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## The Western Balkans and the European Union Moving? In the right direction?

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### 1. Introduction

After years of sluggish progress, the first half of 2018 has been characterised by renewed initiatives for EU enlargement. On February 6, the European Commission presented a new Enlargement Strategy for the Western Balkans. On May 17, EU and Western Balkan leaders met in Sofia at the EU-Western Balkans Summit, fifteen years after their last gathering in Thessaloniki. On June 12, Greece and Macedonia reached an agreement on their name dispute (although it remains to be seen whether the deal will pass the political and parliamentary hurdles in the two countries). On June 28/29, the European Council discussed the opening of accession negotiations with Albania and Macedonia, unlocking the possibility for them to start in 2019. Lastly, on July 10, the UK hosted the Western Balkans Summit in London, which marked the end of the first cycle of the so-called Berlin Process with meetings in Berlin (2014), Vienna (2015), Paris (2016) and Trieste (2017).

This increased dynamism signals that the Western Balkans are back on the EU agenda. However, the number of meetings is hardly proof of any automatic advancement in the enlargement process. This is even more the case since improvements in the Western Balkans have been, at best, faltering, in terms of democracy, rule of law, governance, economic development and good-neighbourly relations. Moreover, despite the number of initiatives on the EU side, what still remains unclear is the level of ambition of the current EU re-engagement and, thus, how much attention, energy and resources the member states and EU institutions are ready to mobilise to enhance their transformative power in the region.

In order to discuss these and other issues, the third Western Balkans Reflection Forum was organized in Brussels on July 3rd and 4th 2018 in the run-up to the London intergovernmental conference on the Western Balkans.<sup>1</sup> The Reflection Forum provides a platform for fostering an exchange of perspectives between

experts working in national and European institutions and researchers affiliated to think tanks and universities in the EU and the Western Balkans.

The three main areas of reflection in Brussels were: (1) The contribution of the Berlin Process to EU enlargement; (2) Re-thinking European integration beyond the current approach to enlargement; (3) The Western Balkans on the European agenda between the Sibiu European Council, Brexit and European elections.

### 2. Four years of “real additional progress”: The contribution of the Berlin Process to EU enlargement

Now that the Berlin Process has reached the end of its initial five-year cycle, it is time to take stock and evaluate the outcomes of the process. German chancellor Angela Merkel launched this project in 2014 as a diplomatic initiative aiming to support the non-EU Western Balkan countries “to make additional real progress in the reform process, in resolving outstanding bilateral and internal issues, and in achieving reconciliation within and between the societies in the region” (Final Declaration by the German Chair, 2014). Although it could be still premature to draw a clear-cut judgement on its impact, most observers have come to positive preliminary conclusions (Flessenkemper, 2017).

Politically, the Berlin Process has facilitated EU and Western Balkan leaders’ re-engagement at a time when the EU and its member states seemed to be self-absorbed in dealing with their own internal issues and on-going international crises, such as the war in Ukraine and relations with Russia. There was the perception, in some European capitals, that the EU was losing ground in the region and that a century after the outbreak of the First World War, intrinsically linked to the assassination of the heir to the Austrian throne in Sarajevo, and almost two decades after the end of the war in Bosnia and Herzegovina, tensions and disputes were coming back in the post-Yugoslav arena. The Berlin process was meant to provide platform for EU and Western Balkan leaders to discuss

<sup>1</sup> The Balkan Reflection Forum is a joint initiative of the Centre Franco-Autrichien pour le Rapprochement en Europe (Vienna), the Centre international de formation européenne (CIFE - Berlin and Nice), and SWP – the German Institute for International and Security Affairs (Berlin and Brussels) and supported by a network of European think tanks. Florent Marciacq, Tobias Flessenkemper and Dušan Reljić as, respectively, the representatives of the three organisations, ensured co-ordination and quality control. The event was organised in the framework of the Austrian Presidency of the Council of the EU and with the support of the Austrian Permanent Representation to the EU.

unresolved issues and promote fresh initiatives, particularly in the realm of regional co-operation and infrastructure/connectivity.

The process brought a breath of fresh air get into an enlargement format that was too routinized, creating face-time among Western Balkan leaders and thus triggering a positive momentum for regional co-operation. For instance, it had positive effects on the relations between Serbia and Albania, paving the way to the first visit, after 68 years, by an Albanian prime minister, Edi Rama, to Belgrade in November 2014.

Finally, the Berlin Process has fostered regional cooperation initiatives including those by civil society organizations - such as the Civil Society Forum, youth initiatives with the establishment of the Regional Youth Cooperation Office (RYCO) in Tirana, engagement among business communities through the Secretariat of Chambers of Commerce of six Western Balkan economies, and boosting dialogue among researchers from academia and think tanks, including the Western Balkans Reflection Forum.

In the area of connectivity, the process has helped to cast a renewed focus on investment and infrastructural gaps in the region, pointing at socio-economic and developmental challenges in the Western Balkans beyond the simple focus on the fulfilment of Copenhagen economic criteria for EU accession. In particular, through the EU-supported “Connectivity Agenda”, the process succeeded in placing the Western Balkans on the transport and energy map of Europe. What came to the fore were Western Balkans’ interdependence and connectivity within the broader area of southeast Europe and the common challenges that this poses to both the EU member states and aspiring countries.

This has translated into the streamlining of available funds coming from the Instrument of Pre-Accession (IPAI) and International Financial Institutions, together with national budget contributions, to support the extension of trans-European transport and energy networks in the Balkans and their respective legislations through the establishment of the Transport Community and re-emphasizing the importance of the Energy Community.

Overall, the Berlin Process appears to have been a success in the eyes of many analysts, as far as it has served as a vehicle for Germany, Austria, France, Italy and the UK to breathe new life into EU-Western Balkans relations. This was even more crucial at a

time when it seemed that the EU’s enlargement policies had been effectively suspended. To a certain extent, the process could be even read, as recently noted (see Nechev et al., 2018), as another instance of the EU’s “variable geometry”, where a group of “willing” member states form an intergovernmental vanguard that, in the end, triggers innovative capacity within EU mainstream policies.

At the same time, however, we should also be cautious not to view the outcomes of the Berlin Process with excessive optimism. Despite many positive aspects, including its diplomatic success and innovative impact on EU enlargement policies, the Berlin Process should be seen for what it is and measured against its own goals. It did not set out to innovate the enlargement process. Rather than be complementary to the EU enlargement policy, the Berlin Process was meant to build on it, “borrowing” its structures and projects, in order to help the EU to deliver on the ground and maximise its impact.

If achieving the above should serve as a measure of success for the Berlin Process, the picture appears rather less positive. It is enough to say that, by the end of 2017, the total amount of investment grants approved for financing 13 connectivity projects amounted to 344.9 million euro, while only three of these projects actually started to be implemented (see Hackaj et al., 2018). The difficulties encountered begin at the projects’ preparation phase, which has proved to be extremely time consuming with a minimum period of three years – from pre-feasibility studies to organizing tenders – to the projects’ implementation, which is often held up at the national level due to the weak administrative capacities of the Western Balkan countries or lack of coordination among them.

What seems clear is that, despite the importance of specific flagship initiatives to integrate the Western Balkans into the main European transport and energy corridors, the overall approach pursued by the EU and the member states has still lacked two crucial elements. On the one hand, it has not secured the critical mass of resources to really reverse the consequences left by almost thirty years of underinvestment and disinvestment in the region, which has had a devastating impact on regional connectivity. On this aspect, a recent report by the IMF (2018) makes for particularly sobering reading. While recognising an increased financial effort by international institutions and, especially, national budgets to support infrastructural development, the study stresses that,

at the current rate of progress, it would take more than 30 years for Western Balkan countries to reach the average level of capital stock per capita of EU countries. Moreover, this is taking into account an infrastructural gap that IMF experts estimate, as an average for the Western Balkans to be at a level of 50 percent of the EU average.

On the other hand, despite the strong pressure exercised by the Berlin Process on political leaderships, its grip has failed to be incisive enough with regard to governance patterns in the region. For instance, despite the establishment of National Single Project Pipelines to select national investment priorities and to coordinate with international support for infrastructure, public investment management still appears extremely weak. National administrations show little capacity for coordination among various public bodies and high budgetary fragmentation. Project selection criteria are not systematically applied often leading to projects with limited bankability and sustainability. Weak coordination between central and local governments results in little attention being paid to sub-regional connectivity and micro-connectivity projects, while inadequate involvement of the local communities and land expropriation problems have led to further delays and legitimacy issues.

All these difficulties outline unstable regulatory frameworks that have been little affected by the infrastructural projects of the Connectivity Agenda, which remain seriously exposed to political interference and decisions made on the basis of electoral or other political considerations. In this last respect, the idea to create a Regional Economic Area (REA) among the six Western Balkan countries and its multi-annual Action Plan, agreed-on at the intergovernmental Summit in Trieste, aims to push towards a deeper transformation and to have a major impact on the stabilisation of the regulatory framework in the region.

The initiative builds on the CEFTA-2006 free trade agreement and aims at developing an area where goods, services, investments and skilled workers can move without barriers across the Western Balkans. It puts forward a structured agenda for regional economic integration in order to promote further trade integration, introducing a dynamic regional investment space, facilitating regional mobility, and creating a digital integration agenda. However, despite the good intentions of the initiative, it still remains to be seen to what extent the countries in the region will endorse the project and,

thus, how smoothly the implementation of the Action Plan will proceed.

These factors have resulted in limiting the effects of the Berlin Process, precisely regarding its goal of providing added benefits on the ground. At the same time, however, one should firmly bear in mind that the process is just an intergovernmental platform that has neither its own institutions, policies nor a budget. The shortcomings highlighted, then, rather than being a criticism of the process itself, should be put down to a general weakness of EU action in the region which the Berlin Process has, to a certain extent, tried to mitigate.

All these issues also pose the uneasy questions of how to build on the Berlin Process beyond its current political successes, whether this should now be done within the renewed EU policy framework for the enlargement countries in the Balkans, or if flexible intergovernmental formats, such as the Berlin Process, still hold some comparative advantages and added value.

### **3. Re-thinking European integration beyond the current approach to enlargement**

The EU's renewed Enlargement Strategy for the Western Balkans holds that a "credible accession perspective is the key driver of transformation in the region" (European Commission 2018, p. 2). It plans to enhance sectoral cooperation with the EU aspiring countries in the Balkans along the lines drawn by the Berlin Process. Looking at the six Flagship Initiatives put forward by the Commission, it is clear how they are supplementary to the areas covered by the Berlin Process, targeting transport and energy connectivity, a digital agenda, socio-economic development, rule of law, security and migration as well as reconciliation and good neighbourly relations. These priorities have also been confirmed by the EU member states at the Sofia Summit in May, where additional support was further devoted to the Digital Agenda for the Western Balkans.

The backbone of the new enlargement strategy is the call for the Western Balkan countries to make a "generational choice" in their commitment to become EU members, asking them to "redouble their efforts, address vital reforms and complete their political, economic and social transformation" (European Commission, 2018 p. 2). A clear aim to re-launch EU conditionality is at work here: the enhanced credibility of an EU perspective should mobilise political and

societal resources in the Western Balkans and foster their transformation.

The greatest problem with this logic, however, is that many in the Western Balkans have already chosen and are most likely to continue to choose the EU. However, due to the poor economic, social and political outlook, people are “voting with their feet” by joining the regional mass migration drive towards EU countries. In other words, whereas the increased willingness to cooperate among the EU, the member states and the Western Balkan countries is certainly positive, looking at material trends in the Western Balkans points to weakening societal and state resilience (EU HR/VP, 2016) and raises reasonable doubts as to whether these new steps are adequate.

These problems are evident, first of all, in the economies of the region. How can the transformation of the Western Balkans effectively take place in parallel with lacklustre economic growth and development? Looking at all socio-economic indicators and future prospects, the vast majority of the people in the region seems to be condemned to perpetual socio-economic insecurity. According to recent economic performance and calculations, in fact, it could take between 60 and 200 years for the region to converge with the average EU GDP per capita (Sanfey and Milatović, 2018). Since the beginning of economic transition, the countries in the region have achieved remarkable growth rates and gained some significant economic ground, but only during the short period between 2001–2008. Nevertheless, even that phase of strong growth in the region, on average over 5%, has proved to be largely unsustainable, as shown by the tough adjustments required in the post-2008 period (Becker et al., 2010). The problem is that the rapid market opening and integration with the EU, which began in the early 2000s and which brought some foreign – mainly EU – capital into the region, have primarily fostered domestic consumption while having only a limited impact on the restructuring and modernisation of the real economy. On the contrary, it has led to insufficient job creation, continuous deindustrialisation, the widening of trade deficits, and rising public and private debts (Bonomi and Reljić, 2017).

Secondly, aside from these dreary economic prospects, it is the wider range of physical or material conditions within the region that has been experiencing a sharp process of deterioration and there are no clear signs that this curve will be reversed anytime soon. For instance, an unprecedented process of

deforestation has characterized the last three decades, causing massive changes in water regimes, while fuel wood is still utilized by two thirds of households for heating, causing air pollution beyond any acceptable standards (Kovačević, 2017). Road safety is another important issue, which has attracted almost no attention. In general, climate change represents a major challenge for the Western Balkans and Southeast Europe, a problem that has barely been addressed in a convincing way. A process of “tropicalisation” is already transforming the Western Balkans’ ecosystem, which will be 1.2°C warmer in the near future (2035) and will gain another 2°C by mid-century (Regional Cooperation Council, 2018). All these problems have severe implications for agriculture and food security, health, urban life, infrastructure and energy consumption.

Finally, maybe the structural change with the great impact in the region is driven by demographic developments. The collapse of fertility rates and high outflow migration are most likely to intensify the process of depopulation of the Western Balkans, a process which started in the early 90s. As shown by UN (moderate) projections, the region will further shrink by some two million inhabitants in the next three decades.<sup>2</sup> This not only has worrying economic implications, depriving the region of its younger and most talented human capital, reducing growth potential and leaving rapidly rising public debts to be paid back by shrinking and ageing populations (Sanfey et al., 2016). It could also have major political outcomes, the full consequences of which are extremely difficult to predict, such as amplifying already strong “demographic anxieties” in a region where the overlapping of ethnic and political boundaries has never ceased to be an issue. Certainly, it risks depriving those emerging and fragile democracies of those young and well-educated people, the potentially middle-class pillars of society, who would be the most likely supporters of liberal-democratic regimes.

After two decades of sobering results in the process of Europeanisation of the region, it is clearly not enough to simply renew political will and commitment. Political will should go hand in hand with an enlargement strategy which could be realistically expected to have a significant impact on those (deteriorating) structural relations that have often also been an important driver in the formation of the political will in these countries. In fact, when judging the eventual benefits of EU membership, people in the region are essentially driven by their evaluation of their experiences with

<sup>2</sup> Data available at: <https://esa.un.org/unpd/wpp/>.



EU integration and economic transition so far (Bonomi, 2018). With the obvious exception of Kosovo, it is no coincidence that national attitudes towards EU membership perfectly match levels of pre-transition real GDP recovery, with the populations of Serbia and Bosnia and Herzegovina being the least positive (only 26% and 31% of the respective populations see EU membership as ‘a good thing’ for their country), followed by those from Montenegro (44%) and Macedonia (54%). In contrast, Albania, as the only country in the region to have experienced a constant improvement in its living standards, having almost doubled its real GDP in less than thirty years, has an overwhelming 81% of public opinion with a positive attitude towards the benefits resulting from possible EU membership (data from Regional Cooperation Council, 2017).

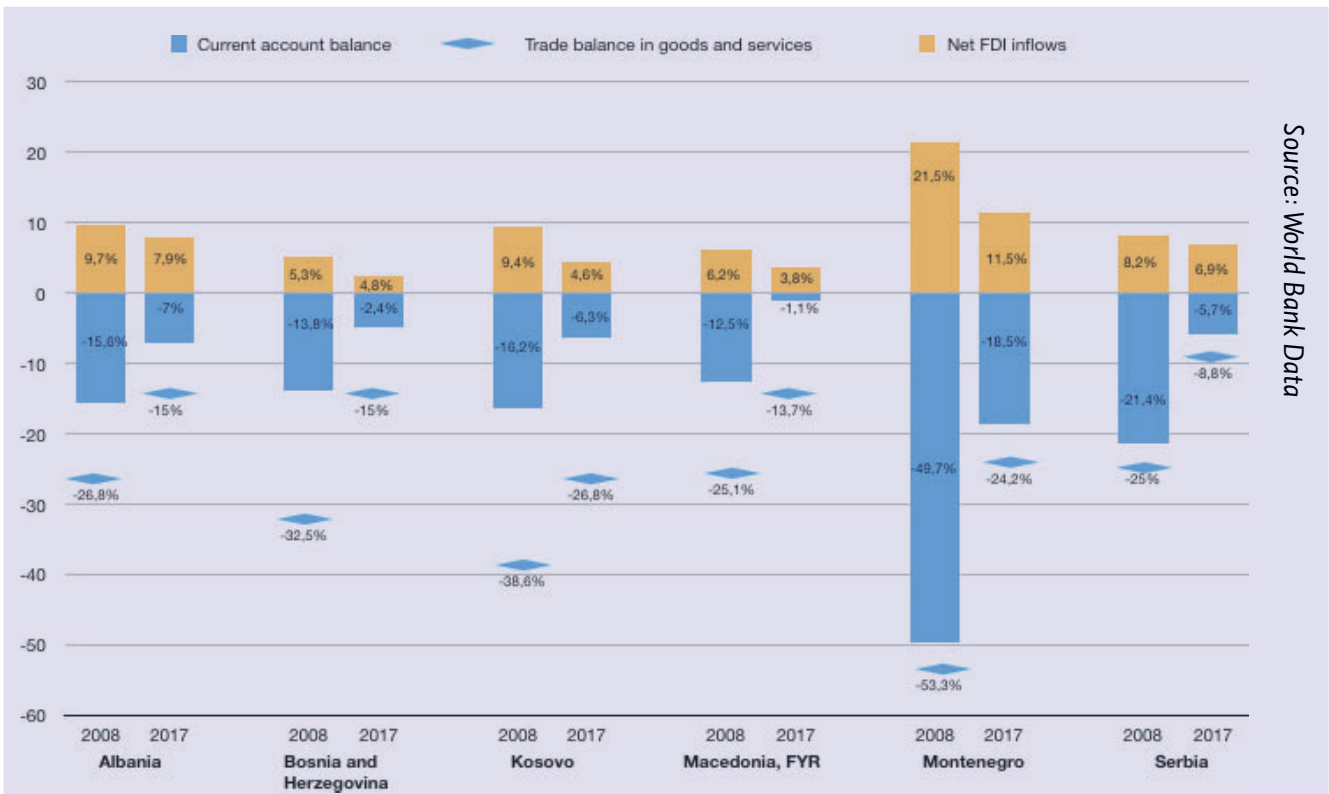
There are many ideas and proposals on how the current approach to enlargement could strengthen its effectiveness. Within the Western Balkans Reflection Forum, several of these proposals were highlighted (see a selection in annex). Although their heterogeneity does not allow a systematic elaboration, there are three interconnected pillars in the proposals:

**(1) Focus on economic development:** The EU enlargement policy towards the region cannot succeed without better economic prospects for the Western Balkan countries and an effective economic convergence toward EU living standards being set in place. To this aim, the EU and the member states should increase their efforts to support the Western Balkan countries by considering different tools available to support their financial needs and accelerate economic growth (see annex 1, 2 and 4). Beyond solely relying on foreign direct investment, internal drivers of growth should be strengthened, and infrastructure projects should be supplemented by additional investments in health, social services, education and research and development. This, in turn, could facilitate the development of smarter and more knowledge-based economies, together with better access to resources for small and medium sized enterprises.

**(2) Insist on good governance:** Getting economic policies right should go hand in hand with addressing important institutional gaps in the Western Balkan countries. The design, adoption, and enforcement of the right policies and developing an appropriate institutional capacity are two sides of the same coin. What is needed is better coordination among different EU tools to help define and articulate more clearly their role in supporting societal and economic trans-

formations of the Western Balkan states. In this regard, there are still clear frictions between the EU’s recent support to improve the governance framework in these countries (e.g. the extension of the EU Semester formula or the Connectivity Agenda) and the more traditional tools of EU enlargement policy (e.g. Stabilisation and Association Agreements – SAAs), which seem to have been applied so far in a rather formalistic way. A good example is how SAA has been implemented in Serbia for state aid control without adopting a system of block exemptions that could have helped to promote environmental policy or other strategic sectors (see Međak et al., 2018, p. 22). These tensions should be overcome and existing policy tools better synchronised in order to align Western Balkan countries with EU current economic policies, including the EU active industrial policy (see annex 1). Moreover, in some specific sectors of strategic importance (e.g. energy), the EU could also reflect on how to better trigger European private sector engagement with the region, in order to be a potential game changer on the ground, strengthen market forces and increase bottom-up pressure for the implementation of regulatory measures linked to the Berlin and EU accession processes (see annex 3).

**(3) Keep the momentum:** There is an urgent need to synchronise the EU enlargement process with parliamentary cycles in the enlargement countries. A stabilisation and association process that has already lasted for almost two decades loses much of its vigour in pushing for domestic reforms (c.f. annex 7). It is simply unrealistic to expect that the momentum can last throughout so many electoral cycles or that the prospect of EU membership can act, for so long, as a catalyst for domestic demands for changes. Moreover, it also seems problematic to build and retain, within public administrations, national expertise involved in the accession process over a period of many years – a problem that has also been observed during previous EU enlargements to Central-Eastern Europe. The consolidation of administrative capacities in Central-Eastern Europe has often been thrown off course by an excessively high turnover among civil servants (Verheijen, 2000), but this problem is on a much wider scale in the Western Balkans also due to the length of the process. Although the European Commission has tried to mitigate these shortcomings for at least the frontrunners, Montenegro and Serbia, by presenting a potential accession date to the EU, as part of its strategy, this has proved to be extremely problematic for some EU member states which have *de facto* politically undermined the credibility of the Commission’s announced timeframe.



Source: World Bank Data

Box 1: Net FDI inflows, trade and current account balances (in % of GDP), 2008 and 2017

The Western Balkans' limited competitiveness on world markets has translated into persistently high trade (and current account) deficits. These deficits have for years been covered by the inflow of capital from abroad (foreign direct investments, foreign loans, remittances, donors assistance). External resources do not only secure a country's immediate financing needs, but can also favour long-term productivity gains and, therefore, the ability to cover current account deficits in the future. Nevertheless, this has happened only to a limited extent in the Western Balkans so far. Foreign direct investments have mainly targeted non-tradable sectors, while even those investments that were directed towards the industrial sector have usually had no positive impact on manufacturing value-added, manufacturing employment and manufacturing exports (as shown, for the 2002-12 period, by Estrin and Uvalić, 2016). Whereas today the current account deficits of all Western Balkan countries have more than halved, these adjustments in the aftermath of the 2008 economic crisis came primarily at the expense of a massive reduction of domestic consumption and sharp increases in public and private debt. Despite the return of foreign investors in recent years, by 2017 foreign direct investment (in % of GDP) has still not reached the pre-crisis level in any of the countries.

The Western Balkans' external position remains extremely fragile, since they continue to strongly depend on the volatile mood of external investors for financing their deficits. Moreover, what impact will this new investment cycle have on the real sector, external competitiveness and long-term productivity gains remains to be seen.

#### 4. The Western Balkans on the European agenda between the Sibiu European Council, Brexit and European elections

Despite the efforts of applying an intense conditionality towards the Western Balkans in light of the lessons learned during previous enlargements, the debate on enlargement appears today to be qualitatively different than in the past, and not only due to the specificities of the countries in the region. What is fundamentally different is that the EU is experiencing a period of introspection that makes it far from clear in which kind

of EU the Western Balkans are supposed to be included in the future. This exacerbates frictions and old disagreements within the EU block, also with respect to the enlargement countries.

The EU, according to several analytical contributions to the Balkans Reflection Forum, may be faced with an existential threat along two basic dimensions. The first one is fragmentation. The EU is fragmenting due to the Euro-zone crisis, renewed geopolitical tensions, transatlantic challenges and the refugee crisis. These issues divide Europeans, also making the

prospect of enlargement more difficult. The other dimension is disintegration. Through Brexit the EU is disintegrating: for the first time in its history, the Union is negotiating accession with some candidate countries while, at the same time, working out an exit deal with one of its current members.

Against this background, it is clear that despite the efforts put in place by an out-going European Commission (2014-2019) to redefine the EU strategy towards the Western Balkans, the really crucial factor will be the path that the European integration project will take in the next few years, starting with the opening of a new institutional cycle in early 2019. The end of the Brexit withdrawal talks, which will define the nature of the relations between the UK and the EU-27, the results obtained at the Sibiu European Council in the spring of 2019 regarding the reform agenda for the future of the Union as well as the adoption of the new EU multiannual-budget, and the European parliamentary elections and the appointment of a new Commission, will determine the kind of reaction that the EU will be able to put in place to face its multiple challenges. These issues will also determine the quality and the level of ambition for the re-launching of the European integration project, clarifying the place that the Western Balkans could eventually have within the renewed plans.

Regarding Brexit, whereas its direct effects on enlargement are limited, its major impact on the Western Balkans is rather its amplifying effect on these on-going dynamics within the EU. Despite hosting the Western Balkans Summit in London within the Berlin Process, the UK, in fact, ceased to be a champion of EU enlargement years ago, leaving the leadership of this process to other countries, starting with Germany. The economic implications of Brexit for the Western Balkans are also modest, given the long-term decline in UK-Western Balkans trade relations. However, through the loss of a net contributor to the general budget of the Union, the UK's absence in the EU will also be felt in the Western Balkans.

The major impact of UK withdrawal is rather coming in an indirect way, affecting the dynamics of internal and external differentiation of the EU. Brexit, in fact, has spurred reform drives within the EU, questioning how far a third country may participate in European integration without being a member of the Union and what the limit should be for member states to opt out from specific EU policies. This has given the impression that the EU could energetically point towards more differentiated integration in

its external domain. It could inject new life-blood into the enlargement policy as well, helping define some priority areas for mutually beneficial cooperation. Especially in the case where withdrawal talks with the UK were to advance towards the creation of a 'membership light' model, possibilities could open up for advancing strengthened sectoral integration between the EU and the Balkan aspirants. Eventually, it could even offer an alternative model to full membership for those enlargement countries not interested in joining or unable to join (see Marciacq, 2017, and Lazarević, 2018, and annex 6 on how to revitalise this perspective).

However, things seem to be moving in the opposite direction. Whereas differentiation is and will remain a fundamental characteristic of European integration and a precious tool to overcome deadlocks in decision-making, the EU multiple crises seem to have rallied Brussels institutions and the member states to defend and redefine a common ground and a shared understanding at the very foundation of the European integration project. This has also affected the EU position within Brexit negotiations: despite a number of internal divisions among the member states, the EU has appeared rather compact in the talks, drawing red lines to avoid a devaluation of the status of EU membership and assuming a harsh bargaining position of 'no cherry picking'. All these issues could cut short the debate on any kind of membership minus perspective for the UK and, thus, arguably, for the Western Balkans as well.

In other terms, the problem of moving towards a fuzzier division between the EU's internal and external domains is that the key question in Europe today does not appear to be the one of flexibility, which has always been widely utilised by the EU – the European integration project has always been one of differentiated integration (Blockmans, 2014, and Emmanouilidis, 2017). The key question today is rather the one on homogeneity and possibly tomorrow, of solidarity (see annex 7 on how the Western Balkans could contribute to present debates). The greatest challenge that the EU faces today is how to counteract the on-going economic, political/value and geopolitical polarization that is fragmenting the Union and putting at risk the survival of the European integration project. Against this background, it still remains highly uncertain how during the next institutional cycle (2019-2024) it will be possible to re-energise the European integration project and which tendency will prevail. As an imaginative effort we can put forward four "visions" for the future of

Europe (Economides, 2010, Hillion, 2017) that give sharply different answers to the question of homogeneity, to the use of differentiation within the European integration project and, consequently, also regarding the place that the enlargement countries in the Balkans could eventually hold:

(1) *The end of EU* has never appeared as a realistic hypothesis as much as today. It could happen not necessary as the outcome of a grand design, but rather as a non-intended consequence following the intensification of on-going dynamics. Especially in the face of new crises, which could lead to the breaking down of the Euro-area or of Schengen: fragmenting and disintegrating tendencies within the Union could overlap and intensify, progressively eroding any substantial sense of the European integration project. European institutions would not necessarily cease to exist, but would simply regress to irrelevance, as would the question of acquiring new members;

(2) *Smaller EU/federalist EU*. This option has been widely identified with the agenda launched by the French President Emmanuel Macron in his speech at the Sorbonne. It would, to a certain extent unravel the results obtained by the EU Eastern enlargement (as President Macron made clear once again at the Western Balkan Summit in Sofia) and use differentiated integration to set EU defence lines along a closer circle. This smaller group of member states would share a renewed sense of uniformity and could quickly advance towards a federal and highly integrated Union. This would come at the cost of accommodating peripheral EU states within an outer loosely-defined circle, which could easily drop in number but could also acquire new members;

(3) *Illiberal EU*. Despite the resounding name, this outcome would be much more banal than one could expect. Partly through the incoming European parliamentary elections, where the so-called 'anti-systemic' or 'populist' political forces could experience a resounding success, and partly through the moving rightward of some traditional political parties, maybe to face internal competitors at home, illiberalism could rapidly become the new mainstream of European politics. This would project the EU towards being a Europe of nation states, which may perhaps put a strong emphasis on security, but where the common understanding – the new sense of uniformity – would prevail with the claim of

defending and preserving different national cultures and values and where interferences from European institutions in national affairs would be tamed. This lowering of common standards could eventually, though not necessarily, even facilitate the fragile democracies in the Western Balkans joining the family of European nations;

(4) *Consolidating EU-27 through a pragmatic use of differentiation*. Confronted with multiple crises, the EU has shown an exceptional resilience in finding ad hoc responses for avoiding the collapse of the European integration project, but has barely found structural solutions for these challenges.<sup>3</sup> Against this backdrop, the path towards consolidating the EU-27 could be conceived along very pragmatic lines of finding ways of providing, through common policies, added value in core European areas such as economic, social, migration, and security policy dimensions (see New Pact for Europe, 2017). Within this context, it is not fundamental that all the member states participate immediately to renew EU policies – differentiation could be an important tool to overcome the lack of consensus among the EU-27 and give solidarity a new impetus. What is pivotal, however, is that this enhanced cooperation of variable geometries along different policy fields could prove that a process of greater convergence is still possible in Europe, even if it cannot be expected as the natural outcome of the current grand-design of the Union. In this sense, differentiation should be used to set a new sense of uniformity, as something that can be achieved as a result of common European policies, showing that it is still possible to defend the European 'way of life' – a mix between the liberal and socialist traditions – despite an increasingly challenging global environment. This scenario would not only be compatible with enhancing the level and the ambition of EU cooperation with the Western Balkans in several policy fields, including justice and home affairs, border control and movement of people and further economic functional integration. The inclusion of a region that today appears to be the EU's 'soft belly' could also provide added value for the consolidation of the effectiveness of these policy dimensions within the EU-27.

## 5. Conclusions: Enlargement, EU cohesion and the challenge of the territorialisation of Europe

After the fall of the Berlin Wall, ideological conflicts

<sup>3</sup> This is particularly evident in the economic domain: while the shrinking of the Euro-area was avoided, EU countries seem to be increasingly stuck on different trajectories in their economic development and structural polarization has sharply increased (see Heimberger, 2018). The same holds true for the refugee crisis which, while somehow managed, has not led the member states to overcome the Dublin regulation but, on the contrary, has brought about increasing political polarization within and among EU countries.



seemed to have disappeared and efforts to achieve European unity have gained renewed momentum. Even only ten years ago, the enlargement was still perceived as one of the most successful EU policies, driving a peaceful reunification of Europe under the promise of shared prosperity and common values. At that time the Union seemed open, in principle, to far-reaching expansion, while the enlargement policy appeared the most effective instrument to spread EU influence and values across the continent without clear geographical borders.

Today this picture appears to have completely turned on its head. Centrifugal enthusiasm for globalisation has turned into centripetal pressures towards Europe, putting at stake the existence of the European integration project. The Union itself is today deeply shaken with regard to both its economic model and liberal values, also making the debate on enlargement qualitatively different. Despite the efforts of some member states to keep attention high towards the Western Balkans and the renewed strategy by the European Commission, the key word of European politics today, rather than enlargement, seems to be regression, while how to counteract regressive tendencies within Europe appears to be the key challenge for Europeans.

With this in mind, it is fair to say that all four described visions of the future of Europe hold a certain degree of implausibility. Confronted with “the end of EU” scenario, it is easy to recall that the European integration project has proven to be exceptionally resilient and, to put it simply, there are no credible strategic alternatives for EU states. Referring to the current debate about creating a core Europe, it not only appear to be a potentially disruptive hypothesis for the cohesion of the EU-27, but also politically unrealistic, since the proposal simply does not encounter preconditions on the ground even among a smaller group of core states, since they do not seem either to share a common vision nor are they ready to give up substantial additional parts of sovereignty. Looking at the spreading of illiberal values across Europe, it is reasonable to ask how far European states can move rightward to build a European fortress without undermining the same framework for their cooperation. Finally, if it were so easy to prove to European citizens the added value that can be achieved through common European policies, even if along the lines of variably geometries, it would be difficult to understand why some member states have not already resolutely moved towards that direction.

The actual path that European integration is going to take will depend on many factors, starting from the outcome of a complex bargaining among European states, where these tendencies will probably be mixed and the most unexpected combination could materialise. The moving towards the creation of a core Europe for defence and security policy, for instance, could come along with the consolidation of a less liberal Europe, in which nation states will demand more flexibility and less involvement of European institutions in other policy fields, such as the economic domain or the rule of law. Or, on the contrary, the efforts to re-energise the EU-27 could open the inroad to the end of the EU, simply due to the ineffectiveness of the policy responses put in place at the common level.

Regardless of these considerations, what really seems to be at stake within this wide bargaining process is being able to prove the EU’s capacity to provide for the protection of its citizens in the context of a form of globalisation often perceived as unfettered, and deciding on the strategic line to shore up the European front in order to confront an increasingly unstable and challenging global environment. Along the pragmatic lines that characterises European politics, the EU urgently needs to consolidate as a political space in which national sovereignties do not get dissolved within a wider global environment, but are pooled at an intermediary level. A space where Europeans retain the capacity to distinguish, along clearly defined borderlines, a territory where not everything is possible from the global environment and values coming from European traditions, despite their universalistic claims, can be embedded and realized on a smaller scale through common European policies (Balibar, 2004; Galli, 2001).

In other words, all this refers to the uneasy issue of the territorialisation of Europe. Whereas it is clear that the EU cannot be brought back towards the classical experience of modern state formation, what it is also clear is that today, within profoundly changed global conditions, a more decisive step towards clarifying the EU as a concrete political space with precise borders seems to be necessary. In face of regressive forces that push towards the retreat of the Union in its spatial and value dimensions, the only answer that wouldn’t seriously undermine the credibility of the European integration project is the consolidation of the Union in its common values, along with its economic, and security dimensions, which should become more clearly distinguishable from a wider global environment.

Within this broader context, it would be a mistake to conceptualise current enlargement towards the Balkans within the old debate of ‘deepening versus widening’, as some leaders advocating smaller circles of European integration tend to be doing, for instance the French President Macron; that debate took place fifteen years ago. What is at stake today is rather consolidating what the Union has already achieved so far, including what was achieved through previous rounds of enlargement. In this regard, the successful integration of the Western Balkans would represent an important step forward in the process of the territorialisation of the EU, thus ratifying an aspect that was largely overlooked during the early days of enlargement enthusiasm. In fact, a simple glance at the map of Europe shows that the Western Balkan region is not the EU’s south-eastern courtyard but is instead surrounded as it is by EU and NATO member states, its’ overlooked ‘soft belly’. The Western Balkans, which are located in between the most politically, economically, and – in security terms – fragile EU member states and are already formally and informally deeply integrated and connected with the entire Union, cannot be realistically excluded from the broader process of consolidation of the Union.

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The annexes can be found on the website of the Western Balkans Reflection Forum at [www.cife.eu](http://www.cife.eu)

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## **Annex 1: The European Movement in Serbia for a more ambitious approach to enlargement policy<sup>1</sup>**

The European Movement in Serbia (EMS) advocates a bold reform of EU enlargement policy to complement its recent reengagement with the Western Balkans. “The EU should show the political readiness to make enlargement functional, putting it at the centre of its policies by devoting resources and funds” (p. 25), and reaffirming the non-negotiability of European values. To this end, the EMS has elaborated on a number of proposals that includes four central fields of the accession process:

### *A) A “new methodology for membership negotiations” (p.11):*

- “Roadmaps, as a new instrument in the accession process, should be introduced in every phase of accession in order to streamline the reforms necessary for reaching the next step” (p. 25);
- “The qualified majority voting procedure in the European Council should be extended to the decision-making process in enlargement policy,” (p. 26) while unanimity should be maintained only for starting and closing accession negotiations with an individual country;
- Including the WBs in “the internal work of EU institutions as much as possible (although without voting rights), as well as in discussions about the future of the EU” (p. 26).

### *B) More funds for the accession process, linked to effective conditionality (p. 17):*

- The EU should “devote more funds for enlargement to the WBs. This increase would start with the new MFF 2021-2027, with the goal of reaching 2% of individual WB countries’ GDP in the year of their accession to the EU” (p. 26);
- “It is necessary to develop, strengthen and maintain the capacities of countries to manage increased funds. Therefore it is necessary to ensure that the new financial pre-accession instrument for the MFF 2021-2027 is prepared on time and harmonised with the requirements of structural funds – especially in programming, financial management, conditionality and control” (p. 26).

### *C) A “better use of the Stabilisation and Association Agreements (SAA) as frameworks for a faster adaptation to single market rules and for faster economic development” (p. 20):*

- “Through the full exercise of possibilities envisaged in existing SAAs, some benefits of the EU internal market can be extended to the WB without the need to amend agreements” (p. 26);
- The EU should “sign bilateral Agreements on Conformity Assessment and Acceptance of Industrial Products with WB countries to eliminate technical barriers to trade, which are currently the main obstacles when goods are exported from the WBs to the European Union” (p.26);
- “The EU should guide the WBs in using state aid rules within SAAs as a policy tool to gradually redirect public funds from perpetuating economic inefficiencies to supporting investments that are compatible with the internal market”. The EU should demonstrate “flexibility for national

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<sup>1</sup> The proposal has been written by Vladimir Međak, Duško Lopandić, Maja Bobić and Ivan Knežević for the European Movement in Serbia with the title: “Twelve Proposals for EU enlargement from the Western Balkans”. Their proposal is presented here by Matteo Bonomi in a brief summary; the entire paper can be found at the following link: <http://www.emins.org/product/twelve-proposals-for-eu-enlargement-from-the-western-balkans/>.



investment policies aligned with the EU agenda, allowing for the reindustrialization of the region” (p. 26).

*D) A focus on the rule of law as the ultimate readiness test for EU membership (p.23):*

- “Developing the rule of law and reaching EU standards in judicial independence, in the fight against corruption and organised crime, and in the protection of fundamental rights by the WB should be the ultimate test of readiness for EU membership. No leniency should be accorded in this area. In order to change the situation of “state capture” in the WBs, the EU should identify where such state capture exists and name the offending actors in the individual country reports” (p. 27).

## **Annex 2: EU Enlargement: A Six Percent Target for the Western Balkans<sup>2</sup>**

By Tobias Flessenkemper and Dušan Reljić

*If the countries of the Western Balkans are to have any prospect of overcoming almost three decades of economic stagnation and crisis, they will need to double their annual growth rates. This will necessitate a fundamental rethinking of the European Union's enlargement policy.*

A recent study by the World Bank indicates that the economies of the Western Balkans will need to grow at annual rates of at least 6 percent if they are to match the EU average by the end of the 2030s. After a decade without growth, the current figures scarcely exceed 3 percent, too low to catch up. Yet a comparable level of per-capita GDP is what would be required to strengthen democracy and rule of law on the road to EU membership. Instead the gap is growing and exposing the region to the temptations of populism, nationalism and other anti-European currents.

EU enlargement policy in the Western Balkans has been a story of failure. That must be admitted, even if Brussels points to the opening of new negotiating chapters with Montenegro and Serbia, or to the fourth Western Balkans Summit bringing together leading EU members with the accession candidates in Trieste on 12 July (as part of the Berlin Process). Many in the region suspect that Brussels only shows an interest when local crises threaten the Union itself: as migration corridor, as source of organised crime, as staging post for Islamist terrorism, or as sideshow in the West's conflict with Moscow.

### *Washington Consensus Falls Flat*

The states of the Western Balkans have largely implemented the fundamental reforms demanded by the European Union, the World Bank and the International Monetary Fund under the so-called Washington consensus. They have opened their markets to the European Union, privatised and liberalised their economies, and imposed austerity policies. The idea behind the Washington consensus is for reforms – in combination with incremental adoption of the EU's laws, principles and activities – to create market economies and pave the way for EU membership.

The “invisible hand” of the market can indeed be seen at work here, but not in the manner foreseen in the transition blueprints. In many cases nepotism and weak public administration prevent political and economic alignment with the European Union. This is the bitter legacy of the mistaken privatisation policies of the 1990s, when collective enterprises were first nationalised and then passed into the hands of a few – above all politically connected – tycoons. Since then the economies have been ransacked, with the ongoing court cases over the mega-holdings Agrokor in Croatia and Delta in Serbia merely the tip of the iceberg.

But the biggest impediment is the region's structural economic relations with the core EU. Financial and trading relations, geographical position and political ties already make the Western Balkans de facto a part of the EU – but with many disadvantages and no voting rights. And there is no sign of a catching-up process: industries have vanished, unable to withstand competition from the European Union; foreign debt is growing; and unemployment remains high, with almost half the under-30s out of work. Instead a

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<sup>2</sup> This proposal was launched by Tobias Flessenkemper and Dušan Reljić on occasion of the Reflection Forum in Trieste on 26-27 June 2017. A link to the original text is here: <https://www.swp-berlin.org/en/point-of-view/eu-enlargement-a-six-percent-target-for-the-western-balkans/>.

bloated administration and service sector is emerging, with a low intensity of value creation. Investment is also inadequate, especially in education and in research and development.

This creates a situation where it is impossible to produce sufficient exportable goods and services – nor even to maintain existing infrastructure such as the motorways connecting the southern EU member states, Turkey and the Middle East to the core EU. Migration push factors remain strong, drawing the best-trained and most motivated workers to the core EU.

The region's external debt and all its consequences ultimately stem from the trade deficit totalling €98 billion that these small open economies accrued with the European Union between 2005 and 2016. In order to make up the shortfall, the states of the Western Balkans have borrowed heavily abroad, again largely from EU-based banks. These in turn control most of the region's own banking sector, so they profit both from their lending to the states, and directly from the region's businesses and consumers.

In such a situation further EU integration offers no attraction for the region's citizens. The fate of their Greek neighbours underlines their doubts as to whether the current EU model is right for them.

#### *Integration of the Western Balkans Could Benefit the European Union*

What the EU accession candidates in the Western Balkans urgently need is a development perspective and more public investment in order to double their annual growth rates to at least 6 percent. To that end they should be granted access to the EU's structural funds, be permitted to participate in the EU's financial stability mechanisms, and be treated in all other respects as part of the European integration project. It is in the EU's own economic interests to make the region more attractive for trade and investment, and to join up its transport, energy and digital networks. This would also lessen the pressure of migration. The potential political gains are obvious too: A strengthening of regional security in south-eastern Europe would boost the EU's standing in a new era of geopolitics. The EU's democracy model could gain a new lease of life, acting to constrain the influence of other actors like Russia, Turkey and Islamic states – as well as the erratic Trump administration.

Now is the time to prepare a realignment of policy towards south-eastern Europe. The EU enters a new institutional cycle in 2019 with elections to the European Parliament, a new Commission and a new EU budget. And on the other side, Brexit could create space for more active structural and cohesion policies. The objective of the new EU-27 should be to integrate the countries of the Western Balkans. Success for its economic and social model there would boost the EU's credibility as an assertive strategic actor capable of creating a comparable standard of living across Europe.

### **Annex 3: Material aspects of EU relations with the Western Balkans<sup>3</sup>**

By Aleksandar Kovačević

Aside from the complex accession process, with its security, governance, democratization, trade and many other dimensions, the European Union and the Western Balkans have developed a range of mutual physical or material relations. These relations determine the quality of governance, trade relations and the need for connectivity infrastructure. Therefore, it may be desirable to consider these aspects in the context of the EU accession process.

Unprecedented deforestation is the key process across Western Balkan territory. It is a determinant of the quality of governance, security of property rights, rule of law and the ability of these countries to use available resources. The deforestation pattern remains unaltered by nominal political changes and it has remained largely the same during conflicts in 1990's, after these conflicts and during EU accession years till now.

Use of fuel wood by over 2/3 of households as the main source of heat causes indoor and outdoor air pollution beyond any acceptable standard in Europe. It affects the health and human rights of the majority of the population while creating a disproportional impact on women. Both fuel wood and district heating services (where available) are inefficient and expensive beyond what is affordable for the majority of people. With few exceptions, families are exposed to energy poverty: unable to heat adequate living space, unable to maintain necessary hygiene standards, needing to compromise between heat, food, health and education. These people desperately switch to electricity for heating during very cold days causing massive spikes in electricity demand and network losses.

Almost the entire capacity of Western Balkan hydro energy is engaged in supporting these social needs. Electricity trade is altered by limitations at high voltage grid capacity and cross border capacities have been taken off the market. Although this problem may be addressed by investments into additional grid capacity, its main cause still needs to be addressed.

As a consequence, the European energy market is deprived of its largest flexible renewable energy source that may support the deployment of intermittent renewable energy across Central Europe, Greece and Italy.

Deforestation accumulated over 26 years has already caused a massive change in water regimes to rivers and large hydro power plants. The sequence of flooding from 2014 demonstrates the scale of the problem.

Over 3/5 of electricity is generated by lignite fired power plants that makes the Balkans GDP the most carbon intensive in Europe. As these plants are scheduled to close within 5-8 years, during which time their performance is likely to degrade further, a shortage of energy and further exposure to Russian or Chinese influence, as well as significant challenges with security of supply, cross border disputes and further unemployment, seems the most likely scenario.

Local governance patterns and energy price distortions in the wider European market serve as an impediment to private investment into power and heat generation. Availability of financing to local governments exposes any private investor to a significant obsolescence risk and leads to local utilities

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<sup>3</sup> This is an input paper presented by Aleksandar Kovačević on occasion of the Reflection Forum hosted in Brussels on July 4, 2018.



gaining limited access to the latest technologies. As a result, responses to strategic challenges are limited to obsolete technology options and business models.

There is a risk that the region will not be able to fulfil its obligations to the Energy Community Treaty and the UNFCCC Paris Agreement and this may create difficult precedents within these international treaties.

Following the relative success of the International Corporation for Investments in Yugoslavia (ICIY, 1968-1992) and the UN intervention to rebuild the energy sector (UN OCHA 1999-2003) the critical recommendation is as follows: to accompany the Berlin Process and the EU accession process with a dedicated private investment fund for modern renewable energy in the Balkans, plus reforestation and the eradication of energy poverty in the region.

It is to be expected that such a deliberate intervention is going to enhance local employment, improve the security of supply and remove the root-causes of bad governance including soft budget constraints stemming from the use of lignite, the import of gas and deforestation.

## **Annex 4: A proposal for a safer and more accountable macro-financial management in the Western Balkans in support of a faster and sustainable economic growth in the region<sup>4</sup>**

By Fikret Čaušević

Over the last two decades financial systems in Western Balkan countries have been developed as bank-based financial systems. These systems are characterised by the leading role of banks in providing additional sources of liquidity and financing sources for the businesses in the region. On the other hand the most important source of financial funds used for financing the infrastructure have been loans from international or regional financial institutions such as IBRD, EBRD, EIB or, in recent years, bilateral agreements for constructing hard infrastructure and building power plants.

Although the two dominant sources of financial funds mentioned above have been indispensable in reconstructing and developing the regional economies, in order to develop (deepen and broaden) domestic financial markets and to increase the transparency of the use of financial resources and the accountability of the domestic politicians in the process of financing infrastructural projects, the region needs safer sources of financing not being based on a typical loan-based type of financing. The loan-based type of financing increases the problem of macro-liquidity management as the countries are required to make a monthly repayment of the loan that contains both a proportional part of face value of a loan and the interest on the loan. Although some countries in the region have been issuing government bonds denominated in respective national currencies (Serbia, Albania, Macedonia, in the case of Bosnia and Herzegovina the entities have issued entity-bonds and there have been no government bonds issued by the Bosnian Authorities at the state level) those bonds cannot be treated as safe financial assets or at least not in the sense of high-quality-liquid assets (HQLA) - as defined and introduced by Basel III international standards. So in order to deepen and broaden the domestic financial markets and to increase the accountability in spending public resources it could be very useful to establish a Euro-Balkan Guarantee Fund.

The Euro-Balkan Guarantee Fund could be established by the governments of the most important economic partners from the EU with Western Balkan countries. These are the following countries: Germany, Austria, Italy, Slovenia, and it could be useful to add the governments of France, the Netherlands, the UK, and Belgium. The Euro-Balkan Guarantee Fund would issue guarantees for the new type of financial asset – euro-Balkan bonds. Euro-Balkan bonds would be issued by the governments of Western Balkan countries and would be denominated in the domestic currencies of those countries. As those bonds would be guaranteed by the Euro-Balkan Guarantee Fund, they would be treated as the safest financial assets in the region and according to the Basel III standards would be treated as (at least) double A ranked financial assets. These bonds would be issued with maturities of a minimum of 10 years, but also with maturities of 15, 20 and 30 years. As those bonds would be backed-up by the EU countries the required return (yield) on them would be lower and the prices of those assets would be (correspondingly) higher. From the perspective of financial investors (the buyers of those bonds) this type of asset would offer a safer type of savings and a more liquid type of assets in comparison to the existing ones, and would improve the financial management of institutional investors in the region such as private pension funds and investment funds.

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<sup>4</sup> This is an input paper presented by Fikret Čaušević in occasion of the Reflection Forum hosted in Brussels on July 4, 2018.

The Euro-Balkan Guarantee Fund would benefit from „a triple insurance“ for giving the guarantees: the first right for the Fund would be a guarantee-equity swap held by the Fund. This basically means that the Fund would be given the possibility to swap a guarantee for equity in the public utility companies owned by the governments in the region whose assets and cash-flows would be used as a pledge in the Fund. Secondly, the Fund would have a golden share in public utility companies being managed by the respective governments. Thanks to those golden shares (in public utility companies), the EU Guarantee Fund for the Western Balkans would have its professional representatives on the steering boards of these companies and would be able to improve the quality of corporate governance and the accountability of respective managers, while removing the need to privatize those companies in the short-to-medium term. The third type of the Fund's effective control over the use of financial resources gained by selling euro-Balkan government bonds would be a right to oversee budgets every year, thus effectively increasing the transparency of public expenditures in the region. The funds collected by selling euro-Balkan bonds would be used to finance infrastructural projects, preferably the cross-border projects in the region and inter-entirety projects in Bosnia and Herzegovina, for renewable energy projects, development of export-oriented clusters, and for financing R&D in the region.

In addition to the Euro-Balkan Guarantee Fund another supranational institution backed by some of the EU countries could be extremely useful for the region. This would be the European Stability Mechanism for the Western Balkans (ESMWB). This institution should be established and financial resources be subscribed and paid-in by Germany, France, Austria, Italy, the UK, and by six countries in the region: Bosnia and Herzegovina, Serbia, Macedonia, Kosovo, Montenegro, and Albania. ESMWB would have the five possible sources of financial support similar to that of the ESM for euro-zone countries. Namely, a direct financial support to the governments in need of financial resources (under the conditions of the Memorandum of Understanding), financial support for recapitalizing the banking industry, ESMWB direct support for the development of the primary capital market especially when it comes to the issuance of new types of financial assets, ESMWB direct support to the secondary capital market, and support for extending precautionary credit lines for Western Balkan countries.

The above mentioned two types of supranational financial institutions that would be directly managed and supported by the EU (core countries of the EU) would significantly improve and support the level of financial stability, would allow for a better and easier macro-liquidity management of WB countries, and would increase the effective tools of control over the use of financial resources for financing capital and long-term projects in the Western Balkans.

Sarajevo, 10 July 2018

## **Annex 5: Initiative for the opening of the European Social Fund for the Western Balkans by the Social Inclusion and Poverty Reduction Unit of Serbia<sup>5</sup>**

Whereas the Western Balkan countries have been exposed to increasing pressure by international financial institutions and the EU for stabilising their macroeconomic outlook, this has proved to be a drain on the provision of adequate funds for social development. This is partly reflected in socio-economic indicators, particularly in the form of high unemployment rates, extremely high rates of absolute and relative poverty, and an increasingly evident phenomenon of brain drain and youth exodus from the region. Moreover, despite WB governments' adoption of the European Semester formula through the drafting and implementation of an Economic Reform Programme and an Employment and Social Reform Programme, the amount of funds available for the enlargement countries for implementing structural reforms stemming from these processes are far from sufficient. For example, Serbia today receives 20 million euro annually for the sector of social development within the Instrument of Pre-Accession Assistance (IPA), whereas if it were already an EU member state today it would have the right to approximately ten times this amount.

In order to face this social emergency in the Western Balkan countries, the Social Inclusion and Poverty Reduction Unit has advanced an initiative, in May 2017, to enable WB countries to use funds from the European Social Fund for the implementation of the measures envisaged by the Economic Reform Programmes and the Employment and Social Reform Programmes. Various options are available for the implementation of the initiative:

*Option A:* An amendment to the Regulation no. 1304/2013 on the European Social Fund would enable the limited use of funds by the WB countries;

*Option B:* Without amending the Regulation, networking and cooperation would be made possible between projects financed by ESF and those financed under IPA within areas of common interest (e.g. in the field of youth employment), securing additional funds from the EU budget for such purposes;

*Option C* (as an independent, or subsidiary activity in case of options A and/or B): The European Commission and the governments in the region would establish a platform for the exchange of expertise in the use of ESF, and/or IPA funds in areas of common interest (e.g. drafting technical documentation for social infrastructure projects).

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<sup>5</sup> The Social Inclusion and Poverty Reduction Unit of Serbia launched the initiative in May 2017. The summary of the initiative was written by Matteo Bonomi.

The Government of Serbia established the Social Inclusion and Poverty Reduction Unit in July 2009. It is mandated to strengthen Government capacities to develop and implement social inclusion policies based on good practices in Europe. The Swiss Confederation is providing support to the Government of the Republic of Serbia to enhance the national social inclusion process in the period 2009 – 2021,



## **Annex 6: Away with the enlargement bogeyman: Reforming the EU Enlargement Policy for a swifter accession of the Western Balkans<sup>6</sup>**

In a recent paper of the European Policy Centre of Belgrade (CEP), Milena Lazarević argued it was necessary to rethink the EU's enlargement policy towards the Western Balkans. In the face of a prolonged EU association and accession process of the Western Balkan countries and an increasingly negative attitude among EU citizens regarding further enlargements of the Union, a new approach is needed in order to both accelerate the process and eliminate the intimidating appearance of the enlargement policy for EU member states and their own national publics.

To this end, one solution “could be to render the point of accession less formidable. Instead of immediately gaining access to almost all EU policies, access to specific benefits of membership could be made more gradual and conditional with the achievement of certain reform benchmarks” (p. 6).

The key aim of the proposal is to redesign EU's policy approach towards the Western Balkans by integrating the enlargement policy with a post-accession conditionality mechanism. The proposal is articulated along four pillars:

- *Gradual access to EU policies.* In addition to Schengen and Eurozone, the range of policy areas for which access would be delayed after EU accession could be extended (e.g. to the freedom of movement of workers). This revised enlargement policy “would lead to a kind of ‘membership minus’ at the moment of accession, with a clear roadmap for gaining access to new policy areas based on the achievement of benchmarks which would be laid out in the accession treaty” (p. 6).
- *A multi-tier sanctioning mechanism.* Introducing a new sanctioning mechanism where there is a breach of the agreed conditions of accession, tied to the fundamental membership criteria – particularly rule of law, economic governance and public administration reform. The mechanism should not depend on unanimous voting by member states, to enable simple enforcement, and the severity of measures could vary, depending on the gravity of breaches.
- *A credible monitoring and reporting mechanism.* The backbone of the proposal is the development of a credible monitoring and reporting mechanism to show the state of affairs in new member states, and providing the base on which decisions would be made. Similar instruments, such as the Cooperation and Verification Mechanism for Bulgaria and Romania, have attracted several criticisms, especially regarding their lack of adequate rewards and sanctions. The new monitoring and reporting mechanism should be able to neutralise these deficiencies through the combination of the idea of gradual access to EU policies and a multi-tier sanctioning mechanism.
- *Support system.* The mechanism should be complemented by a set of support measures designed to assist in the fulfilment of the benchmarks to access new policy areas. These could include expert peer support from member states and relevant international organisations, providing assistance in particularly vulnerable areas.

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<sup>6</sup> Milena Lazarević (2018). *Away with the enlargement bogeyman: Reforming the EU Enlargement Policy for a prompter acceptance of the Western Balkans*. European Policy Centre (CEP) Discussion Paper: <http://cep.org.rs/en/publications/away-with-the-enlargement-bogeyman/>. The summary of the proposal was written by Matteo Bonomi.

## **Annex 7: Solidarity as a strategic response to unpredictability in EU accession matters: why the Western Balkans should risk standing up for each other as a region united by a common purpose**

By Florent Marciacq<sup>7</sup>

“Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a *de facto solidarity*” (emphasis by the author).

The Schuman Declaration, Paris, 9 May 1950.

*Solidarity is a fundamental value of the European Union (EU) facing a dramatic crisis, a bad omen for the pursuit of European integration. The Western Balkans should remind the EU of the importance of this value. Rather than pleading individually for accession in a context of high unpredictability, they should walk the talk and show unconditional solidarity by uniting their European perspectives as a sign of reconciliation and good neighbourliness. Their political courage would be rewarded in many ways, by an increase of their leverage for faster accession, by deeper transformation and above all by taking pride in making the EU a better political order.*

The EU’s commitment to solidarity is a historical reality enshrined in the Treaties as a basic value (art. 2. TEU), in relation to its overarching aim (art. 3 TEU) and a number of policy approaches (in arts. 24, 67 TEU and 222 TFEU). But EU politics today does not reflect this commitment and rather exudes a lack of solidarity at all levels. Perceived inequalities among citizens are on the rise, fuelled by a socio-economic model promoted by the EU internally as well as externally which encourages the dismantlement of social and redistributive policies and raises intergenerational issues. This rise in perceived inequalities exacerbates in turn frustrations, conveniently harnessed by xenophobic, nationalist and Eurosceptic movements. Less solidarity leads to greater divisions and (self)exclusion. The consequences can be dramatic. The European sovereign debt crisis, the refugee crisis, the widening of East/West and North/South dividing lines across the European continent and the impending withdrawal of the United Kingdom from the EU are challenges in the history of the EU, which conspicuously shine by the absence of *de facto* solidarity.

Likewise, in the Western Balkans, the EU relies on the “regatta principle”, arguing that constructive competition is a better driving force than solidarity in the realisation of their accession perspectives. The limitations of this approach in a region still marked by post-conflict divisions are obvious. Competition has not been constructive and generates zero-sum game calculations, undermining reconciliation and good neighbourly relations. But the trauma of the 2004 enlargement wave, which has not vanished in most EU member states, hinders the advancement of another approach prioritising solidarity in effectively addressing the specific challenges common to the whole region. This approach would entail the re-framing of the EU’s accession policy as a regional process, rather than a juxtaposition of national projects. It would imply a joint commitment of Albania, Bosnia-Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia; a commitment establishing a solidarity-based community of destiny, interlinking their European perspectives and ready to stand up for each other.

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<sup>7</sup> Florent Marciacq, PhD, is Deputy Secretary General and Research Fellow at the Austro-French Centre for Rapprochement in Europe. This proposal was launched on occasion of the Reflection Forum in Trieste on 26-27 June 2017. A link to a related publication is here: the <http://library.fes.de/pdf-files/bueros/sarajevo/13948.pdf>

Surprising though it may seem, there is an appetite for this approach in the region. To improve their conditions, citizens across the Western Balkans believe more in regional cooperation than EU accession (Balkan Barometer 2017). And more has been achieved in the past 5 years with the Berlin Process in this area than in the past 15 years through the EU's regatta approach. Even the accession of Croatia cannot overshadow the limitations striking the socio-economic transformation of the country, its emigration flows and resurgent nationalism. Although the 2018 Enlargement Strategy fails to take over the spirit of the Berlin Process (in its innovatively regional focus), the experience of putting the WB6 into a single boat has borne fruit and has even greater potential. Progress in physical and human connectivity accomplished by the region in the framework of the Berlin Process should be extended to new governance areas (environment, social policies, etc...) and offers fertile ground for taking one decisive step: striving for a more ideational type of connectivity – solidarity in the conduct of national accession policies.

Of course, any deviation from the current approach will be fraught with obstacles. Standing for a grouped accession would run the risk that the accession timing could be recalibrated on the basis of the lowest common denominator. The most prepared countries would have to commit themselves to wait for the least prepared ones, extinguishing any attempt at group accession prospects. But post-accession conditionality would offer here an effective way to address this issue. It would bring the prospect of accession for a self-constituted WB6 group closer, while introducing new rules into the EU family, reducing the likelihood of post-accession backsliding (see the annex 6 in this paper). Compliance studies show that stricter pre-accession conditionality does not necessarily increase post-accession compliance anyway and it is moreover likely that the EU will eventually have to accept states that are not ready. While resonating well with Macron's view on circles of integration, post-accession conditionality could give WB6 leaders the political leverage needed for the WB6 to lobby as a group for faster accession.

Standing for EU accession as a regional rather than a national priority would also create constructive cleavages on WB6 political scenes and force WB6 pro-EU nationalist leaders to clarify their position towards regional solidarity. This would leave room for more cosmopolitan-minded politicians to cooperate across the region and could give reconciliation and good neighbourliness a fresh impetus. In a collective approach premised on solidarity, bilateral disputes and ethnopolitics become largely irrelevant.

So, how do we get there? The first step is to acknowledge a sobering reality: the accession process is not only lengthy (due to slow progress in legal and socio-economic convergence, good-neighbourliness and democratic transformation). It is increasingly hindered by rising unpredictability in enlargement politics. This unpredictability cannot remain unanswered. The initiative to join forces in accession matters as a response to this challenge should come from the WB6 themselves - and their civil societies first of all. It would offer to the EU the reconciliation narrative, which it has been clumsily striving for in the past 2 decades and would be a source of wider inspiration. If the countries of the region succeed in walking the talk, advocating the grouping of their accession perspectives and the prevalence of solidarity over competition, they will set an example in European politics and, by their actions, remind the EU of the importance of this fundamental value. How could the EU and its member states possibly oppose what the EU stood for at the very beginning?