

Perspectives of the Western Balkans

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I. Introduction

South-East-Europe has faced remarkable historical changes. At the beginning of the year 2007 Romania and Bulgaria became the 26th and 27th member states of the European Union and can now benefit from being part of the world's largest common market. With approximately 500 million consumers the European Union is one of the leading economic powers and may also play an active and influential role in world politics. Facing the promising perspectives of Romania and Bulgaria, some other nations of the Western Balkans are interested in joining the EU.

However, a closer look at the map reveals a culturally, politically and economically most heterogeneous region, which makes generalizations exceedingly difficult. Whereas the most auspicious states of the Western Balkans, Croatia and Macedonia, already achieved official candidate status and paved the way towards full EU membership, countries like Kosovo or Bosnia and Herzegovina still face severe problems and are far from meeting the criteria of Copenhagen. However, in spite of the strong economic and political distinctions, the European Union is determined to involve the whole region in accession negotiations respectively the pre-accession process.

Concerning the advanced integration process in the Western Balkans the Enlargement Strategy of the Union states, that "the Stabilization and Association Agreements, linking partners in the region more closely to the EU, with a view to accession, are expected in near completion."¹

Therefore, the European Union provides focussed pre-accession financial aid to the candidate countries like Croatia and Macedonia and to the potential candidates such as Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo with the total amount of 3,5 billion Euro between 2007 to 2011 in order to implement and support the necessary reforms in line with EU standards.²

Thus, the Union accommodates the rising importance of the Western Balkans in geopolitics, energy politics and economy. Linking the region to `Western` Europe would be a win-win situation for both sides. Minding this backdrop, this contribution examines the perspectives and problems of the Western Balkans countries.

II. Croatia and Macedonia

Following Slovenia, **Croatia** recovered best from the break-up of former Yugoslavia and was consequently already granted EU candidate status in 2004. The following years were marked by political stability and permanent economic growth. Regarding certain macroeconomic data, Croatia performs even better than EU-members like Bulgaria or Lithuania. For example, GDP per capita in Croatia was in 2006 considerably higher than in these two countries.³ Subsequently to the admission as EU

¹http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

²<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/144&format=HTML&aged=0&language=EN&guiLanguage=en>

³ <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

candidate state Foreign Direct Investment (FDI) was increasing further more. Even if the development slightly deteriorated at the beginning of 2008, the economy still performs very well.

Concerning politics, Croatia meets the criteria of the EU. Democracy and rule of law are considered to be consolidated. Government and Parliament are working without noteworthy problems. The judicial system considerably improved, even if there are still some shortcomings concerning legal security. Furthermore, public administration faces severe problems, such as political influence or the lack of qualified experts. In this regard, the “Croatia progress report 2007 of the EU” explicitly states, that public administration reform “continues to represent a major challenge for Croatia.”⁴

However, after improving cooperation with the UN and suspending most recently a fishing dispute with Slovenia and Italia, Croatia now paved the way towards full EU membership. European Commission President Barroso announced in March 2008, that the talks would be finished by the end of next year. In this case, Croatia could already join the Union in 2010.⁵

After overcoming internal and external difficulties, the **Former Yugoslav Republic of Macedonia** (FYROM) is ranked among the most auspicious Western Balkan countries. In the aftermath of the declaration of independence in 1991, the young country got involved in a long and damaging conflict with Greece concerning the official name `Macedonia`. Whereas the Macedonian administration referred to the fact, that the term “Macedonia” was used for the region since the 19th century, Greece obstinately refused to accept an independent nation bearing the same name as the historical Greek province. In the course of the conflict, Greece imposed an embargo on Macedonia, which severely hit the economy of the young republic. To this day the country's name remains a contentious issue. The self-designated name is Republic of Macedonia, whereas the provisional designation Former Yugoslav Republic of Macedonia is used by NATO, UN and EU.

Due to the end of the embargo in 1995 and the membership in all relevant international organisations, Macedonia was soon able to cope with the external and economic problems. Yet a few years later it was confronted with a severe ethnic conflict, leading the country to the brink of civil war.⁶

Being a multi-ethnic nation, Macedonia is marked by a fragile ethnic structure. During the Kosovo War in 1998-99, 360,000 Albanians took refuge in Macedonia and therefore destabilized the already fragile relation between the Macedonian majority (64,3%) and the most important, Albanian minority (25,2%). In the year 2000 the serious tensions culminated in an armed conflict, which was only ended by two NATO missions.

In the aftermath of the violent outbursts, the European Union and the United States installed a series of talks between Albanian and Macedonian representatives, which led to the so called “Ohrid-Agreement” in 2001. This treaty is supposed to be the institutional framework of a democratic, peaceful and multi-ethnic Macedonia and can be regarded as a milestone on the road towards political stability.

⁴ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/croatia_progress_reports_en.pdf

⁵ <http://www.euractiv.com/en/enlargement/croatia-handed-2009-target-date-conclude-eu-talks/article-170961>

⁶ http://www.nato.int/docu/review/pdf/i4_en_review.pdf

The European Union appreciated the following economic and political development by granting candidate status to Macedonia in December 2005. In the latest Enlargement Strategy of the EU for 2007 and 2008 the state receives high marks in several key areas. Yet in spite of the good progress, there are still some political shortcomings. The main threat to political stabilization is the “frequent tension and insufficient cooperation between political actors”⁷, which threatens the normal functioning of institutions and slows down reforms.

Whereas the ongoing rivalry between the Albanian minority and the Macedonian majority still poses a potential threat to the undoubted progress in political terms, the economic situation is without any doubts very stable and flourishing. According to estimations of the IMF the Macedonian economy will record an expansion-rate of more than four percent in 2008.⁸ In order to attract more foreign investors, the government introduced in 2007 a flat-tax on profits of enterprises. A recent forecast by the IMF shows, that this measure proved to be successful. Consequently, the World Bank ranked Macedonia among the top five reformers in the world.⁹

Even if the economy still faces serious problems such as a permanently high unemployment rate of almost 40 %, the overall macroeconomic situation is performing well. Therefore, the EU, where 53,1 % of the Macedonian exports are sold to, expects that the local economy “should be able to cope with competitive pressures and market forces within the Union in the medium term.”¹⁰ Minding this backdrop, accession talks with Macedonia could already start at the end of this year.

III. Serbia, Montenegro and Albania

Serbia recovered well from the NATO Air raids in 1999. Starting from a weak position, the Serbian economy was marked by GDP expansion rates up to eight percent since 2000. In October 2005 negotiations with the EU about a Stabilisation and Association Agreement started, but are not signed yet due to insufficient Serbian cooperation with the International Criminal Court for Former Yugoslavia and irreconcilable differences about the status of Kosovo.

The political landscape is marked by the antagonism of nationalistic forces on the one hand and western-oriented streams on the other. This disturbs the normal functioning of the institutions. After Montenegro had declared its independence, a new constitution was adopted in October 2006. However, Democracy and rule of law have to be further strengthened. In 2007 normal functioning of the parliament and government was considerably affected several months by sharp political divisions. Concerning the judicial system, there are also some problems left. The necessary judicial reform is lagging behind and a new legal framework is still lacking.¹¹

The Serbian economy is gradually developing to a functioning market economy. Regarding several macroeconomic data, Serbia is performing well. According to

⁷ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

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http://www.bayernlb.de/ar/Internet/de/Downloads/0100_CorporateCenter/5700Laender/LaenderanalysenL-Z/Mazedonien/Mazedonien.pdf

⁹ <http://www.doingbusiness.org/features/Reform2007.aspx>

¹⁰ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

¹¹ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

estimations, the ongoing growth will continue in 2008 and inflation stays under control. Yet, persistent high unemployment at about 20% and an expected budget deficit still pose a serious challenge.¹² Further development significantly depends on the controversial Kosovo issue. The decision of 18 EU nations to recognize the independence of Kosovo has provoked a fierce reaction in Belgrade. The difficult trade-off between national integrity and EU integration will be the main challenge in the near future.

After declaring independence in 2006, **Montenegro** became a sovereign member of the international community. Immediately afterwards the Union launched negotiations with the new state about a “Stabilisation and Association Agreement”, which was signed in October 2007. This can be seen as a proof of the western and reform-oriented government, visibly aiming to accomplish necessary reforms.

By the adoption of the new constitution in 2007, a basis for political stability and democratic development was established. However, there still remain a lot of challenges for the young state. Parliament’s and government’s efficiency need to be further enhanced and the judicial system still lacks political independence. The backlog of civil and criminal cases is considerably high and corruption is still widespread.¹³

In contrast, the economy can be regarded as comparatively stable. Macroeconomic stability was overall improving. The last years were marked by permanent growth, light inflation and low unemployment. Yet, in order to master the competitive pressure of the EU market over the long term, major reforms are still needed. The main challenge will be beyond any doubt the ongoing process of state-building

Although being one of the poorest countries in Europe, **Albania** has medium and long-term development perspectives. However, whereas its economy has continued to expand strongly, the fragile political landscape still poses a major challenge to further progress. Mainly the absent democratic culture among key political actors affects the effective functioning of the institutions. Due to corruption and political influence, the judiciary still falls short of EU criteria. Furthermore, corruption is widespread. Albania ranks 105th out of 179 countries in Transparency International's Corruption Perceptions Index for 2007.¹⁴

Despite of a large informal sector, undermining the tax base, Albania’s economy is constantly growing. The macroeconomic situation is supposed to be stable. Over the last few years, GDP growth has been marked by expansion rates at about five percent.¹⁵ Inflation and unemployment are overall under control. Yet, due to the lack of legal security, the investment climate remains not promising which is why far-reaching reforms and a changing political climate are needed.

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http://www.bayernlb.de/ar/Internet/de/Downloads/0100_CorporateCenter/5700Laender/LaenderanalysenL-Z/Serbien/Serbien1107.pdf

¹³ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

¹⁴ http://www.transparency.org/policy_research/surveys_indices/cpi/2007

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http://www.bayernlb.de/ar/Internet/de/Downloads/0100_CorporateCenter/5700Laender/LaenderanalysenA-K/Albanien/Albanien-Daten.pdf

Even if the Albanian government is planning to join the European Union in 2012, full membership seems unlikely before 2016.¹⁶ However, the fact that Albania achieved the NATO candidate status in April 2008 draws attention to the country's rising importance.

IV. Bosnia-Herzegovina and Kosovo

Due to permanent tensions between the three constituent peoples – Bosnians, Croats and Serbs – the situation in **Bosnia and Herzegovina** remains complicated. While the Serbs sometimes consider separating from the country, the Bosnian majority (which constitutes 50% of the total population) insists on territorial integrity. Thus, even in the aftermath of the “Dayton Agreement”, Bosnia and Herzegovina still longs for political stability. Owning considerable legal and governmental powers, the High Representative for Bosnia and Herzegovina is still monitoring the civilian peace implementation. In 2007, the EU uttered strong disappointment about the political stagnation, claiming “that the authorities of Bosnia and Herzegovina have not demonstrated the capacity to take further political ownership and responsibility.”¹⁷

Despite of persistent high unemployment rates and widespread corruption, the macroeconomic stability has been maintained. The GDP is marked by stable growth and inflation is conforming to EU norms. Due to its balanced budget, growth is expected to be sustainable.¹⁸

Further development will depend on a constitution reform, simplifying the complicated and cost-intensive tripartite administration. Yet recently, the police reform laws were finally adopted by parliament, which paves the way towards signing the “Stabilisation and Association Agreement”.¹⁹ Another fact, pointing at the country's western orientation, is its admission to the NATO “Partnership for Peace Programme” in 2006.

After the unilateral declaration of independence in February 2008, **Kosovo** remains a thorny issue. Kosovar officials introduced the name Republic of Kosovo, provoking fierce reaction in Serbia. Referring to the former status as constituent republic, Serbian officials, in reference to UN Resolution 1244, are still speaking of the Autonomous Province of Kosovo and Metohija. The non-acceptance of the new state by China and Russia on the one hand and the acceptance by countries such as the USA and Germany on the other hand, shows the rising gap amongst the international community.

V. Conclusion

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http://www.bayernlb.de/ar/Internet/de/Downloads/0100_CorporateCenter/5700Laender/LaenderanalysenA-K/Albanien/Albanien.pdf

¹⁷ http://ec.europa.eu/enlargement/pdf/key_documents/2007/nov/strategy_paper_en.pdf

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http://www.bayernlb.de/ar/Internet/de/Downloads/0100_CorporateCenter/5700Laender/LaenderanalysenA-K/Bosnien-Herzegowina/Bosnien0408.pdf

¹⁹ http://ec.europa.eu/enlargement/index_de.htm

A closer look at the Western Balkan Countries shows remarkable differences concerning economic and political stability. For example, whereas Croatia in 2006 had a GDP per capita of about 7700 Euro, it was only 1100 Euro in Kosovo.²⁰ Democratic stability and a functioning market economy will allow Croatia and Macedonia to join the Union in the short and medium term and thus to become member No. 28 and 29 respectively.

In contrast, the other potential candidate states still face some problems. Nationalism and ethnical tensions, corruption and the lack of a democratic culture still pose major threats to the development of a market economy and the rule of law. However, it is important to emphasize that all countries strive for improvement and are involved into negotiations with the EU and NATO. This mutual rapprochement is undoubtedly a win-win situation, allowing positive perspectives for the EU members as well as the Western Balkan countries.

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