albania. Another opportunity – secondment or an exchange of liaison officers, which was initiated in 2001 and involved the creation of a network of national immigration liaison officers to help control illegal migration flows throughout the Western Balkans region – was later taken further, with the common use of liaison officers posted abroad. It appears, however, that increased coordination of the activity of the EU's operational liaison officers in the region is needed, which was the reason why the November 2006 EU-Western Balkan Forum on JHA called for the more regular meetings between liaison officers and the relevant law enforcement officers in regional countries.

Another instrument concerns the **Stability Pact Initiative against Organised Crime (SPOC)**, which was launched in October 2002 with the aim of contributing to the fight against organised crime in the region. It operates under the auspices of Working Table III/Security/Sub-Table Justice and Home Affairs and has a secretariat in Bucharest, which serves as an information hub and acts as the support unit. It has been operational since late 2003, providing legal expertise to the countries of the region in harmonising their legal framework with EU and international standards. It supports the strengthening of existing mechanisms and the development of new mechanisms for regional cooperation against organised crime. Furthermore it is increasingly providing legal services to the SECI centre as well as information to the member countries, which is a reason why strengthened cooperation

116. See Report of the Special Coordinator on Regional ownership and Streamlining of Stability Pact Task Forces and Initiatives, available online at www.stability-pact.org.

between the SECI Centre and SPOC as well as a relationship to the political umbrella provided by the RCC should remain a priority. Another important aim in tackling organised crime is to rid society of a culture of corruption, as endemic corruption on all levels makes it easier for organised crime groups to protect their interests and prosper. There are several reasons for the prevalence of this corrupt behaviour in the Balkans – low salaries, ineffective penal policies, poor human resources management systems, the almost unchecked power of customs officials and rigid trade policies and commercial protections in parallel with growth in the volume of trade.¹¹⁷ The fight against bribery and corruption also features high on the regional political agenda given the fact that corruption respects no borders, knows no economic distinctions and tends to affect all government bodies. In response, the Stability Pact countries, including the EU member states, the countries of the SEE region and the international donor community, adopted an **anti-corruption initiative – SPAI**,¹¹⁸ which provides incentives for policy reform and sets out a number of commitments for policy reforms that SEE countries need to implement in order to eradicate corruption.

Since the initiation of SPAI in February 2000, the environment for cooperation against corruption in South-Eastern Europe has changed considerably, as countries have made significant progress in the adoption of relevant international instruments – all countries of South-Eastern Europe are now members of the Group of States against Corruption (GRECO) under which their compliance with European anti-corruption instruments is monitored and some also participate in the OECD monitoring mechanism; comprehensive anti-corruption plans have been adopted and are under implementation, while in some countries institutional mechanisms to manage the implementation of these plans as well as specialised institutions to investigate and prosecute corruption have been created. The capacity of civil society organisations to support anti-corruption measures have been strengthened, as reflected in the formation of anti-corruption coalitions or the creation of national chapters of the NGO Transparency International.

It is, however, clear that changing the environment of political ambiguity, in which organised crime, trafficking in people, drugs and arms thrive, is crucial. Unresolved status issues are precisely the sort of context criminal networks tend to exploit, thus contin-

117. Lucia Montanaro Jankovski, *op. cit.* in note 112.

118. As part of the JHA context, SPAI will remain within the portfolio of the RCC.

uing to undermine security and stability in the region. It is therefore no surprise that Kosovo, whose uncertain final status represents a major element of instability in the region, is, as acknowledged by the SAP Report 2006, located on a heroin trafficking route and is also a source, transit and destination point for trafficking. Although a major conflict in the Western Balkans seems improbable, a more stable political configuration, and one which is accepted across the region, is required if these issues are to be dealt with effectively.

The prospect of the **liberalisation of the visa regime** is also something in which countries from the region have a vested interest and for which they are actively pushing. Visa liberalisation is a long-term issue and is related to the countries' ability to implement major reforms in areas such as strengthening the rule of law, combating organised crime, corruption and illegal migration, enhancing border management and document security and generally improving their administrative and implementation capacity. However, as the International Crisis Group (ICG) November 2005 report recognised, the EU's present visa regime with the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia including Kosovo) is fostering resentment, inhibiting progress on trade, business, education and more open civil societies, and as a result contributing negatively to regional stability. 'The present visa barriers are a source of deep resentment to honest travellers, undermine the credibility of the states of the region (as their citizens seek passports – legally or not – from more favoured jurisdictions), and function less as an obstacle than an opportunity for organised crime and corruption in the EU and the region. The present system restricts mainly those who should be allowed to benefit from the EU's proximity, with the majority being made to pay for a criminal minority'.¹¹⁹ That is why selective liberalisation for certain identified groups, and visa facilitation for all applicants – involving a simplified, speedier, less painful process – was recommended by the ICG to both the Commission and individual member states as it would go a long way towards showing governments and citizens alike that reforms do pay off.

A year later than recommended by the ICG report, and more than three years after the Thessaloniki summit when the EU committed itself to a more liberal visa regime for the Western Balkan countries, the Council adopted the negotiation mandates for visa

119. International Crisis Group, 'EU visas and the Western Balkans', *ICG Europe Report* no. 168, Brussels, 29 November 2005.

facilitation and readmission agreements with Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia.¹²⁰ Not only was this much later than promised but it also happened after the EU started negotiations on visa facilitation with Russia, Ukraine and China, which, as the ICG correctly noted, sends an unfortunate message about its priorities.

Given the fact that this comes as a fulfilment of a long overdue promise, it would have a much better reception in the region if seen as a first step towards full visa liberalisation – a sort of first step on a road map, that should be made for each country, so that each has a clear picture of the steps it needs to take to get an improved visa regime from the EU. That being said, regional and national efforts and efforts undertaken beyond entity/state/republic borders need to be continued in order to fight organised crime, drugs, illegal immigration, trafficking, money laundering and terrorism and implement integrated border management to meet EU standards. Many of these issues can be discussed as part of an overall JHA dialogue in the context of SAP.

One can also see how ‘unfinished status business’ affects fulfilment of this objective, which all of the Western Balkan countries share – citizens of Kosovo are holders of UNMIK passports, which Serbia does not recognise. This provides Kosovars with the possibility of obtaining (still valid!) FRY passports in Kosovo, Serbia or in consulates abroad and has implications for Serbia’s desire to obtain a visa-free regime. In a similar way, the question of Kosovo featured in negotiating the readmission agreement, recently concluded with the EC – the biggest number of illegal immigrants, set to return after it has been signed, seem to be from Kosovo. Do they want to return to Serbia? How can Serbia integrate them? Also, some are holders of UNMIK passports – recognising passports would, according to some estimates, at least halve the number of returnees, said to be within 100,000 and 150,000 people – not irrelevant when the cost of integrating them is taken into account. The question of Kosovo is, however, rarely, if ever, discussed in Serbia from this point of view. Similarly, in BiH, which fares much better than Serbia when it comes to satisfying conditions for easing the visa regime, slowness in moving towards visa facilitation and full liberalisation is, according to the Head of the Centre for European Strategies, Senad Slatina, interpreted as denying support to a unified state – had citizens

120. The Council also adopted the negotiation mandate for a visa facilitation agreement with Albania, recalling that the EU already has a readmission agreement with Albania.

had the opportunity to use a visa-free regime with a BiH passport, they would have surely preferred to have that passport and not a Serbian passport.

Hard security issues

Armed forces and intelligence

Cooperation in hard security is determined by the fact that, to a great extent, it takes place between former warring parties, which is both a rationale for fostering cooperation and an obstacle that needs to be overcome. The extent to which this is the case is demonstrated by the fact that the beginning of cooperation can be traced to the Annex 1-B of the Dayton Peace Accords, which tasked the OSCE with arms control and confidence building in the region. Article 2 of this Agreement dealt with the situation in BiH, article 4 with arms control in the triangle of FRY, Croatia and BiH (as well as among entities in BiH), while article 5 gave rise to the document aimed at confidence-building measures among ex-Yugoslav republics and their neighbours. The most important contribution, which takes place through regular inspections of armaments, came from article 4 (since 1996 part of the Florence Agreement, negotiated between BiH, Croatia and the FRY under the auspices of the OSCE), which today, among other things, details the status and obligations of Montenegro as a new state.¹²¹

NATO plays the leading role in providing assistance for defence reform, civilian management and democratic control of armed forces. Having officially applied for accession to NATO, Albania, Croatia and FYROM are fully integrated in the Membership Action Plan (MAP) activities which are aimed at bringing the defence sector of the candidate countries up to NATO standards, including in terms of democratic governance. BiH, Montenegro and Serbia became Partnership for Peace (PfP) members in November 2006, although BiH and Serbia have yet to fulfil their obligations towards the ICTY. Despite frequently voiced concerns that the admission of these two countries might be interpreted as going soft on The Hague issue, the invitation to BiH and Serbia to join PfP demonstrates awareness of the regional context, with its manifold challenges and threats, and also an understanding that the situation within these countries can be better influenced by engagement rather than by isolation. Moreover, a concern not to

121. Branko Milinkovic, 'Jucerasnji neprijatelji, sutrasnji partneri', op. cit. in note 103.

leave behind countries fulfilling conditions (Montenegro) has contributed to creating a 'virtuous circle' from which BiH and Serbia have benefited too.

There are specific initiatives aimed at the region within NATO and PfP. In 1999, during the Kosovo air campaign, NATO started the Initiative for Cooperation in South East Europe, with the aim of promoting regional cooperation and long-term stability in the Balkans. It was designed to add to NATO's already extensive cooperative relationships with partner countries but also included countries that did not belong to existing institutions and programmes, like BiH and FRY/SMN. In 2000, the South East Europe Security Cooperation Steering Group (SEEGROUP) was established, to support the various cooperative processes already at work in the region. It is a flexible body, in whose work even countries that are not PfP members can take part. The group initiated a number of projects related to a common assessment of security in the region, comparison of national security doctrines, exchange of personnel etc. Since 2005, SEEGROUP has become a more significant forum as it convenes, together with regular working meetings, ambassadorial meetings. There are also several cooperation initiatives which are open for participation for PfP members only – regular meetings of defence ministers (SEEDM), joint deployments for peace operations (SEEBRIG) or the Adriatic Charter, within which the US supports Euroatlantic ambitions in the region.

Efforts are aided by different SP bodies, such as **RACVIAC** (Regional Arms Control Verification and Implementation Centre) which was created in 2000 as a forum for regional dialogue and co-operation in the context of different arms control and confidence- and security-building measures, as well as to provide assistance in all matters of arms control and its implementation. RACVIAC, which has been based in Zagreb since 2001, contributes to the aims of the Stability Pact, supports and complements the activities of the OSCE, as well as other organisations working in similar fields in SEE, and should continue to be a priority for the RCC. Given the positive developments in this area in SEE, decisions have already been taken to further develop its portfolio to address emerging priorities such as defence conversion and security sector reform in general. There are now 23 nations involved in RACVIAC (Albania, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Denmark, the Former Yugoslav Republic of Macedonia,

France, Germany, Greece, Hungary, Italy, Moldova, the Netherlands, Norway, Romania, Russia, Serbia, Slovenia, Sweden, Turkey and the United Kingdom), and military and civilian members from 13 of the above nations staff this multinational body.

SEESAC, the Belgrade-based South Eastern and Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC), a joint project of the United Nations Development Programme (UNDP) and the Stability Pact, is a clearing house for joint regional action, bringing together both the relevant international actors engaged in the region and the regional states proper. SEESAC is the leading actor in the field of combating the threat of uncontrolled and excess SALW in the region. It has made significant progress in its mission in SEE but will remain active for several more years in the region until demand for its services is exhausted.

One of the key challenges facing the defence sector of South East Europe is how to restructure and downsize military forces, adapting them to the new security situation and the economic realities of the SEE region. The challenges associated with **defence conversion** are an integral part of overall Security Sector Reform in countries concerned. Defence and Security Sector Reform (SSR) remains a key component for some countries to move closer towards the EU and NATO. Defence and SSR, including defence conversion, represents a crucial dimension of much wider transformation processes, so it has to be dealt within the context of overall socio-economic development, reconstruction and social development policies. NATO – as the Task Force leader of the Stability Pact Initiative on Defence Conversion – focuses on the monitoring of programmes concerning the retraining of redundant military personnel and conversion of military sites in SEE countries, while a number of other international actors (namely the Geneva Centre for the Democratic Control of Armed Forces – DCAF –, the OSCE, UNDP, the World Bank, CoE Development Bank as well as some local NGOs) are active in particular in the field of demobilisation and retraining of redundant military personnel. The Working Group on Demobilisation and Reintegration, chaired and funded by DCAF since November 2002, has helped to streamline several reintegration, and retraining programmes in the Western Balkan countries.

Inasmuch as most of the SEE countries face similar circumstances and challenges in dealing with the economic and social

costs of restructuring and downsizing of their armed forces resulting in base closures, relocations of military units, re-integration of surplus military personnel and destruction or selling surplus equipment and weapons, regional cooperation among them can be beneficial. It should focus on sharing information regarding relevant national policies and programmes, on sharing lessons learnt and expertise acquired, on seeking improved access to international expertise and assistance for project development and implementation, and finally, on seeking improved access to international project funding from international and private sources. Therefore, these countries would benefit from having access to a shared pool of knowledge and experience. The willingness exists to strengthen the role of RACVIAC as a regional centre for defence conversion. Moreover, in March 2005 SEECP defence ministers, facing similar challenges, among others, with regard to the destruction of surplus military weapons and ammunition, requested SEESAC to provide technical and managerial know-how in this area. In order to further stimulate the discussions, SEESAC has prepared an initial study, which deals with the disposal and demilitarisation of heavy weapons systems.

Finally, unlike in Bulgaria and Romania, the EU takes more interest in the defence and military dimension of security sector governance with respect to the Western Balkan countries. The EU has incorporated a number of commitments into SAAs which pertain to the JHA dimension of security sector governance, particularly the need for judicial reform. Furthermore, the CARDS assistance programme included a number of activities in the field of police reform. In the framework of its evolving ESDP operations, the EU is increasingly becoming involved in peacekeeping (*Althea*, *Concordia*) and police restructuring (EUPM, EUPOL) in the region's post-conflict states, namely BiH and FYROM. This would, according to Hänggi and Tanner,¹²² suggest that the requirement of democratic governance of the defence sector has become an integral part of the political criteria for EU accession and eventual membership. In the case of the Western Balkans, the EU conditionality takes a comparatively comprehensive approach to security sector governance by covering both military and non-military aspects.

122. Heiner Hänggi and Fred Tanner, 'Promoting security sector governance in the EU's neighbourhood', *Chaillot Paper* no. 80 (Paris: EUISS, July 2005).

Need for cooperation not only among the regional countries, but also among international actors

Even this brief outline suggests that a plethora of actors is involved in facilitating and encouraging regional cooperation in the political arena as well as in soft and hard security issues. This considerable international attention to security sector governance in the Western Balkans is, however, to a great extent dependent on coordination among external actors, especially within individual target states.

The Stability Pact had an important role to play with the EU in helping the region advance its EU ambitions, and, through its activities, in complementing and reinforcing the Stabilisation and Association Process. The Pact's Working Table III covered security sector governance issues ranging from JHA to defence conversion, with security sector reform and border security being considered as 'cross-sub-table issues'. Some of them have yielded significant results. Other initiatives, as Hänggi and Tanner note, have been criticised for lacking sustainability and producing little added value. The SEECP made significant contributions to various EU/Western Balkan events, such as the Thessaloniki summits etc. It played a crucial role in securing effective regional ownership of the reform process and in bringing about regional cooperation. The continued close cooperation between the Stability Pact and the SEECP and the recent establishment of regional offices of several Stability Pact initiatives indicates an increased desire by the countries of the region to take control of the reform process and will be even more important in the context of the Regional Cooperation Council which will come into being at the beginning of 2008.

Other international partners such as the Council of Europe, the OSCE and the World Bank are also constructively and systematically involved. In the case of BiH and Kosovo, close cooperation with the High Representative and UNMIK is indispensable to promote the reform process. NATO and the EU have been, and, as Hänggi and Tanner rightly claim, still are, the key actors in providing assistance to security sector reform in the region – ranging from crisis management and post-conflict stabilisation to partnership, association and more recently even pre-accession programmes. With the EU taking the lead in internal and border security issues, and NATO in defence affairs, the two organisations appear to be operating a division of labour in promoting security sector governance which has already proven quite successful in CEECs as well as Bulgaria and Romania. Given their crucial and

largely complementary role in stabilising the Western Balkans, both organisations work within a framework for an enhanced dialogue and a concerted approach to supporting security and stability in the Western Balkans.

Conclusion

Unlike the economy, which suffered the *consequences* of disrupted cooperation, politics and security were the *reasons* for the lack of it. The need to overcome past conflicts and make sure they are not repeated in the future, together with the demand to counter threats associated with organised crime, which is, again, feeding off previous conflicts and their consequences, is still the dominant framework within which cooperation in the areas of politics and security takes place. Although the level of bilateral and multilateral political cooperation is significantly increased, the level of trust and confidence in the region is still not enough to guarantee that the remaining problems can be solved without provoking major regional instability. That is the reason why a framework wider than the one offered by the Western Balkans, which all of the regional countries see in the EU, is so important. As for security, one cannot but agree with Branko Milinkovic that regional cooperation in this area is mostly externally promoted, fragmented, insufficiently advertised within the region and not visible enough from the outside.¹²³ It is therefore necessary to draw conclusions from experiences so far, promote more successful models and introduce coherence and coordination, for which the Regional Cooperation Council can be a useful vehicle. The most important challenge remains, however, finding an appropriate political framework for resolving remaining status issues, which aggravate security problems (unclear borders feed crime, trafficking and illegal migration) but also have the potential to disrupt cooperation at the political level and hence jeopardise whatever cooperation has been achieved so far.

123. Branko Milinkovic, 'Jucerasnji neprijatelj, sutrasnji partneri', op. cit. in note 103.

Encouraging democracy and market reforms within the Balkan countries and promoting cooperation among them can hardly be considered an easy task. The reason is simple – in the past, all three have been scarce commodities in the region. True, this was not the case to the same extent in all countries of the region, but the fact is that the region became famous for all the bad rather than good reasons. Despite such a background, it can hardly be disputed that considerable progress has been made, both when the situation within regional countries and cooperation among them is taken into account. The Western Balkans is today a region on the path to EU integration, associated with major EU policies, which provides solid ground for cooperation among the regional countries. The EU, to whose membership all of the Western Balkan countries aspire and to whose conditionalities they hence subscribe, undoubtedly deserves lots of the credit for this positive development.

Summarising a decade of the EU's efforts to provide an appropriate policy framework for the Western Balkan countries, one cannot but agree that the EU did succeed in developing better, more suitable tools for influencing politics in the region. To a great extent, this was aided by the fact that domestic conditions, after democratic changes in Croatia and Serbia in 2000, became more conducive to EU influence. At the same time, one can, however, hardly miss the point that the trigger for the development of those instruments was undoubtedly the need to stabilise the region, which is clearly demonstrated by the fact that the launch of the most important EU regional initiatives coincided with either peace (the 'regional approach' developed after Dayton) or war (the SAP developed during the Kosovo war) in the Western Balkans. Moreover, the region itself was defined as a nexus containing two serious security problems – Bosnia and Herzegovina, involving Serbia and Croatia, and Kosovo, involving Serbia, Albania and Macedonia – rather than as a group of countries whose common

geography, history and tradition would suggest shared solutions for common problems. The same concern for security and stability in the region means that now, as the Kosovo status process enters its final phase, is the right time to take stock of developments so far and challenges that lie ahead.

Within ten years of the EU's regional approach having been applied to the Western Balkans, basic stabilisation in the region has been achieved, giving way to the development of relations with the EU. Some countries have done better and established closer ties with the EU, while some are still lagging behind. On the one hand, this reveals apparently different logics behind the processes of stabilisation of the region and its integration in the EU – although meant to be parts of the same package, stabilisation requires more of a regional context, while integration, even within the common regional framework, is an essentially bilateral exercise. On the other hand, the further a country progresses towards the EU, the less penalised it should feel by its regional ties and therefore the more ready it should be to devote attention to being engaged in the region as a matter of its own self-interest – as well as this being a way of demonstrating to the EU that it has useful assets to contribute to the EU's overall goals of regional stabilisation. Similarly, whenever a country has been 'promoted' further along the EU path, the response of its regional neighbours has been unambiguously positive and welcoming. The laggards seem to take courage from, rather than resent, rewards given to the 'front runners' when and where they are due.

The lesson for the EU is thus clear – its regional approach will continue to deliver the anticipated results if the EU itself shows it is not dragging its feet and remains as serious as ever about the membership prospects of the Western Balkans. The fact, however, remains, that, although declaratively still committed to the membership of the Western Balkan countries, the credibility of the EU promise has weakened from the region's perspective. And for conditionality to work, credibility is crucial. If the incentive is not credible, the EU's insistence on fostering regional cooperation is easily interpreted as a means of postponing membership, or even as an alternative to full membership.

This holds even more true if the substantial discrepancy in emphasis between the region and the EU is taken into account. In the region, EU integration is the driving force for more regional cooperation. In the EU, achieving a satisfactory degree of regional

cooperation is seen as a major step towards stabilisation, and just one of many steps contributing to further EU integration. It is thus open to interpretation to what extent the EU demands regional cooperation as a stabilisation exercise and to what degree as an indispensable part of the European integration agenda.

Although the EU frequently underlines the complementary character of regional cooperation and EU integration, the fact remains that it introduced the concept of encouraging regional cooperation primarily as a means of breaking the cycle of violence and counter-violence in the region. Promoting the message that 'regional cooperation pays' was an important part of the process. The problem, however, arises if parties involved expect different 'pay-offs' from regional cooperation. The Western Balkans countries' aim is to further the prospects of their promised European Union membership, while the EU stresses the intrinsic benefits of cooperation, and more recently has become more ambiguous about the timetable of integration. Therefore it would be a mistake to take the existing consensus on regional cooperation for granted. Rather than participating in the 'we pretend to be cooperating and they pretend to be serious about integrating us in the EU' exercise, it is much wiser to adjust the existing consensus to the real needs and evolving circumstances of the SAP region, on the one hand, and to the real perceptions of what the EU is ready and willing to offer, on the other. Introducing a number of 'in-between' or 'intermediary' steps in the EU integration process that contribute to understanding of progress in the region, while allowing the EU to consolidate consensus underpinning the enlargement at home, might be an indication of where things are going.

The desire to encourage regional cooperation in the Western Balkans seemed in the beginning fairly vague. But soon enough it acquired precision, with concrete tasks that needed to be undertaken being specified, all of which helped transform the region and its politics. In the beginning, there was lots of talk about the need to cooperate, and strategies were being developed, but output in terms of more concrete demands and more cooperation – and, indeed, of more awareness of what was going on among citizens in the regional countries – followed later. This study, however, confirms that the proliferation of demands related to regional cooperation is not in itself problematic, as perceptions of the benefits of cooperation are not that different in the region and

in the EU. This holds true especially for cooperation in the domains of infrastructure, transport, energy and trade, which are usually most readily recognised as areas where cooperation might be beneficial. Moreover, the limited size of each Western Balkan country and the fragmentation of the economic space in the region leave no other option than to embark on intensive regional cooperation as the only sustainable way forward – a point which is recognised no less in the region than it is in the EU. And finally, the simple fact that the Western Balkan countries share not only common geography but also problems derived from the transition from socialism to market democracies, aggravated by underdevelopment and the lack of security in the region, is recognised as a major factor stimulating cooperation.

In the areas of the economy and infrastructure, regional cooperation seems to be fairly well developed and streamlined into several major initiatives (CEFTA 2006, Energy Community, European Common Aviation Area, SEE Core Regional Transport Network), which makes it visible both within the region and outside of it. True, some initiatives, especially CEFTA 2006, seem to have attracted much more media attention than others. But, in general, nobody seems to dispute that there are strong reasons for fostering regional cooperation in these areas. It is, however, also obvious that the simple fact that there are gains to be had from cooperation is not enough – political will from the top and EU engagement are also crucial. The latter, by paving the way for a more enlightened understanding of self-interest within regional countries, is usually a precondition for the former. Furthermore, cooperation progresses faster and is more encouraged in areas where it helps serve the interests of the EU together with the interests of the regional countries. That was the reason behind the extension of the Community *acquis* in the areas of energy and aviation to the region. When it comes to trade, land transport and environment, the EU is committed to supporting cooperation but remains, at present, outside the cooperation framework.

It is, however, clear that some of the key trade, energy and transport routes pass right through those countries which might, in various ways, be affected by the political and economic consequences of Kosovo's new constitutional status once it is decided. On the one hand, the need for enhancing institutional capacity, which is necessary for the economic viability of Kosovo, means that it is urgent to resolve the political status of the territory

sooner rather than later. On the other hand, the economic development of Kosovo, which is totally surrounded by the region and hence in the long run politically and economically dependent on the region and especially on the immediate neighbours, would be impossible without a state of political normality in the region. The same holds true for further trade liberalisation, transport integration as well as full exploitation of the energy potential of the region. Therefore, the need to resolve political status soon goes hand in hand with the need to resolve it in a way which will not preclude regional cooperation.

Cooperation in the areas of politics and security is primarily aimed at overcoming past conflicts and making sure they are not repeated in the future, and is also a response to the need to counter threats associated with organised crime. These tasks are interrelated, as organised crime feeds on previous conflicts and their consequences. Although the level of bilateral and multilateral political contacts is significantly increased, the level of trust and confidence in the region is still not enough to guarantee that the remaining problems can be solved without provoking major regional instability. The unresolved status of Kosovo is, quite clearly, aggravating existing problems in both the hard and soft security domains, inasmuch as uncertain situations and porous borders provide an enabling environment for crime, trafficking and illegal migration. On the other hand, just any solution to the status of Kosovo would not make things better – the right solution needs to be one which does not disrupt cooperation at the political level and hence does not jeopardise whatever has been achieved so far.

The Regional Cooperation Council, which will come into being in 2008, will hopefully prove to be a forum where both bilateral and multilateral problems in the region might be discussed and which might encourage a stronger feeling of ownership of regional processes while supporting the countries of the region on their path towards European and Euro-Atlantic integration. As for cooperation in the field of security, it seems to be mostly promoted from the outside, less coherent than cooperation in the areas of the economy and infrastructure, not known within the region and not sufficiently visible from the outside.

Obviously, the EU has learnt a lot – most importantly, it has understood things in the regional context, and has developed better tools, relying on the membership perspective, to deal with

them. It has learnt all of this in the most difficult way, through wars and peace deals in the region, when its most ambitious regional initiatives were inaugurated. Although the EU is more involved in some areas than in others, it still remains the most important driver of the cooperation process.

The region has, also, learnt a lot – regional cooperation is increasingly seen as the obvious option, not something to be considered only when all other options are exhausted. Regional interests are more easily recognised and regional answers offered to problems that have regional dimensions. True, EU involvement often served as a catalyst for a more enlightened understanding of self-interest in regional capitals, although this usually took some time to percolate through.

The key question is this – have both the region and the EU learnt enough? More precisely, have they learnt enough to ensure that the cooperation continues to deliver results despite all challenges the region will face in 2007? This primarily means managing risks related to the solution of the Kosovo status problem and finding an appropriate framework within which cooperation can take place after the solution – or, indeed, postponement of the solution – is agreed upon. While until recently it looked as if the EU will have to take most of the responsibility for implementing the Ahtisaari plan in Kosovo as well as for managing the situation in the region and engaging all of the regional countries in the aftermath of its adoption, it now looks as if it may be faced with risks related to postponing the solution. These include the vulnerability of political and economic stability in Kosovo in the longer run under the *status quo* circumstances; the internal political situation in Serbia, where continuing dominance of the Kosovo issue on the political agenda means nationalists always have a trump card over reformists and makes it difficult for other issues, relevant for the processes of economic and political reform, to attract public attention and, of a wider regional importance, a possibility of reviving the idea of the partition of Kosovo.

These risks should not be overlooked, especially in view of the fact that other countries in the region are struggling to overcome obstacles on the path to reforms and EU membership. Serbia has only just got a new government, whose stability will depend on achieving substantial agreement on steps to be taken to achieve the aims of protecting territorial integrity, cooperating with the ICTY, speeding up the EU integration process, reviving economic

reforms and fighting corruption – including what steps are to be taken if some goals that are deemed desirable turn out not to be achievable. It is, however, worth keeping in mind that the parties associated with the Milosevic regime, which got 1.4 million votes in the January elections, are standing ready to exploit any sign of government weakness, inability to deliver or being ‘soft’ or ‘giving way’ on Kosovo. In Kosovo, however, prolonging the solution or maintaining the *status quo* is likely to lead to an escalation of tensions in the disputed territory and will, as discussed earlier, also make the creation of conditions for bringing about economic development in Kosovo difficult. Bosnia and Herzegovina is waiting for constitutional reform to unblock the EU integration process, while FYROM, with a sizeable Albanian population, is, although a candidate for EU membership, economically and politically fragile. Montenegro, the youngest country in the region, would not be happy to see its relations with Serbia – or any other regional country – deteriorate, while Croatia, although the furthest ahead in the EU integration process, is still afraid that unfortunate developments in the region, of which the EU sees it as a part, may have negative repercussions on its accession.

While the resolution of Kosovo’s status would undoubtedly introduce more clarity, which this paper demonstrates would be more than welcome in cooperation schemes in the areas of the economy, infrastructure, transport, politics and security, the resolution and the way in which it is reached can either foster or preclude regional cooperation, by affecting the situation within individual countries and also interstate relations.

The position of the EU is extremely important. It will, if the new resolution is agreed upon, take over the role of UNMIK and hence make a huge political and diplomatic investment in Kosovo, but will also, if things go wrong, have to deal with the consequences in its immediate neighbourhood. The best the EU can do at present is therefore to keep a united front, preventing internal divisions from spilling over into the region. It must also seek to prevent the US from encouraging Kosovo to declare independence unilaterally and then recognising it, as this would cause turmoil in the region and a split within the EU itself. Finally, it must strengthen the EU perspective of the Western Balkan countries, so as to maintain and enhance its leverage in the region.

Regarding the EU perspective for the region, this does not necessarily involve big promises, major steps forward or setting dates

for membership. What is crucially important is to keep the governments of the Western Balkan countries 'busy' achieving smaller steps leading towards the ultimate big goal – EU membership. It is better to help them be successful in making a series of small steps rather than to leave them wait in frustration to make one bigger step. This will maintain the positive perception of the dynamics of the EU integration process and solidify the position of pro-European forces in regional countries, as they would be seen by their electorates as being able to deliver the promised European future.

The reason for this is that the mere promise of EU membership, however credible, sometimes seems too remote to the people in the Western Balkans. This is best illustrated by one comment on the B92 website about the Church-like nature of the EU – countries are expected to behave the way the EU tells them, to admit their past mistakes, but, in the end, the message is that no benefits come in this life ... The challenge for the EU is to deliver real benefits to the people in the Western Balkans, which would make them believe that the European perspective is worth working for – even in the longer run. The challenge for the countries in the region is to take what is on offer and make it work in their particular circumstances.

Abbreviations

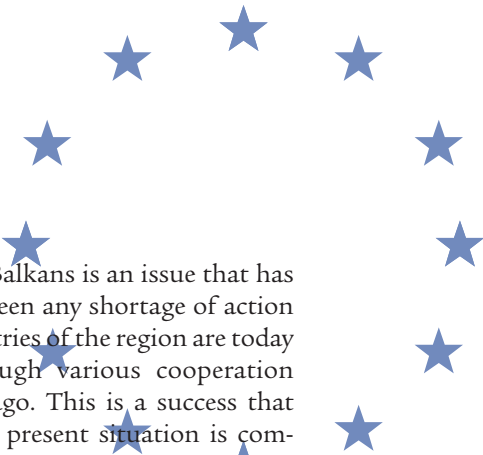
BFTA	Baltic Free Trade Area
BiH	Bosnia and Herzegovina
BIRN	Balkan Investigative Reporting Network
BSEC	Black Sea Economic Cooperation
CARDS	Community Assistance for Reconstruction, Democratisation and Stabilisation
CEB	Council of Europe Development Bank
CEEC	Central and East European Countries
CEFTA	Central European Free Trade Agreement
CEI	Central European Initiative
CIS	Commonwealth of Independent States
CoE	Council of Europe
COMECON	Council for Mutual Economic Aid
COSAP	Conference of the Parliamentary Committees for European Integration/Affairs of the Countries Participating in the Stabilisation and Association Process of South East Europe
DCAF	Democratic Control of Armed Forces
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECAA	European Common Aviation Area
EIB	European Investment Bank
ESDP	European Security and Defence Policy
FDI	Foreign Direct Investment
FRY	Federal Republic of Yugoslavia
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GAC	General Affairs Council
GDP	Gross Domestic Product
HLC	Humanitarian Law Centre
ICG	International Crisis Group
ICTY	International Criminal Tribunal for the Former Yugoslavia
IDP	Internally Displaced Person
IFI	International Financial Institution
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
JHA	Justice and Home Affairs
MARRI	Migration, Asylum, Refugees Regional Initiative
MFA	Ministry of Foreign Affairs
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental Organisation

NTB	non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PfP	Partnership for Peace
PF	Police Forum Initiative
PISG	Provisional Institutions of Self-Government
RACVIAC	Regional Arms Control Verification and Implementation Centre
RCC	Regional Cooperation Council
RFI	Regional Framework for Investment
SAA	Stabilisation and Association Agreement
SALW	Small arms and light weapons
SAP	Stabilisation and Association Process
SECI	South East European Cooperative Initiative
SEE	South East Europe
SEEBRIG	South-Eastern Europe Brigade
SEECF	Southeast European Cooperation Process
SEEDM	South-Eastern European Defence Ministerial
SEEGROUP	South East Europe Security Cooperation Steering Group
SEEPAG	Southeast European Prosecutors Advisory Group
SEESAC	South Eastern and Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons
SEETO	South East Europe Transport Observatory
SEPCHA	South Eastern Police Chief Association
SFRY	Socialist Federal Republic of Yugoslavia
SMN	Serbia and Montenegro
SP	Stability Pact
SPAI	Stability Pact Anticorruption Initiative
SPOC	Stability Pact Initiative against Organised Crime
SSR	Security Sector Reform
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNMIK	United Nations Mission in Kosovo
UNSCR	United Nations Security Council Resolution
WB	Western Balkans
WTO	World Trade Organisation

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Regional cooperation in the Western Balkans is an issue that has been much discussed. Nor has there been any shortage of action to match the talk. As a result, the countries of the region are today much more closely connected through various cooperation schemes than they were seven years ago. This is a success that should not be underestimated. If the present situation is compared to the one prevailing in 2000 – an *annus mirabilis* for the region as democratic changes took place first in Croatia and later in Serbia – clearly a lot of positive developments have taken place. Today the Western Balkans is an emerging region in transition, where economic development is underway and in which cooperation is increasingly seen as an obvious choice, rather than a last-resort option.

Yet not everything is rosy. There are still acute social problems within the Western Balkans – delayed integration and the violent conflicts that followed the disintegration of Yugoslavia mean that today the region is blighted by severe unemployment, poor infrastructure, drug and human trafficking and other forms of organised crime. To make matters worse, the EU integration process seems to have been plagued with controversy about ‘absorption capacity’, ‘integration capacity’ and ‘enlargement fatigue’, leading citizens of the countries in the region to question whether the prospect of membership promised to them is in fact a credible one.

This *Chaillot Paper* tries to provide a background against which both cooperation among the countries of the region and their integration in the EU, as major vectors of long-term stabilisation, can be better understood but also more effectively encouraged. Focusing on the forms of cooperation that exist in the region, and also on the different expectations among external actors encouraging and regional actors participating in this, it highlights the importance of successful future cooperation and integration in a region that has traditionally known little of either.

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