

INSTITUTE FOR REGIONAL AND INTERNATIONAL STUDIES

**THE WESTERN BALKANS:
BETWEEN THE ECONOMIC CRISIS
AND THE EUROPEAN PERSPECTIVE**

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

INTRODUCTION

OGNYAN MINCHEV*

This study is aimed at presenting the most important current trends of economic, political and institutional development of the Western Balkan countries with relation to two major factors shaping the region's context – the international economic and financial crisis and the process of European integration of those countries in transition.

Seven years have passed since the European **Summit in Thessaloniki** of June 2003 endorsed the EU strategy for full membership of the countries of the Western Balkans. The initial stage of this accession process has been accomplished with the Stabilisation and Association Agreements (SAA) signed between most Balkan countries and the EU. The process of visa liberalization made headway and is up to include Albania and Bosnia and Herzegovina (BiH) next year. Croatia has almost completed the membership negotiations. The Republic of Macedonia was granted the status of an official candidate for membership. Less visible but sizeable changes in the region's economic and institutional environment have taken place, reflected in consecutive steps of partnership between Brussels and the Balkan capitals. Yet the larger part of the EU accession road for the Western Balkans lies ahead.

The Western Balkans represent a complex and diverse reality. In strategic terms, the region is important for Europe as a single entity bridging Central Europe with the South-East of the Old Continent, stretching to the borders of Europe at the Mediterranean Sea. In the aspects of state- and society-building, however, the Western Balkans require specific approaches and instruments to handle the enormous diversity of problems and dilemmas which every society or sub-region faces on its way to full membership of the EU. Croatia, Serbia and the Republic of Macedonia have the most stable institutional systems region-wide, but the chances of those countries for membership are still quite diverse. Croatia moves to the final round of its membership process, while Serbia and Macedonia face particular problems of political nature that hamper their EU accession. Skopje needs to sort out the “name issue” with Athens, which proves to be an important identity dispute for both countries. Apart from having embraced the agenda of partnership with the United Nations war crimes tribunal for the former Yugoslavia (ICTY), Belgrade needs to cope with the major national strategic issue of its attitude to the Kosovo *status quo*. A country without fixed borders and neighborhood relationships could not pass the test of the Copenhagen criteria for EU membership. In a mid-term perspective, a compromise on the Kosovo issue does not seem possible, provided the dominant public attitudes of Serbia.

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The conflicts of the 1990s have brought deep communal and institutional destruction as part of a general process of de-modernization throughout the region¹. As a consequence, significant parts of the Western Balkan region have lost their potential for national reconstruction (or nation-building) and the ability for communal self-government. The protectorates of BiH and Kosovo are the primary cases to the point. Almost 15 years after Dayton, BiH is more of a mechanical compendium of three ethnic communities which find it difficult, if not senseless, to live together as one nation. Awarded a sovereign status by the international community, Kosovo still lives under the rules of the old clan-based system of authority and economic development, which puts the entire community under the overwhelming control of organized crime networks and informal corrupt relationships between state and society. Inter-ethnic relations are tense and territorial integrity of the newly created state is disputed in multiple ways. Representative institutions and the international authorities in Kosovo and BiH are more or less empty shells at the background of those realities of traditional society and interethnic alienation. The enormous lot of international funding, which pours into those protectorate areas, achieves little more than relative relaxation and normality of everyday life.

Albania and Montenegro need most concentrated efforts at institutional development to achieve the standards of EU membership in observable future. Albania still battles with the effects of a half-century isolation and needs to speed up the institutional and economic aspects of societal modernization, which is at its initial stage. Montenegro has to strengthen its representative institutions, to take care of the transparency of relationships between state and society and to reduce the scope of organized crime and high-level corruption in public life and in society in general.

In its approach towards the EU membership of Eastern Europe, Brussels has failed to recognize the strong developmental aspect of the accession process of many post-communist countries². The accession approach towards Bulgaria and Romania had treated law and order, judiciary and institutional efficiency as issues of strictly institutional nature, while important societal, cultural and political aspects of those issues have been largely neglected. Based on this experience, two alternative options seem possible for Brussels in its strategy of enlargement towards the Balkans. Escapism is the **first one** – the Commission could issue a communication, simply stating: “When you, the countries of the Balkans, mature in a natural manner to the level of membership, we’ll invite you”. This is the approach of a simple defeat for Europe. The **second option** involves development and improvement of the accession

¹ De-modernization process is not specific for the Western Balkans only. It has taken place largely throughout the post-communist world – starting from neighbouring Bulgaria and Romania, and ending up with the transition realities of the post-Soviet space. Yet de-modernization and societal destruction showed up most significantly in those regions where post-communist transition took place in an environment of inter-ethnic wars and civil conflicts.

² This failure is part of the general transition paradigm, generated for the post-communist world by the dominant ideas and beliefs of the West in the 1980s-1990s. Development and modernization went hand in hand in political theory and practical strategy of de-colonization in the 1960s-1970s following the common sense presumption that a democratic system develops out of a modern state and society. When communism failed, the essential link between democracy and modernization was well forgotten on purpose. It was not “politically correct” to advocate the “supremacy” of modern culture and modern world in a postmodern liberal environment, where all cultures were equal. Here we come to the coy recommendations of the post-communist transition paradigm: “Create a political system of representative democracy, respect human rights and let the “invisible hand” of the market do its job.” Welcome to paradise!” All pains and problems of the neglected shortages of modernity came later – administrative inefficiency, gangster economies, corruption and oligarchic crime. A decade later Thomas Carothers admitted the failure (“Journal of Democracy”, January 2002, “The End of Transition Paradigm”). In fact, it was too late.

instruments on the part of the EU – adjustment of the accession process to the diverse realities of the Balkans and the East of Europe in general. The EU is an indisputable success as an agent of modern development, demonstrated in the South of Europe in the last three decades. In the case of the Balkans, this experience has to be also extended to the process of pre-accession, of preparation of the diversified Balkan realities for full integration into the European mainstream.

Apart from having achieved different levels of institution-building and local political elites' capacity to deal with the agenda of accession, the Western Balkans represent a diversified reality in many important aspects of societal and communal life. Western Europe has long ago completed the process of nation-building (with all the positive and negative consequences of that) and has been resolving bloody disputes among nations by applying a new set of principles that made the EU possible as a post-national construct. The nation-building process is not completed in the Balkans, though, and in the region we face communities at different levels of development and fulfillment of their national identity and nation-building agendas. The Serbian and Croatian are long established nations, Albanians aim for national unification, while Macedonians and Montenegrins – each community in its own way – try to constitute themselves as independent nations. BiH is a test case for nation-building among painful memories of a bloody conflict. Will this test case succeed in a timeframe when old Belgium and Spain are shaken up by separatism? For how long will Kosovo deter hold on to its special relationships with the Albanians in Macedonia and Albania proper without before further claims for unity arise? Will passionate Macedonian search for glorious identity exhaust itself with Adam and Eve (after Alexander the Great) proven true Macedonians at last?

Uneven communal and national development in terms of culture, modernization, economic improvement and institution-building bids an unstable environment in the region of the Western Balkans in the observable future. That might impede the EU accession process, if it is strictly framed in the narrow administrative criteria of the Brussels bureaucrats, overwhelmed by form to the expense of substance. Certainly there are numerous arguments why a Balkan country cannot or should not become an EU member. But more attention should be paid to the question what price Europe will pay in neglecting the opportunities of the Western Balkans' integration into the European mainstream. It is obvious that the old criteria for membership – with all their comprehensive standards and procedures – will not sufficiently facilitate the process of Balkan accession. Raising the standards and the requirements for the candidate countries (after assessing the failures of Romania – Bulgaria accessions) will prove inappropriate and inflexible. The EU approach should develop a more flexible and creative set of instruments, utilizing all important assets of Western Balkan societies towards integration into the European mainstream, while allowing longer-term strategies for alleviating deeper problems of development and modernization.

We offer those framework analyses of the regional situation in the Western Balkans, country by country and problem by problem, based on the existing set of criteria, employed by the international community and the EU in particular in judging the region's preparedness to join mainstream Europe in observable perspective. We start with assessing the entire period of post-communist development in each country. Next we focus on each nation's political developments, institution building public administration efficiency, law and order system improvement and the ability of each country to resist organized crime and corruption. Each country analysis continues with assessment of the economic development and the capacity to resolve inter-communal disputes at home and in the neighborhood. Last but not least, we try to assess the overall chances of the region within the context of the global financial and

economic crisis. This crisis affects the region in multiple ways, reflecting its basic status of a periphery of the European economic and institutional mainstream. The global crisis and its painful effects upon Europe reduce the potential of public, particularly political instruments to achieve endorsement of the Western Balkans' EU accession both by the institutions and the public of Europe. Yet the crisis also opens a number of opportunities to differently assess the process of the Balkan countries' accession and raises the dispute about the borders of Europe and their importance for the EU's long-term perspectives as a strategic international factor.

Every single text within this study represents the views and attitudes of its author. Our collective aim has been to create a comprehensive snapshot of the present state of affairs in the Western Balkans in the context of the international economic crisis and in view of the region's EU accession process. A few conclusions and strategic recommendations will follow.

**THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS
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**HOW ARE THE BALKANS WEATHERING THE STORM
OF THE ECONOMIC CRISIS:
COMPARING THE IMPLICATIONS ACROSS COUNTRIES
IN THE REGIONAL AND EUROPEAN CONTEXT**

MARIN LESSENSKI*

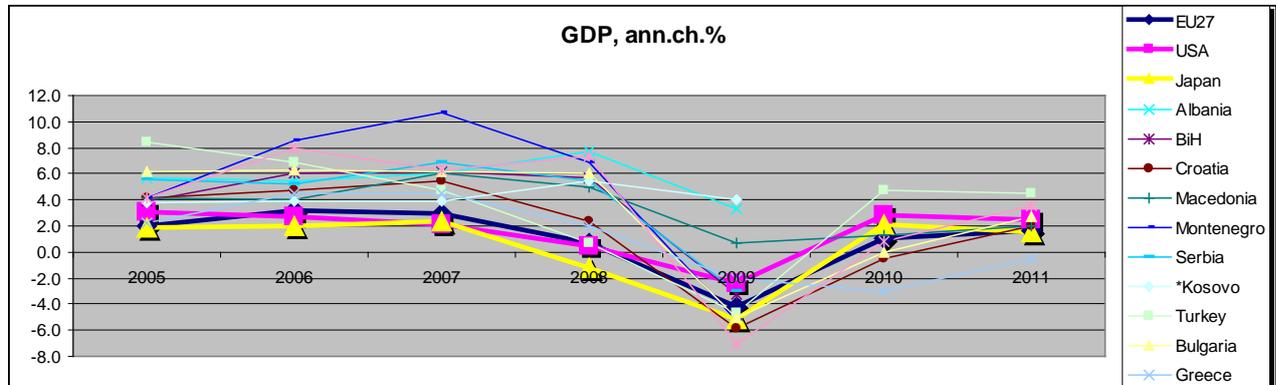
Introduction and main findings

Before the “Great Recession”, the Balkan countries were doing pretty well, registering decent levels of economic growth. As the crisis engulfed Europe, they substantially slowed down their development, and many countries registered a “hard landing”, necessitating the intervention of the International Monetary Fund. Now that the developed countries are talking about recovery, the Balkan states are also expected to ride the wave. But there is a consensus that this is a very fragile recovery. The Balkans are especially vulnerable in this respect. They lack the “automatic stabilizers” of the social welfare systems of their Western European counterparts and lack the access to the easier financing and support mechanisms of the Eurozone. Neither can they emulate in any way the “bailout” mechanisms employed by the US, nor rely on export and innovation potential as Japan does. The biggest challenge in the Balkans is that if economic disaster strikes, they can all but do little to prevent the economic shocks, spilling into social unrest, being used instrumentally for political unrest, extremist or populist political projects, or inciting inter-ethnic tensions. Economic shocks in the Balkans also mean an increase in the grey economy or a rise in some patterns of crime.

In the broader European context, the crisis had at least three negative effects on the Balkans. First, preoccupied with the economic troubles, the EU put the enlargement agenda to the backseat. Second, fighting the crisis is draining the Balkan governments’ resources and attention away from the necessary accession reforms and advocacy efforts. It was quite evident from the very onset of the crisis that there was a trend of re-nationalization of policies in the

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EU. Third, as the EU is devising a new regime of economic governance, it will undoubtedly put more emphasis on the candidates' economic and financial policies. The EU will likely seek to prevent – directly or indirectly - accession of countries which are generally perceived as economically weak and potentially disruptive and unable to conform to its newly established, stricter rules.



The current paper tries to track down the effects of the global economic crisis on the countries in the region, identify trends and elicit policy recommendations. This has been done by looking at several sets of indicators across countries and across time in the countries of the region and the EU as a whole. The countries include the so-called Western Balkan countries, the three EU members in the region – Bulgaria, Greece and Romania – as well as Turkey, which is also a Balkan country, an EU candidate and a key economic partner of many of the states in the region. However, the focus is on the Western Balkan countries: their counterparts in the “south” and “east” parts of the peninsula are used as points of reference as key neighbors, partners and, not in the least, because they provide a useful reference point of the effects of EU membership and membership in the Eurozone, in the case of Greece. Turkey has not been discussed in depth, as the scale and model of its economy bear many peculiarities that put it in a completely different category from the rest of the Balkan states.

As far as the temporal dimension is concerned, in most cases the data traces periods back to 2005, goes through the peak of the crisis in 2008-2009, the current 2010 and relies on forecasts for 2011 or 2012. The aim of using this approach is to provide more than a momentary snapshot of the situation and at the same time try to capture trends, which might be useful for the explanations and most of all – elicit projections for the future that may be used for policy recommendations.

The paper features certain limitations, related to the availability of trusted and comparable data. This inevitably left some gaps on some indicators for some countries. But the preferred approach was to use only trusted and comparable data, otherwise this would distort the findings.

The paper is divided into three parts. The first part looks at the existing interdependence in the region and that of the regional states with the rest of Europe by using a simple indicator – the top ten export partners by country. The aim is to see the level of economic interdependence and to highlight its importance not only to the economic but also political relations of the countries.

The second, most detailed part contains several chapters, each with a purpose of its own. The first chapter looks into the general economic situation of the Balkan countries and the EU as a whole through several indicators. Gross Domestic Product (GDP) growth is the default indicator used to gauge the general state of the economies. The paper also assesses the unemployment

and employment levels. These are very important indicators, as in case the country is losing jobs or the job creation level is very low, it shows the economy suffers. As a matter of fact, there is a broad understanding that jobs are very difficult to create once lost, and even when there is economic growth, job creation is very difficult to put on track. This also means that the unemployment level becomes part of a vicious circle, where there is an immense pressure on the state social care and healthcare systems and at the same time less revenues in the public budget to sustain these systems. High unemployment as a rule is accompanied by social unrest, which in the Balkans may be misused to incite inter-ethnic tensions or instrumentally used in politics in other ways. The rise of unemployment is also associated with the rise in some forms of crime and certainly swelling of the grey economy.

The fourth chapter of the second part of the paper looks at the trade balances and the current account balances which provide information not only on the import/export ratio – i.e. whether the country imports more than it exports, but also indicates the ability of the economy to deal with imbalances – in case it is a net debtor when there is current account deficit.

The fifth chapter outlines the trends in foreign direct investment (FDI) flows into the Balkan countries. The FDI has been badly needed to fuel economic growth, replenish the budget with fresh funds that were unavailable in the country, create jobs and open markets to the Balkan countries. In case the FDI came with big, responsible companies, this benefited the overall political and social climate in the country, as these investors introduced rules of the game, demand efficiency and integrity from the political class and the administration. Though this has not always been the case, the phenomenon has had overall very good influence on the Balkans.

The sixth chapter is about the trends in remittances of migrants. Although taken separately these are small sums, combined they are critical for the development and even for the survival of the Balkan economies – making in some cases up to 14% of GDP (BiH). Even the modest levels of about 5% (Bulgaria, Romania) make a huge difference: this is hard cash directly put into circulation that moves the whole economy. Moreover, the remittances of migrants have helped the families (in most cases both young children and elderly) live and survive back home and thus eased the state in commitments to these groups, too.

The final chapter of the second part takes three key indicators – government balance, level of government debt and inflation – and puts them against the “European yardstick”, i.e. the requirements of EU’s Stability and Growth Pact and the Maastricht criteria, which are at the very basis of the EU in the current crisis context and by all accounts will be at the foundation of the future economic governance of Europe. There is a threefold purpose in this exercise. First, it assesses how the Balkans are doing with regard to the key EU requirements and therefore may provide directions to how the Balkans may improve their policies. Second, this will help them in the EU accession process, as fulfilling EU’s own tough requirements may be used as an advocacy tool – to alleviate fears that the EU will be joined by feeble and troublesome countries. Third, and very important – at the end of the day, these are very important good governance indicators. They concern most of all fiscal policies – how governments manage public finances and how they shape public policies. It is very easy during the crisis to succumb either to popular demands or interest groups for more public spending. During the good years, the economic growth covered for the cracks in the system. But during the crisis the falling revenues in the public budget and growing social spending resulted in high deficit and/or government debt – a real recipe for disaster.

The third and final part of the paper looks at the ongoing debate in the EU how to structure the future economic governance of Europe. These are the lessons learnt – in the hard way – from the economic crisis, and they should ensure further European integration to avert disaster. Moreover, as the Greek case has demonstrated, the “Great Recession” has been narrowly

avoided but the recovery is fragile and may easily be endangered – dragging not only the economies but the very foundations of the European project. This third part will outline the major proposals in the EU which undoubtedly will have indirect and very direct consequences for all Balkan countries – members, candidates and future candidates alike.

Main findings:

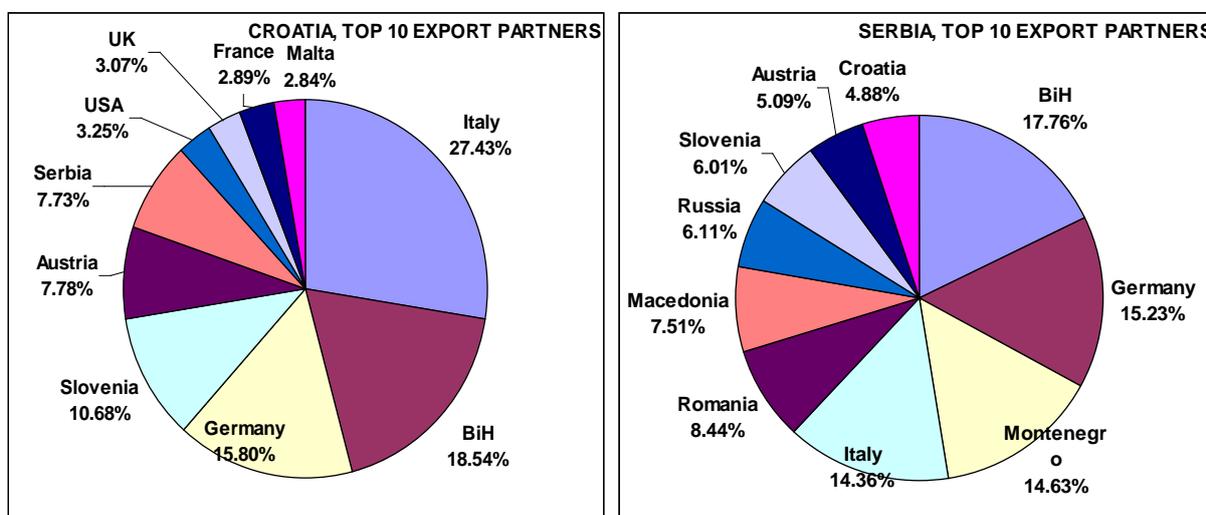
- The Balkan countries follow the general European and global trends. There is, however, a certain time lag between the development of the crisis in the EU, the consequent stabilization and indications of recovery, and those in the Balkans - the Balkans follow a similar pattern but experience the effects later than the EU as a whole; while the crisis hit Western Europe in 2008, the worst year for most of the Balkan countries was 2009.
- It can be expected that the Balkans will follow a similar curve to recovery, but this depends both on their main partners' recovery and on their capacity to capitalize on the positive trends;
- The expected higher GDP growths should not serve as consolation. The Balkans have to catch up with their Western counterparts and they need much higher and more high-quality growth.
- Unemployment levels, already very high especially in the Western Balkans, increased during the crisis. This poses a real challenge, as job recovery will be a very difficult and slow process. This will continue to put pressure on the state welfare systems and further burden the public budgets. Sustained unemployment may cause social tensions and bring a rise in some crime forms and the grey economy.
- Remittances from migrants are on the decrease, posing a problem for the citizens and the state, as these funds have made up a substantial share of GDP. The only solution would be the migrants' host states to recover quickly.
- The crisis helped mitigate problems with the current account balance and trade deficits, but this is not a result of positive development, and deficits may rise again.
- Most Balkan states are doing well with regard to government debt (Greece being a blatant exception) compared to their Western counterparts. But this should be no consolation as they have high deficits and none of the resources of the richer countries to cope with the situation. The only option is to avoid populism and follow prudent public policies, limiting spending at a time of diminishing revenues.
- The Balkan countries may study and choose to introduce the best proposals for economic governance, even if they are not mandatory. In that way, they'll not only have guarantees of financial stability and safeguards against domestic populist temptations (e.g. in case such rules are enshrined into the constitution), but also convince their EU counterparts that they are serious in pursuing prudent policies.

How are the Balkans and the EU interconnected: patterns on European and regional level³

Why the Balkan countries should care about what is going on with the economy of the EU and the economies of their neighbors? The “global interdependence” mantra is true of course, but facts on the ground say that Balkan countries’ interdependence lies in two, largely overlapping circles – the European Union members and their neighbors in this part of Europe.

The tracking of patterns of interdependence is also important in order to see the possible forms of influence the crisis can exert – i.e. if a key export partner is in trouble, then the exporting country’s respective sectors will be hurt. And adversely, it may demonstrate the “exit routes” to economic recovery – once the trade partners are back in shape, the exporting countries will be positively affected.

This assumption is close to common sense, but it becomes valid only after adding some hard data to support it. One way to go is to put together data on the trading routes of the countries in the region and compare the country data. The figures below, which show the top ten export partners in 2009 of these states, vividly illustrate the pattern of interdependence. The trade exchange has two main directions – their counterparts in the neighborhood and the EU member states. Even Turkey, with its recent posture of aspiring Eurasian player looking east, has more than 62% of its exports within the “top ten” list to EU member states (with Turkey’s scale of exports, the small Balkan countries would not appear on the top ten list – nonetheless, they are important trade partners).

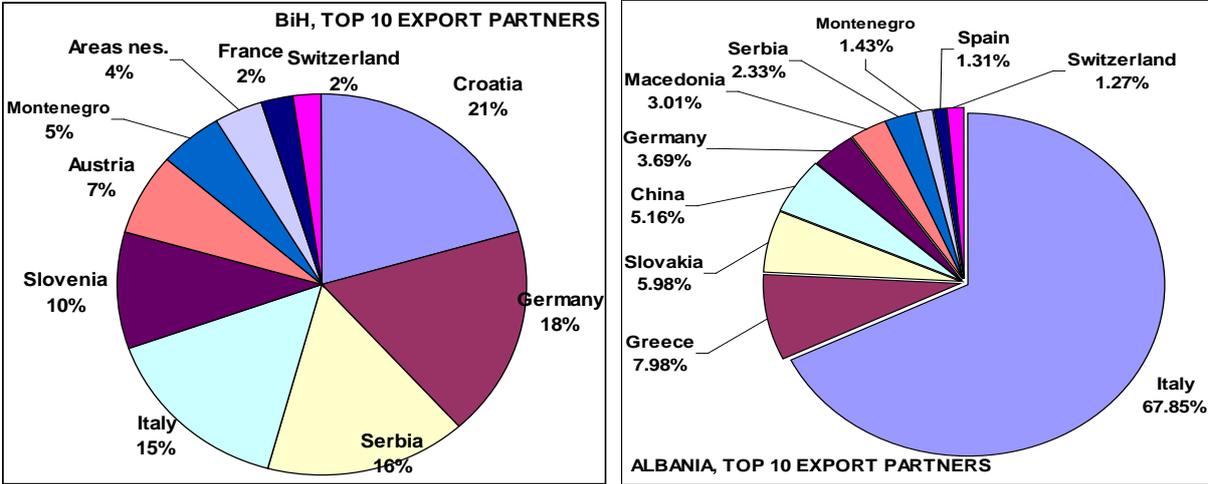


Hence, besides the normative aspiration to EU membership and the good neighborly relations, the countries in the Balkans have quite practical reasons to be interested and to care about the well-being of the EU and of their neighbors. The data shows very clearly that the states in the Balkans have two major groups of trading partners – the EU member states and the counterparts in the region.

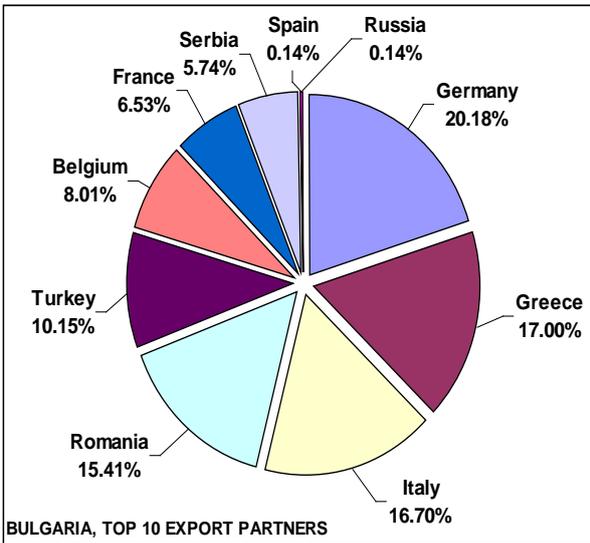
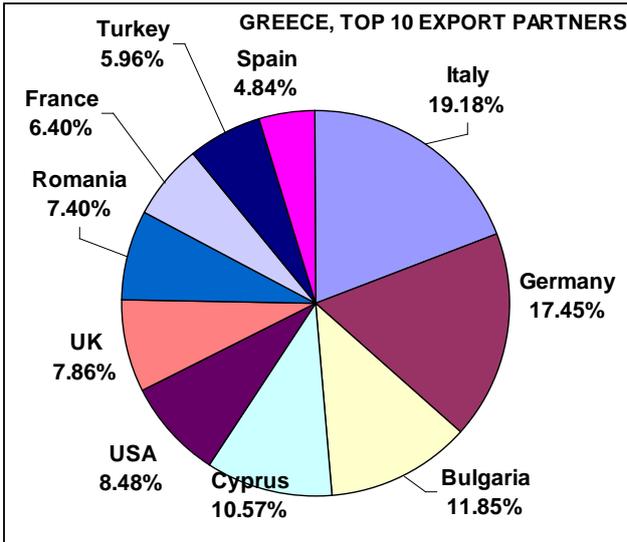
³ All data used in the tables refers for 2009 and is courtesy of United Nations Statistics Division database.

From the EU member states outside of the Balkans, the preferred partners are Germany and Italy, with countries such as Austria, Slovenia, France, Spain, Belgium, the Netherlands and the UK also being on the list.

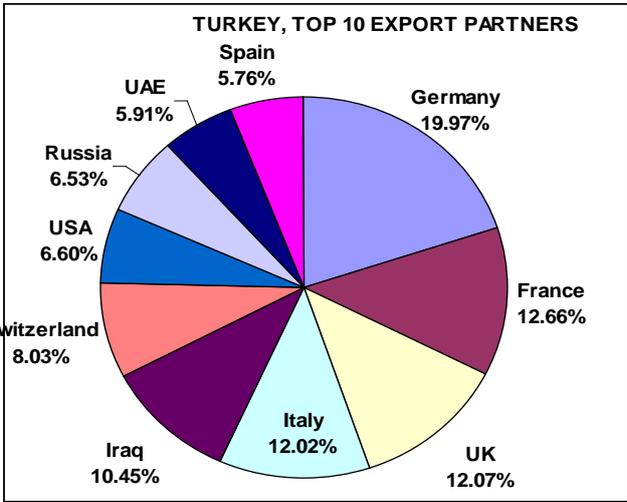
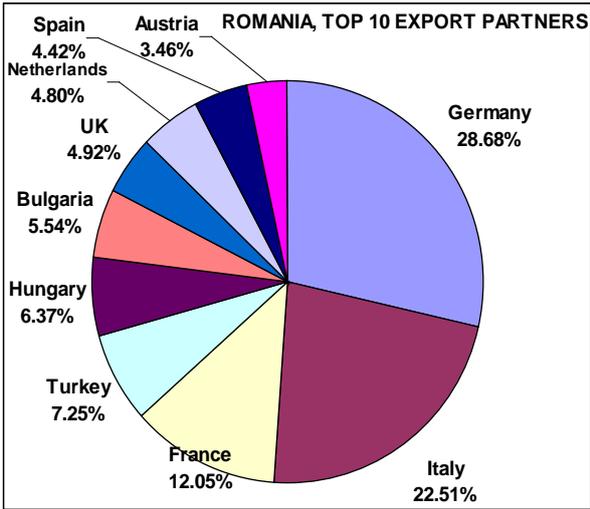
There are also easily observable sub-regional patterns of exchange. The former Yugoslav countries have, of course, very intense relations. But they are also joined by Albania, which has been trading with several former Yugoslav countries.



There is also a clearly visible other sub-regional patterns among the EU members in the Balkans - Greece's first three export destinations are Italy, Germany and Bulgaria, while Bulgaria's top three export partners are Germany, Greece, Italy. Romania is partner No. 4 for Bulgaria and partner No. 7 for Greece; in a similar vein, Bulgaria is number 6 on the list of Romania's export partners. Also, judging by other data – such as tourist travel statistics, for example – it is evident that EU membership has greatly facilitated such sub-regional patterns of exchange.



The level of interdependence, demonstrated by these figures as well as by other data, shows the Balkans have a stake in each others' well-being and that of Europe. The developed patterns of relations are hard to substitute, even in the longer term. The events in one country would have impact on developments in other countries. The policies adopted and implemented on EU level will have direct consequences not only for the EU members in the region, but also for the candidate countries and potential candidates alike.



Comparing the crisis effects on the Balkan countries across key indicators and across time

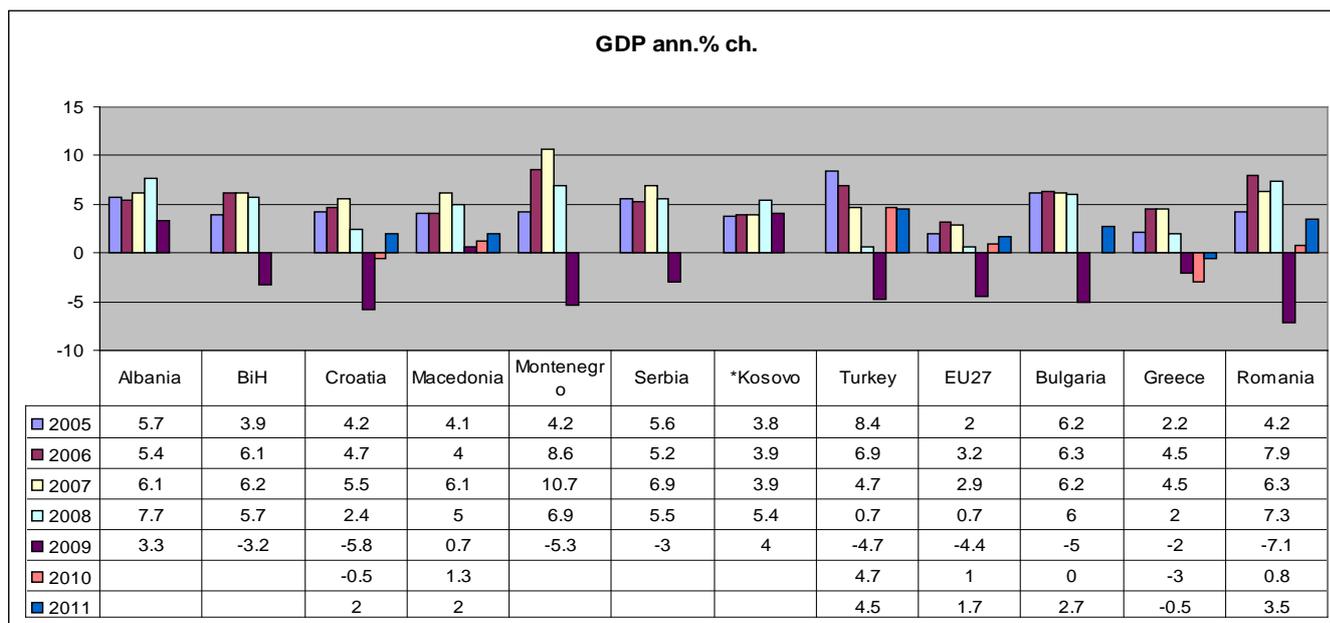
The Gross Domestic Product (GDP)⁴

During the good times a couple of years ago, the Balkan countries undoubtedly managed to capitalize on the global trend in economic development. The growth of the gross domestic product (GDP) of the Western Balkans, Turkey and the three EU member states, when compared to the average GDP growth of the 27 European members (EU 27), demonstrates that before the crisis, all Balkan countries experienced rapid increase of economic output. In the years 2005-2007 the GDP growth in the above mentioned group was higher than that of the EU average by 6-7% and was considered quite normal state of affairs (and Montenegro reported an immense 10.7% growth in 2007).

But once the global economy entered the crisis, the external influence on the open economies of the countries in the region became negative as soon as their economic partners started to experience difficulties.

There is a certain peculiarity in the trends that differentiates the crisis in EU as a whole and the Balkan crisis. The EU, comprising some of the world's most developed economies, felt the unfolding of the 2007 crisis – the one triggered by liquidity shortfall in the US – sooner, and the drop of GDP was already registered in 2008. In contrast, the Balkan economies were still driven by inertia in 2008. Although there was a slowdown in their economic growth that year, too, it was certainly not that sharp as the one leading to an EU average of 0.7%. In the Western Balkans, the average growth was some 5.51% even in the crisis year of 2008, and the Balkan EU member states were also in relatively good shape – GDP grew 7.3% in Romania and 2% in Bulgaria.

⁴ The used data and forecasts are by Eurostat and ECFIN, unless otherwise indicated. The last released data and forecast is from “European Economic Forecast – Spring 2010” by DG Economic and Financial Affairs. The data and forecasts about candidates and potential candidates is from “EUCandidate and Pre-Accession Countries Economic Quarterly”, last update July 2010..



The year 2009 witnessed the painful crash of the Balkan economies. The effects of the global economic crisis of 2007-2008 now were in full swing here. Croatia's GDP growth rate dropped from 2.4% to -5.8% in 2009; Serbia's from the very good 5.5% to -3%. The Balkan EU members of Bulgaria and Romania faced -2% and the really bad -7.1% of growth, respectively – with Romania having an excellent 7.3% growth just the year before. Europe itself was badly affected, having a negative GDP growth of 4.4%.

Real GDP at market price:	201	201	201
Albania	3.	4.	4.
Bulgaria	0.	2.	3.
Macedonia	1.	3.	3.
Romania	-0.	3.	4.
Serbia	1.	3.	5.
Turkey	6.	4.	4.

World Bank forecasts, 2010

The figures demonstrate that the Balkans follow the general trends on global and European scale but the change in trends is registered months or a year later. It can be assumed that recovery will have the same pattern and occur later than in the developed economies in the rest of Europe. The

data projections confirm the assumption that the economic recovery will come slower in the Balkans than in the rest of the continent – Croatia will have -0.5% growth in 2010, Bulgaria 0%, Romania 0.8% - lower than the expected EU average of 1%.

The economic prospects for the region are not that bad, though. The World Bank projections indicate that the countries in the region will start to improve 2011 onwards. There are the following problems with this data, though. First, the levels of growth will hardly reach soon the levels before the crisis, and thus will substantially delay the processes of catching up in wealth and general level of development with the rest of Europe. The countries in the region should really sustain immense levels of growth to achieve comparable standard of living to that of the “Old Europe,” and this is not feasible under the current circumstances. Second, GDP as an indicator only describes one, limited aspect of the story. The crisis has affected on a global scale the levels of unemployment, increased government debt and worsened the public finances in general, and dried up sources of foreign investment and funding, which had fuelled growth in economies such as those in the Balkans. These and other indicators should be looked into, besides GDP, to have a fuller picture.

Unemployment and employment level⁵

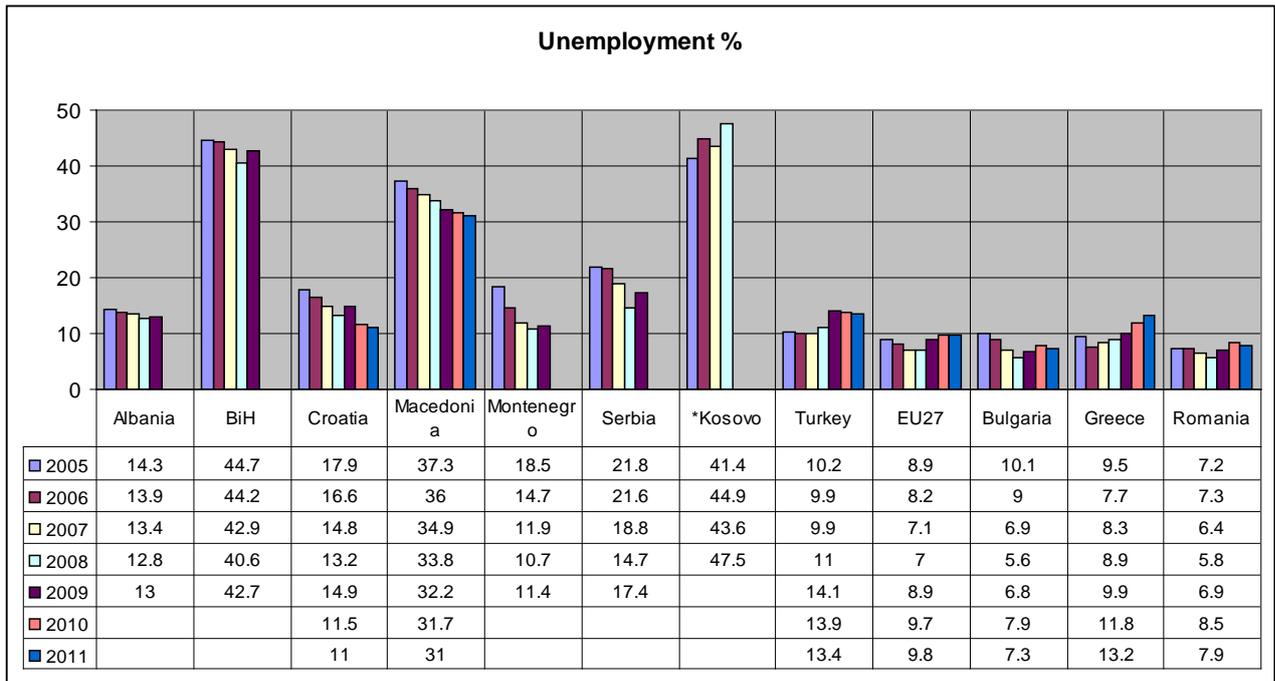
GDP growth is very important, but other indicators are critical for assessing the economic situation and its political and social implications. GDP does not mean anything to the people if it does not translate in more jobs and personal wealth. However, the global economic crisis has only swept away jobs. Both experts and politicians are unanimous that losing jobs is the main challenge and it will be easier to return to GDP growth than to job creation. For example, an alarming report from the think tank CEPR⁶ says that the economic recovery in the United States will not bring back jobs quickly – the pre-crisis level of jobs will be restored only in 2014 and, considering the population growth, the previous job creation growth will be reached just in 2020 – in a decade.

Jobs are paramount for the Balkans. The countries in the region lack the “automatic stabilizers” of their richer Western counterparts – i.e. the solid social and healthcare system and the generous unemployment benefits. Thus, any significant job loss would translate into substantial social problems, including rise in some forms of crime and the grey economy, political tensions and in many of the countries – inter-ethnic issues. In short, there is broad agreement that job retention is very important and that once lost jobs are very difficult to create again.

The unemployment figures indicate that the Western Balkans had serious unemployment levels even before the crisis hit, and they were exacerbated after 2008. All countries have higher unemployment rates than the EU average of 8.9%, reaching in 2009 even higher numbers – for example, a 17.4% in Serbia. But while most of the countries have high yet still manageable problems, in Macedonia, BiH and Kosovo more than a third, quarter and nearly half of the working force, respectively, is officially unemployed. The figures of 32.2% in Macedonia, 42.7% for Bosnia and Herzegovina and 47.5% for Kosovo are alarming. The general trend is somewhat positive, with the existing forecast for Croatia and Macedonia promising a marginal improvement in 2010 and 2011. It’s bad news for all Balkan countries that Greece, a major trade partner, investor and destination for Balkan migrants, will continue to experience the downturn trend. Greece forecasts say that unemployment will rise from 9.9% in 2009 to 11.8% in 2010 to 13.2% in 2011.

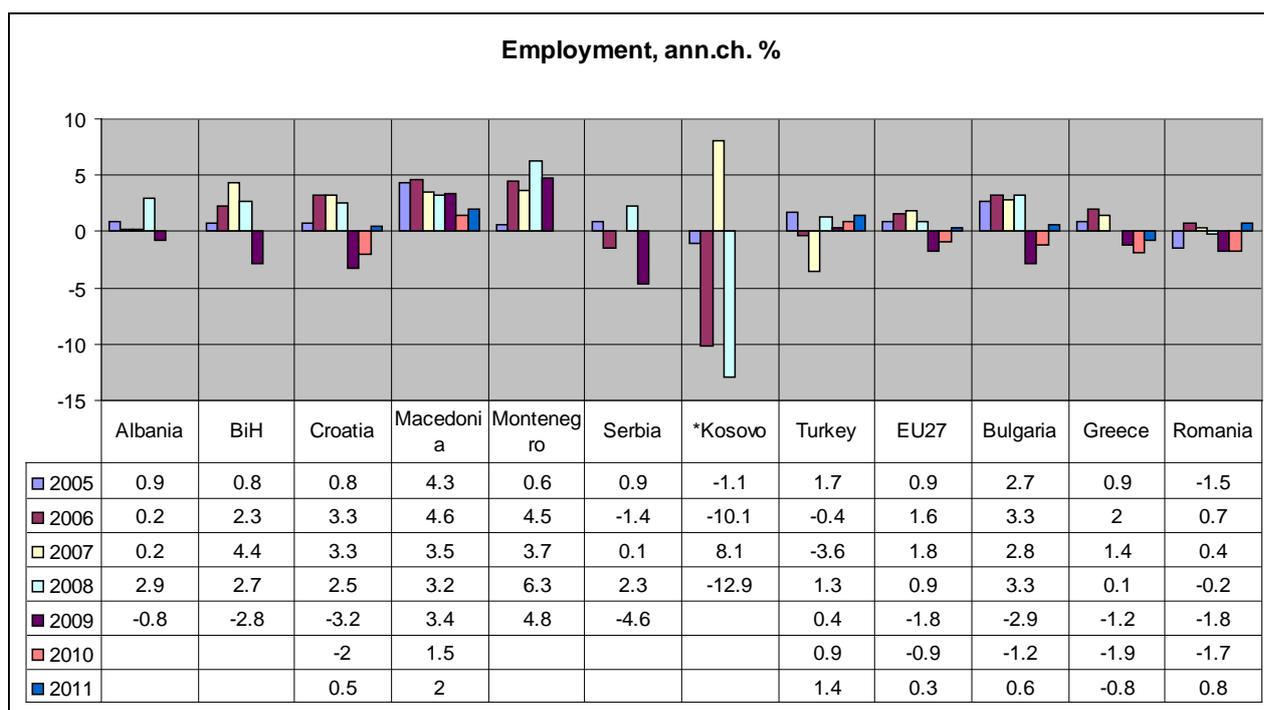
⁵ The used data and forecasts are by Eurostat and ECFIN, unless otherwise indicated. The last released data and forecast in European Economic Forecast – Spring 2010 by DG Economic and Financial Affairs. The data and forecasts about candidates and potential candidates is from “EUCandidate and Pre-Accession Countries Economic Quarterly”, last update July 2010.

⁶ “The Urgent Need for Job Creation”, by John Schmitt and Tessa Conroy, Center for Economic and Policy Research, July 2009.



The other indicator for the labor market – employment level – is similarly alarming. There is no surprise to see that the years between 2005 and 2008 had an overall positive trend in jobs growth (excluding Kosovo, which had a sharp fall in 2008 with -12.9%). Similar to GDP, the year 2008 across the EU was already indicating a changing climate, with an only 0.9% employment growth; at that time most Balkan countries did not feel the slump.

They did in 2009, when some visibly negative changes occurred – Serbia’s employment fell by 4.6%, Croatia’s by 3.2%, BiH’s by 2.8%. The employment rate is supposed to pick up – considering the EU economy is going up too – only after 2011.

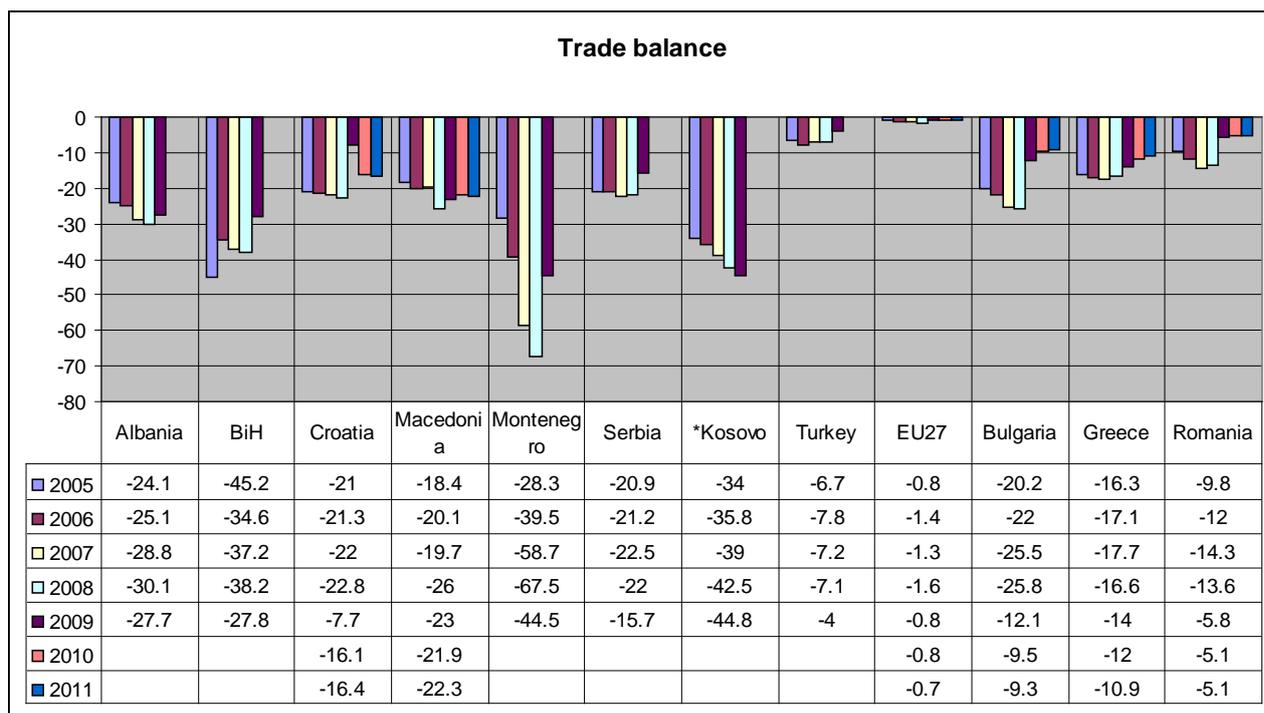


Trade and current account balance⁷

The trade balance data on the Balkans countries indicate a substantial discrepancy, as imports substantially outweigh exports. All countries' deficits are significantly above the EU average, let alone the export-driven big economies of Europe. Some countries have negative balances around the thirty-percent mark – Albania and BiH, while Montenegro and Kosovo near the forty-five percent mark. Only Romania from the EU and Turkey, with its production and export potential, have relatively lower trade gaps – between -4% and -5%. But even they are not close to the EU average of -0.8% in 2009 and 2010.

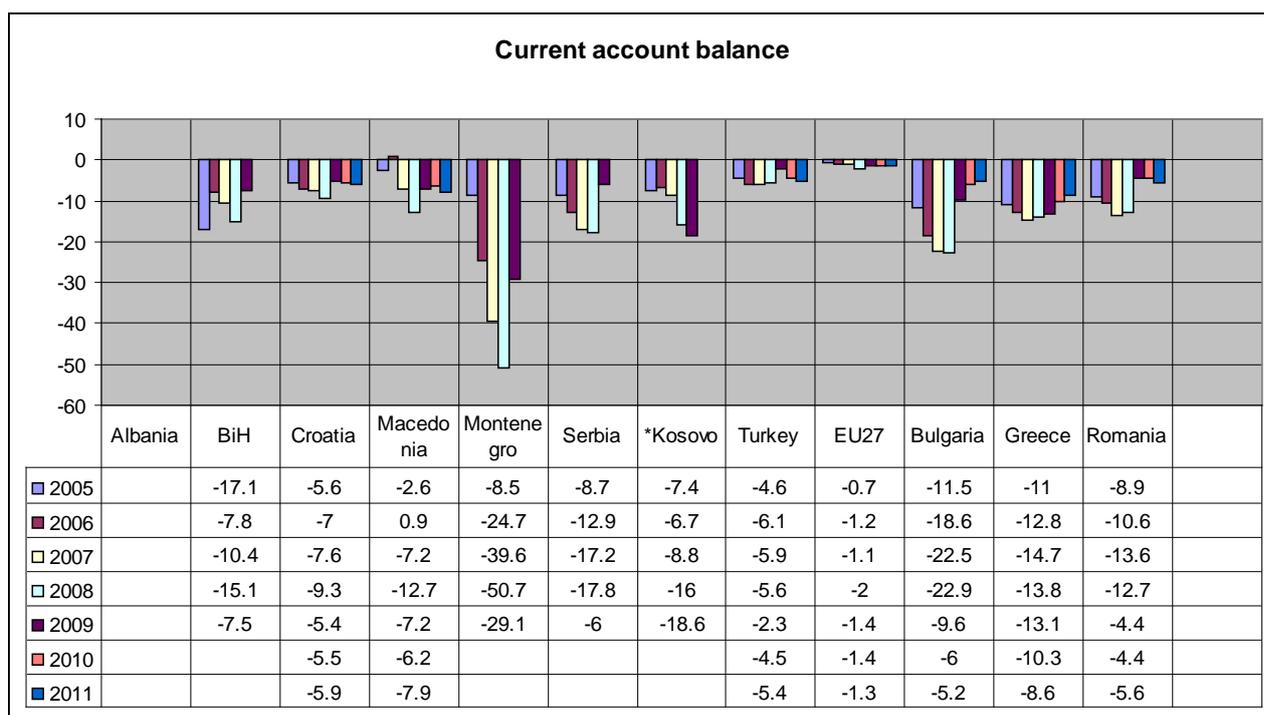
As with inflation, there is a certain positive effect of the crisis on trade deficits in the Balkans, as it helped lower the gap between exports and imports. Still, the Balkan countries continue to have trade deficits and are importing much more than they are exporting.

⁷ The used data and forecasts are by Eurostat and ECFIN, unless otherwise indicated. The last released data and forecast in European Economic Forecast – Spring 2010 by DG Economic and Financial Affairs. The data and forecasts about candidates and potential candidates is from "EUCandidate and Pre-Accession Countries Economic Quarterly", last update July 2010.



The current account balance is a category closely watched to measure the state of the economy as a ratio between the imports and exports of goods, services and transfers. In the case of the Balkan countries, they all have been net debtors. It is easy to conclude, judging by the numbers, that in the good years there were big current account deficits across the board. The greater part in this has played the global economic upturn prior to 2008 spurred by easier access to credit, open markets and easier imports, thus motivating higher and higher consumption. The problem was especially visible in Bulgaria, which had a current account deficit of over 22% of GDP that turned down investor confidence. Serbia was close with over 17% deficit. But Montenegro broke the limits with over 50% deficit in 2009.

The future trends point to lower levels of current account deficit. While these are better figures, the reason for the decrease is not that healthy. The crisis, which cut access to financing and dried up consumption, pushed down the current account deficits, too.



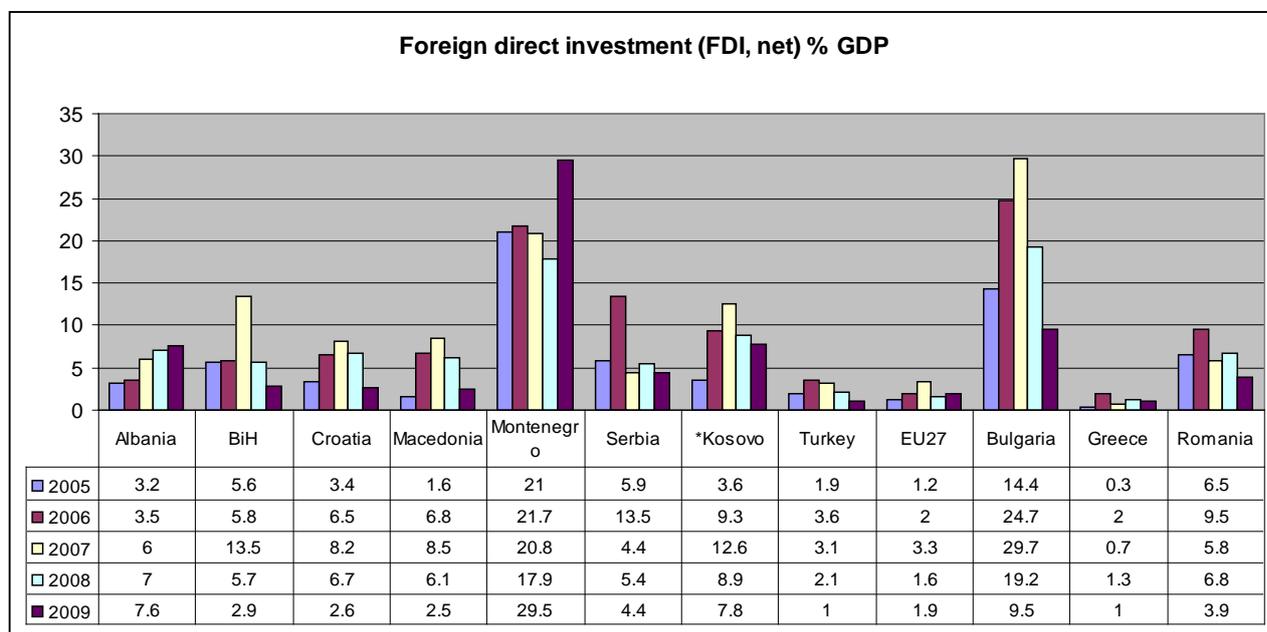
The Foreign Direct Investment (FDI) before and during the crisis⁸

Economies such as those of the Balkan countries badly needed fresh investment in order to develop in the transition years, and as there were hardly any sources inside, attracting foreign direct investment (FDI) has been a must and a linchpin of their economic policies. Foreign investment not only brought funding, but also opened access to other markets and often brought about innovation and good practices. In the business and political realm, the big investors also introduced new rules of conduct in doing business and interacting with the government institutions. In other words, FDI was often linked with added value and multiple benefits beyond the particular investment. The presence of more and more renowned companies in the region signal that the Balkans have moved away from the image of a conflict zone. Of course, there is also the other side of the coin, when a foreign investment is of completely another nature and purpose and hence has adverse effects (e.g. hegemonic external control, mass scale money laundering, etc.; but this is another matter and subject of another discussion).

In the pre-crisis years, Bulgaria and Montenegro were the front-runners in attracting FDI as share of GDP, with 29.7% for Bulgaria in 2007 and 20.8% for Montenegro. As the crisis developed, the FDI flows dried down. Only Montenegro managed to not only sustain the level

⁸ The used data and forecasts are by Eurostat and ECFIN, unless otherwise indicated. The last released data and forecast in European Economic Forecast – Spring 2010 by DG Economic and Financial Affairs. The data and forecasts about candidates and potential candidates is from “EUCandidate and Pre-Accession Countries Economic Quarterly”, last update July 2010.

of FDI flows but to raise it significantly – after a slight drop in 2008, FDI reached 29.5% in 2009. All other countries had been affected already in 2008, as the FDI were coming from the developed countries where the crisis started in 2007 and in 2008 was in full swing.



It is unlikely that, with the continuing feeble recovery in the world, the previous level of foreign direct investment in the Balkans will be attained any time soon. Moreover, there are countries that cannot rely on previous sectors to attract investors (e.g. Bulgaria and real estate) and have to devise new ways to do so.

Ease of Doing Business	
Economy	Rank
Macedonia	32
Bulgaria	44
Romania	55
Montenegro	71
Turkey	73
Albania	82
Serbia	88
Greece	110

World Bank Doing Business 2010 report; Note: 1 is the best performing economy

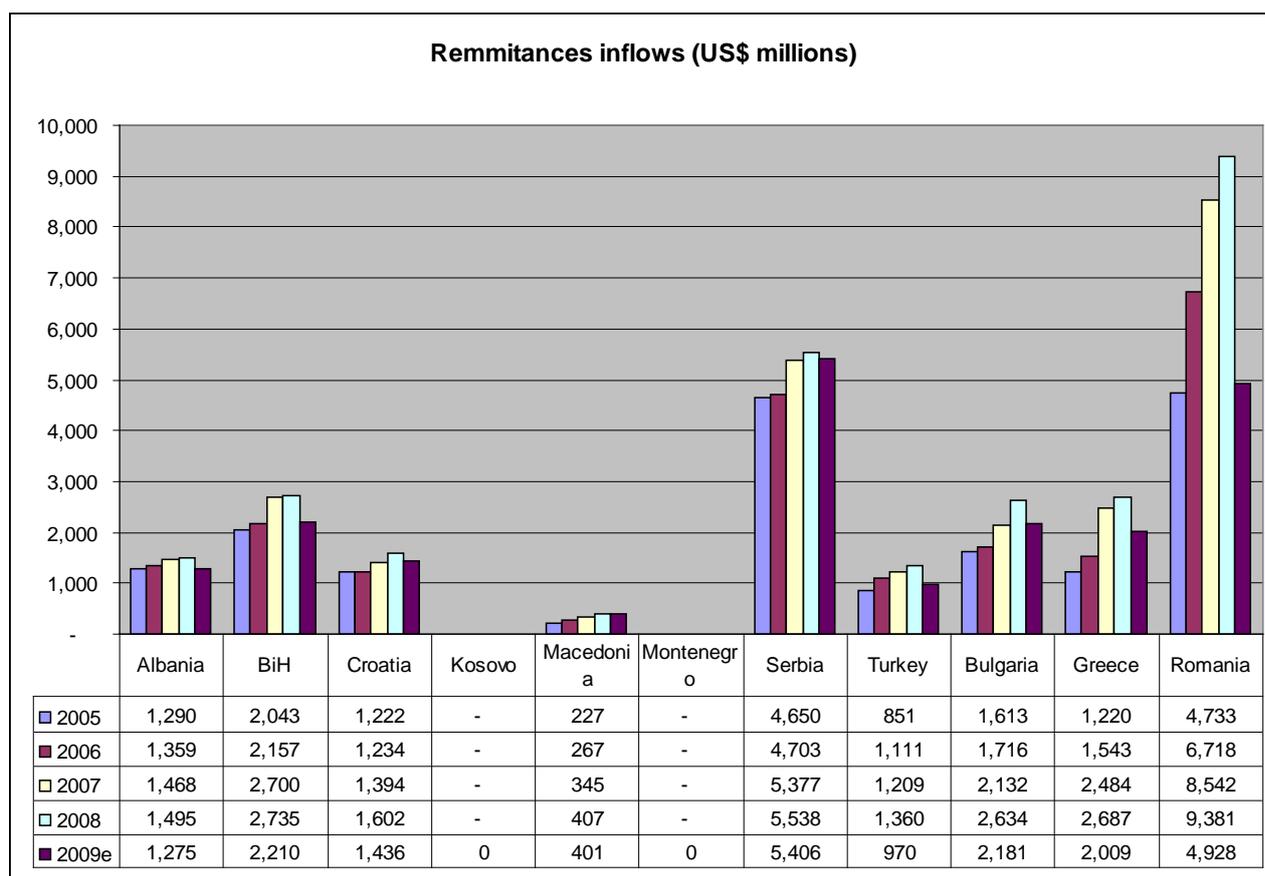
The findings of the World Bank's *Doing Business* report demonstrate that the countries in the Balkans fall within the range of moderately business-friendly economies, ones that had to reform in order to move up the ladder and attract investors. As in fact the *Doing Business* report is looking less at economic and more at governance indicators – e.g. the enforcement of contracts, the efficiency and integrity of the public administration, etc. - the Balkan states may in fact benefit from doing the necessary reforms and catch up with the winners in the ranking.

Small money with huge importance: the remittances by migrants⁹

Remittances as a share of GDP, 2008 (%)	
Albania	12.2%
BiH	14.8%
Croatia	2.3%
Kosovo	-
Macedonia	4.3%
Montenegro	-
Serbia	11.1%
Turkey	0.2%
Bulgaria	5.3%
Greece	0.8%
Romania	4.7%

All Balkan countries have now considerable emigration communities which send back money to their countries of origin. In many cases, these are considerable sums, as can be seen in the following table. Given remittances make up a considerable portion of GDP – as high as 14.8% for BiH, 12.2% for Albania, 11.1% for Serbia - the health of the migrant host countries' economies is vital for the Balkan economies. Remittances represent fresh hard currency spent and invested in the home countries.

Unfortunately, the crisis has hit hard the receiving countries, and this can directly be observed in the decrease of the remittance inflows. They were growing constantly in the observed period from 2005 to 2008, when the sums reached their peak in virtually all countries. 2008 was the last good year, and projections show an expected decrease – in some case close to 50% (Romania, Turkey).



The decrease in remittances is bad news for at least two reasons. First, Balkan countries lose hard currency that fuels growth and is difficult to substitute. Second, the migrants' earnings abroad have supported them as well as their families back home. When some migrants lose their

⁹ The used data is from the World Bank database on remittances inflows and outflows, released April 23, 2010.

sources of income, they are forced to go back to the Balkans, and their home country, already hit by the crisis, has to provide both for them and their families.

The only feasible mid-term solution would be the host countries to recover quickly, and by all likelihood the developed economies in the West will do so.

Searching for perfection: measuring the Balkan countries with the EU yardstick¹⁰

The Stability and Growth Pact is an agreement among the Eurozone countries and is the foundation of the common European currency. It ensures the viability of the euro by setting strict criteria for the fiscal policies of the member states. The so-called Maastricht criteria (convergence criteria) for Eurozone candidates have been developed on the basis of the SGP criteria. They have to ensure that the aspirants' economies are stable and compatible with the economies of the other member states.

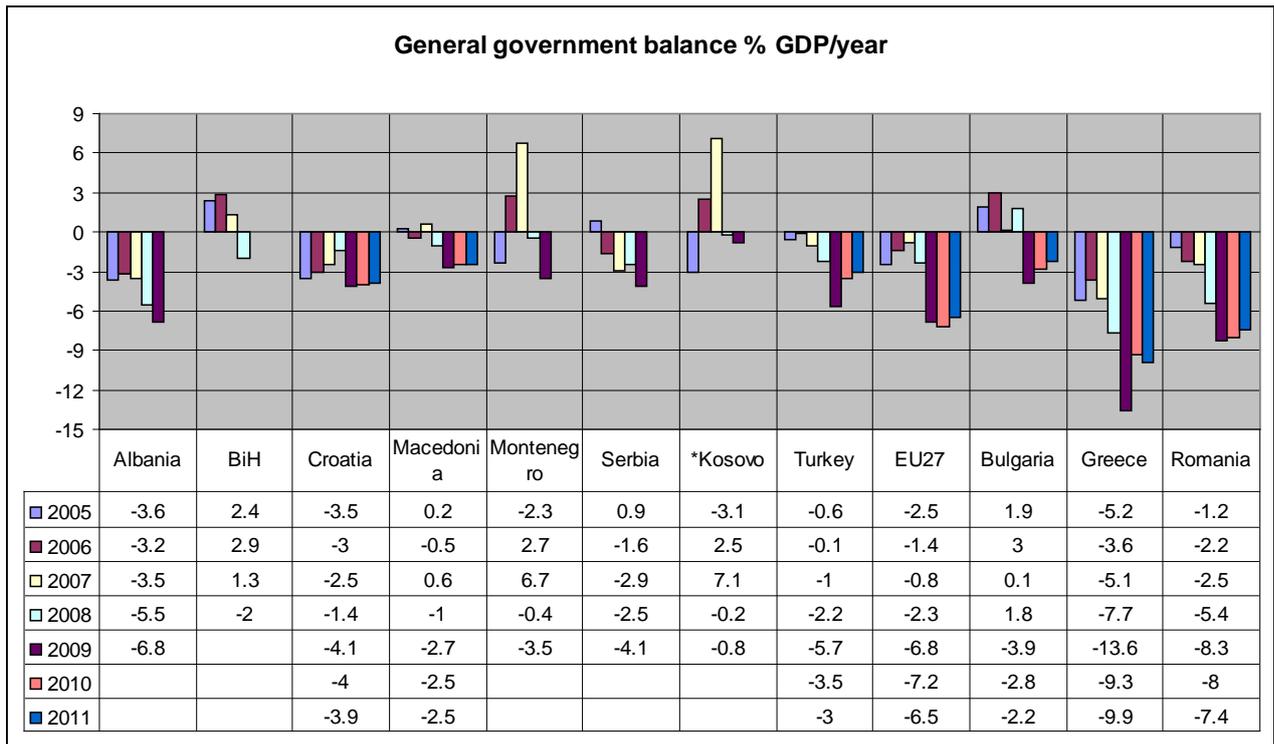
In the wake of the global economic crisis, the Europeans stuck to these criteria as a way to prevent further disaster and ensure a feasible recovery. In fact, all measures that are being developed now for the new regime of economic governance of the EU are based exactly on the SGP criteria. The two most important pillars are:

- government deficit should not exceed 3% of GDP on annual basis;
- government debt should not exceed 60% of GDP at the end of the previous fiscal year;

In addition, the Maastricht criteria cover inflation, which should not exceed by more than 1.5% the average rate of the three EU members with the lowest inflation (there are also criteria for exchange rate for ERM II members and long-term interest rate criteria).

Although these criteria have often been criticized and breached (especially by their creators, Germany and France), the crisis in Greece that threatened the very stability of the EU economy demonstrated the paramount importance of abiding by the rules. The Greek debt now is estimated at 124.5% of GDP.

¹⁰ The used data and forecasts are by Eurostat and ECFIN, unless otherwise indicated.



It is obvious that there had not been balanced budgets kept by any country since 2005, well before the crisis. There were a few healthy exceptions with relatively sizable budget surpluses during the good times - BiH, Montenegro and Kosovo in the Western Balkans and Bulgaria in the Balkan EU. The EU on average had been keeping within the dangerous limit of -3% until 2008. The situation worsened in 2008 and became especially alarming in 2009, when the budget balance limits were breached by nearly all countries. Greece has been the worst offender, reaching a deficit of 13.6% in 2009.

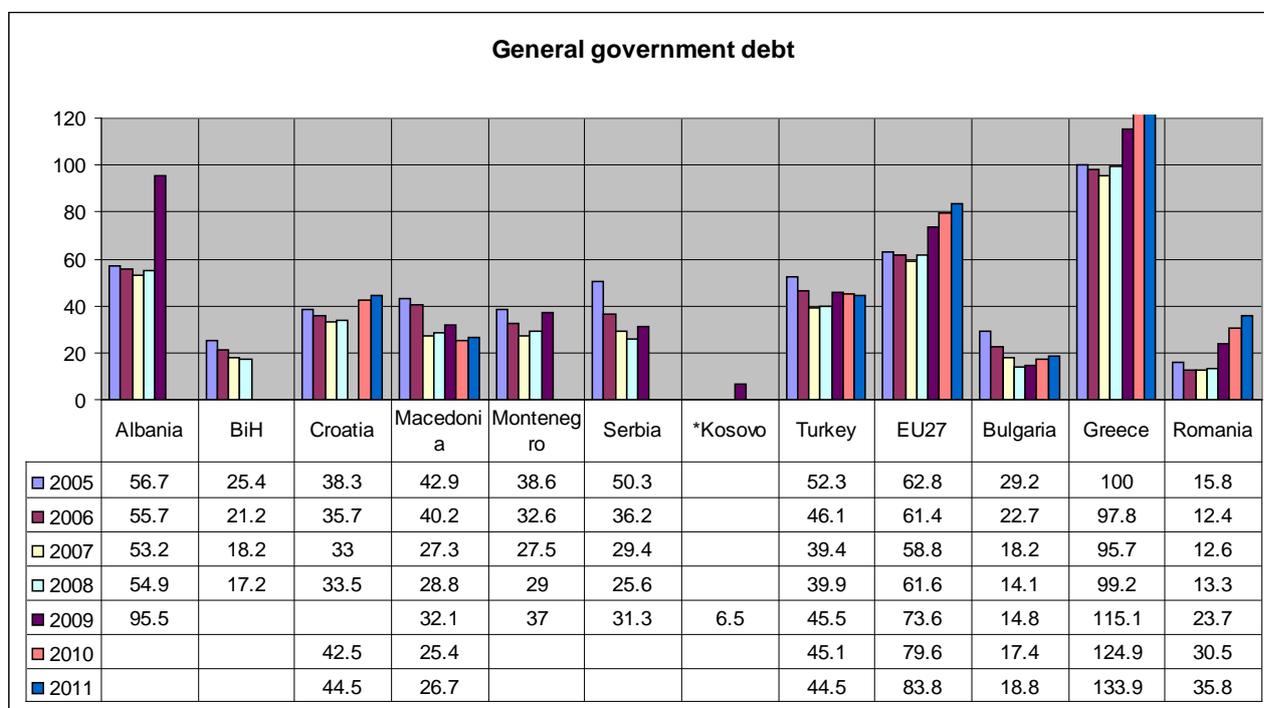
The projections do not point to substantial improvements. Despite the calls of the EU for prudent fiscal policies and consolidation of budgets, the situation will be only marginally better in comparison to 2009. The EU average is expected to stay twice above the required limit: -7.2% for 2010 and -6.5% for 2012.

As a matter of fact, as of July 2010 only three EU members – Estonia, Luxemburg and Sweden – were not in breach of the 3% limit and were not subjected to the Excessive Deficit Procedure – the penal action aimed at correcting the countries breaching the rules.

But the bad example should not serve as an excuse for the Balkan countries that have abandoned budget discipline. As demonstrated by the Greek case, even the countries in the Eurozone may get in serious trouble, and only immense political pressure and the threat of EU disintegration prompted action to save Greece. EU members outside the Eurozone – such as Bulgaria or Romania - have to a large extent to cope on their own if a disaster strikes. The positive lesson in this case is Estonia, which faced a huge slump of GDP but managed to introduce budget cuts, followed prudent public policies and just in a couple of years managed to stay one of the most stable EU economies, secured its entry into the Eurozone (effective beginning 2011) and, at the backdrop of others struggling behind, saw its credit rating and investor interest increased.

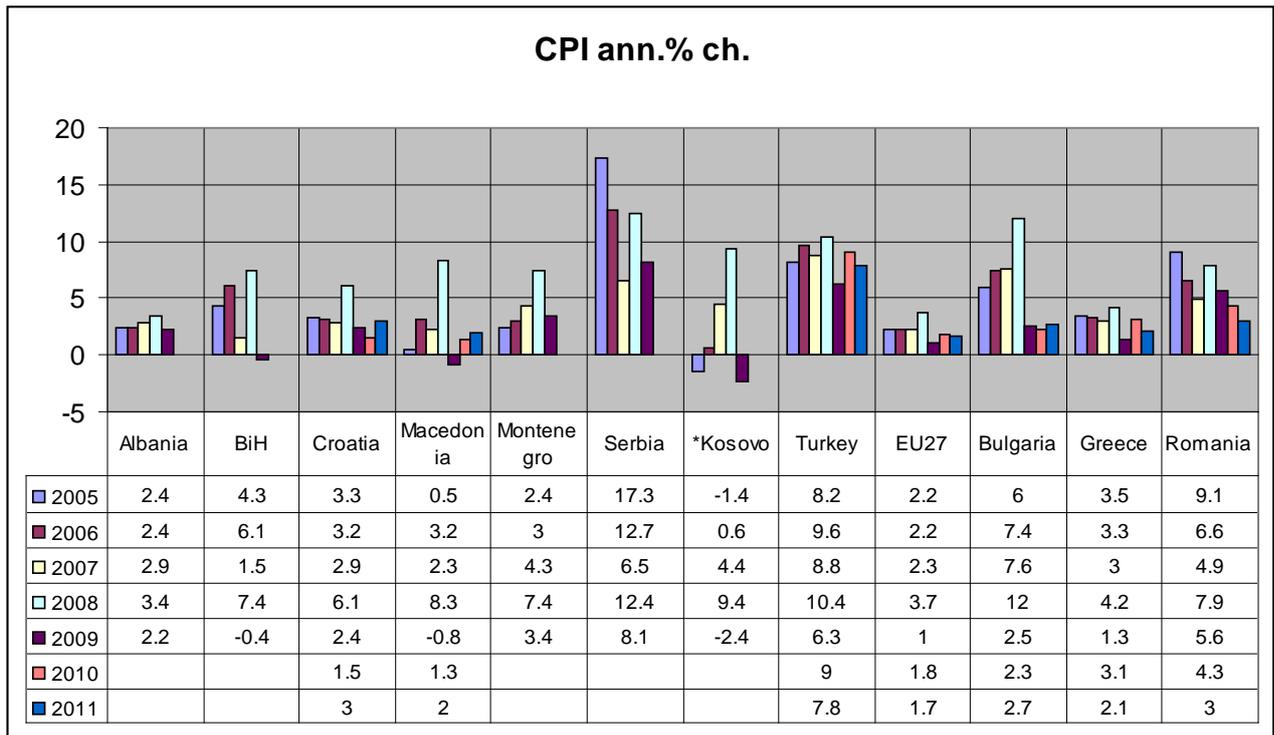
Budget balance is a very important indicator, but as Greece's case has painfully indicated, the level of government debt is also of critical importance in assessing the economic situation of a

country. Although sovereign debt was previously viewed as secondary to deficit, the new 2010 proposals for strengthening the EU economies focus very much on the debt level. It is very probable that the penalty mechanism of Excessive Deficit Procedure be applied vigorously not only to cases of high deficit but also to countries with high debt level, even if their deficit is within the normal limits.



The Balkan countries are generally good performers as regards sovereign debt. While the EU average is estimated to rise from 62.8% of GDP in 2005 to 79.6% in 2010, the values for the majority of the countries in the region are expected stay well below the required 60% of GDP. Of course, Greece is an exception, with an expected debt of 124.9% of GDP in 2010; and Albania has nearly doubled its debt rate in just a year – from 54.9% in 2008 to 95.5% in 2009. The fact that the debt level is equal to the annual gross domestic product of a country is really a matter of concern. The rest of the Balkan countries are coping fairly well, and the increase as a result of the crisis is relatively small. Bulgaria, which had a huge debt just a decade ago, managed to deal with it in a proper manner, and debt stood at just 14.8% in 2009, with an expected rise of 3 to 4 percentage points in the next couple of years. Macedonia is doing quite well as it managed to reduce its debt in the good years, thought it had an increase in debt in the crisis year 2009, but projections indicate a decrease to a level lower even than the pre-crisis levels.

As far as one other important indicator – inflation – is concerned, the crisis actually helped slow down inflation in the Balkans – to an extent where the danger appeared for a swing to a deflation spiral.



As seen in the table, inflation fell as a result of the crisis. As is the case with other indicators, the effects of the global crisis were felt after 2008, when everything should have seemed normal.

With less consumption, prices went down – Macedonia's inflation decelerated from 8.3% in 2008 to a negative 0.8% in 2009, but in 2010 and 2011 is expected to gradually return to the normal levels of 1.3% – 2%, with an EU average estimates for those years at 1.8% and 1.7%, respectively. Kosovo similarly plunged from a high inflation of 9.4% in 2008 into a deflation of 2.4% in 2009. Only Serbia retained high rates of inflation, but the downward trend is present too, sliding from 12.4% (2008) to 8.1% (2009). The EU members in the Balkans have in general lower inflation levels, with only Romania hovering higher at around 5%-4%, yet expecting in 2011 a lower level of 3%, down from 4.3% in 2010.

In short, the government balance depends on prudent fiscal policies. It is quite easy for a government to respond in a populist manner and increase spending in order to satisfy demands. But as more and more social and interest groups – either in need or driven by private interest – call for more spending, the situation may worsen in a vicious circle of decreased revenues and increased spending.

Crisis response at EU level¹¹: the possible policy and political implications for the Balkans

After the initial chaos and incidental troubleshooting at the crisis in 2007 and 2008, the European Union took seriously on devising new regime of economic governance. In the course of the debates, several centers of power emerged, each one advocating its set of proposals. These centers are the European Commission, the European Council, the European Central Bank and of course, the heavy-weight member states – Germany and France most of all, with interventions from Poland or the UK reacting on particular suggestions.

The proposal-generation speeded up in the spring of 2010, after it became clear that Greece's trouble is not an exception and may be followed by a number of other member states. The European Commission was the first to release a set of proposals in May 2010 and a follow up in June 2010. The European Council created a special Task Force led by its President Herman Van Rompuy, comprising the finance ministers of the member states. The Task Forces had several sessions and in general released proposals very similar to those of the Commission. In June 2010, the European Central Bank issued its own set of proposals, which were the most radical so far.

It is expected that the process of consultation – marred by inter-institutional rivalry – will continue in the autumn of 2010. But the EU is unlikely to spend too much time on it, as there are very grave problems at stake, and the bloc is seriously intent on introducing the first measure from the beginning of 2011.

The main proposals for economic governance may be distilled to several points:

- There should be more vigorous monitoring and implementation of the stipulations of the Stability and Growth Pact, i.e. the 3% threshold on budget deficit and 60% limit on government debt.

¹¹ Main reference documents on the discussion on European economic governance:

1. COM(2010) 250 final. Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, “*Reinforcing economic policy coordination*”, 12 May 2010
2. COM(2010) 367/2
3. Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, “*Enhancing economic policy coordination for stability, growth and jobs – Tools for stonger EU governance*”, 30 June 2010
4. 11646/10, “*Recommendation for a COUNCIL RECOMMENDATION on broad guidelines for the economic policies of the Member States and of the Union*”, 7 July 2010
5. 12076/10, Press Release 3027th Council meeting, Economic and Financial Affairs, Brussels, 13 July 2010
6. PCE 161/10, *Communique from Herman Van Rompuy, President of the European Council, following the meeting of the Task force on economic governance*, 12 July 2010
7. PCE 105/10, *Summary of the opening address by Herman Van Rompuy, President of the European Council*,
8. *to the Brussels Economic Forum 2010 "Lessons from a crisis"*, Brussels, 25 May 2010
9. PCE 102/10, *Remarks by Herman Van Rompuy, President of the European Council, following the first meeting of the Task force on economic governance*, 21 May 2010
10. “*Reinforcing economic governance in the euro area*”, ECB, 10 June 2010

- This will affect monitoring, including peer review by member states of their counterparts' planned budgets. This will be within the so-called "European Semester", where member states will submit their planned budget and economic projections well ahead to the other member states and European institutions for assessment (or by some interpretations - approval).
- Besides the monitoring aspect, the EU is also going to enhance the corrective mechanisms. As a matter of fact, the rules have been breached in the past by their own creators and no sanctions have followed. This will no longer be the case if the ECB's proposal to have a semi-automatic mechanism of starting penal procedures is adopted. In other words, institutions can start the procedures without the presence of a political decision – and in this way the usual political bargaining and lax approach will be avoided.
- There will be substantial change in the thinking about sources of risk behavior. So far the emphasis has been on the 3% budget deficit limit, and the indicator of government debt has been considered secondary. Now the proposal is to start considering breaching the debt limit just as serious as that of the deficit limit. In concrete terms, there is proposal to open the Excessive Deficit Procedure against countries that have a debt level higher than 60%, even in case the budget deficit is lower than 3% of GDP.
- There is a proposal by the ECB to introduce those fiscal rules into the national legislations, including the constitutions. Thus, breaching the 3%/GDP deficit and 60%/GDP debt rules will be considered guarded by the nations' highest laws.
- There are also proposals aimed at punishing the countries that continuously breach the rules. These penalties include submitting financial guarantees (deposits), which will be withheld until sufficient progress is registered. There is also a proposal to temporarily freeze or cancel EU structural, cohesion and CAP funds for these countries. The most radical step will be to limit or cancel the voting rights of the given country (this is the case of the Eurogroup).
- The EU also prepared a broader set of proposals for improving Europe's economy in the so-called Europe 2020 strategy – the successor to the Lisbon Strategy (which did not actually worked out very well).

Many of these proposals enjoy support and will certainly be introduced soon. There are, however, contentious issues that will continue to spark debates and opposition. For example, the suggestion for peer review of national budgets was considered too intrusive – many countries would oppose other nations to audit and advice them on their budget planning. There is also the democracy argument, which says it is the national parliament that has the right to review and approve the budget, not the governments of other countries or the institutions in Brussels (this was the point raised by the new cabinet of the UK).

The suggestion to cancel or freeze EU funds has also caused controversy, and Poland reacted on behalf of the new members which actually need badly these funds to rebuild their societies and economies. The counter-argument also goes that it is counterproductive to punish financially a country which already has financial troubles.

The suggestion to introduce legal safeguards against frivolous fiscal actions – including in the constitution – will likely also be attacked on political grounds or would be difficult for the different countries to change the constitution.

The proposals for more vigorous implementation of the EU's rules will inevitably affect the candidate countries – directly or indirectly. The least of these would be higher expectations for prudent fiscal policies and budget discipline of the aspirant countries.

The best course of action for the candidates would be to study and introduce on their own the best proposals for economic governance, regardless they are not mandatory. In that way, they'll not only have guarantees for financial stability and safeguards against domestic populist temptations (e.g. in case such rules are enshrined into the constitution), but also convince their EU counterparts that they are serious in pursuing prudent policies.

THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

ALBANIA

GORAN STOJKOVSKI*

From the oldest ethnic group in the Balkans, to the people which last saw its national renaissance; from an isolated ‘stone bunker’ of Southeast Europe, to a preferred Mediterranean tourist destination; from a communist totalitarianism of Stalinist and Maoist type, as Enver Hoxha’s was, to the new consolidating liberal democracy, member of NATO. This is Shqipëria, or Albania, “the land of eagles.”

Post-communist development of Albania

Because the communist regime lasted the longest in Albania, it was the last to live up to democracy and freedom in the Western Balkans and is one of the most backward countries in Southeast Europe economically and socially. But this is not the biggest pain of the Albanian society. The biggest problem is in the political sphere, where the authoritarian propensities and manners of the Albanian political class as a whole have resulted in an extremely weak dialogue among the main political parties. One of the characteristics of contemporary political life in the country is the practice of Albanian politicians to hamper the normal development of post-election politics by refusing to recognise election results, if they lose.

The 1990s in Albania were characterised by political instability, general confrontation and insecurity, economic downturn, lack of social and cultural perspective and community chaos. In 1991, as in the rest of Central and Eastern Europe, the process of multiplication of newly formed parties and movements began. From the onset of political pluralism to date the two main players on the Albanian political scene were retained. These are the periodically alternating in power former communist APT, renamed Albanian Socialist Party (ASP) and the populist, nationalist and conservative rather than typically right-wing Democratic Party (DP). Since the reincarnation of the party in 1991, the Socialists have had two leaders: the reformed communist Fatos Nano, leader until 2005, who resigned after losing the election that year; and his successor and current leader Edi Rama. The conservative DP has had one leader for the whole period of transition – Sali Berisha, who was Albania’s first post-communist president. DP was part of the ruling coalition after the 2005 vote and has been after the 2009 vote. It has an observer status with the European People’s Party (EPP) and is a full member of the Centrist Democrat International. In the 1990s, DP was not successful in conducting the neoliberal reforms it had proclaimed. In the meantime ASP sporadically won and lost several election cycles but did not manage to offer a real political alternative and an argument-

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supported programme for governing the country. In such a context, in 1996-97 Albania found itself in a severe socio-economic crisis and the state almost collapsed. According to the United Nations Office on Drugs and Crime,

Just as the wars between the Bosniaks, Croats, and Serbs were drawing to a close in 1995, new conflict erupted with ethnic Albanians in the Serbian province of Kosovo. In January 1997, as some ten companies ceased payouts, people protested in Tirana against the government, demanding repayment of money they had lost. By March 1997, country-wide riots were out of control as Albania plunged into chaos. Some 2000 people were killed as the central government lost control of the southern region of Albania and armed groups took control of most of the major cities south of Tirana. Many soldiers and policemen deserted and armouries were plundered. In March 1997, over 650,000 weapons and 1.5 billion rounds of ammunition were stolen from more than 280 government armouries, many of which found their way into the hands of the KLA.

In 1997, the government of Albania collapsed following the failure of financial pyramid schemes in which a large share of the population had invested. The national armouries were looted, masses of people fled to country, and an ungoverned zone appeared just a short boat ride from West Europe. These disruptions added new opportunities for smugglers and additional years of turmoil for the region. Simultaneous with the conflict, the countries of the region were undergoing the transition to market economies. The people best placed to capitalise on privatization were those who held power under the socialist regimes and who were profiting off the war, including the former secret police and their networks. The way each country dealt with their former leadership varied, but in most, some elements were able to both take advantage of the new capitalism and retain their links to political power. Smuggling brought the fortunes and the expertise to make the most out of 'nomenklatura privatisation', and strong links were forged between criminals and some members of the political and commercial elite. These links help explain how organised crime has been able to operate in the region with so little imprint on the conventional crime situation: organised crime in the Balkans has been very organised, and lubricated with corruption.¹²

From April until the summer of 1997, a multinational humanitarian mission under a United Nations mandate, named Operation Alba, was deployed in Albania. As described by the Italian Foreign Ministry, which headed the operation,

In early 1997, as the Albanian situation deteriorated due to the failure of investment schemes which squandered the savings of many people, Italy promoted the dispatch of a multinational force, together with France, Turkey, Greece, Spain, Rumania, Austria, Denmark, Slovenia, Belgium and Portugal. The force, comprising 7,000 soldiers (3,000 of whom were Italian), was to deliver humanitarian aid, prevent civil war and seek a possible settlement of the Albanian political crisis. The Italian-led Multinational Protection Force moved into Albania in mid-April 1997 and initiated Operation "Alba". At first the contingent deployed on the coastal area but moved inland in early June, to assist in the smooth running of the elections scheduled for the end of the month and contribute to the protection of OSCE observers.¹³

Religiously, Albania (where from 1967 to 1990 religion was officially prohibited) is heterogeneous: there are 70% Muslims, 20% Orthodox Christians, 10% Catholics (figures are approximate). Ethnically, however, the country is more homogeneous: there are 95% Albanians, 3% Greeks and 2% others (Vlachs, Roma, Serbs, Macedonians, Bulgarians), as of 1989.¹⁴ Minorities have their political parties who tend to enter coalitions with one of the two main Albanian parties, DP and ASP.

¹² United Nations Office on Drugs and Crime. *Crime and Its Impact on the Balkans and Affected Countries*. pp. 11-12, 52-53. Available at: http://www.unodc.org/documents/data-and-analysis/Balkan_study.pdf.

¹³ Ministry of Defence of the Italian Republic. Available at: <http://www.esercito.difesa.it/english/missions/alba.asp>

¹⁴ Central Intelligence Agency. *World Fact Book*. "Albania". Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/al.html>

The unicameral National Assembly (Kuvendi Popullor) has 140 seats as 100 are elected under the majoritarian and 40 under the proportional system with a 4-year mandate. The June 2009 elections were won by DP (68 seats), followed by ASP (64 seats), the Social Movement for Integration (4) and other parties (4).¹⁵ The elections reaffirmed DP in power led by PM Sali Berisha, winning a second successive mandate, thanks to an unprecedented coalition with the left-wing Socialist Movement for Integration, headed by Ilir Meta. Edi Rama's ASP, however, disputed the election results and refuses to attend parliamentary sessions, meanwhile organising mass street protests – since the election until the present day. This resulted in just another political and national crisis in Albania.

Albania and European integration

The slogan so characteristic of all Western Balkan governments' political programmes, "EU membership," has been a leading motto in election campaigns and public debate in Albania, too. Despite this demonstration of political unity and social unanimity, the main political factors in Albania are in constant state of struggle, attacking each other over rigging of election results and thus slowing down needed reforms and the European integration process. Compared to its neighbours and regional counterparts, which in the 1990s and especially in the last decade achieved considerable progress in European integration, Albania has had humble results. Nevertheless, the country is irreversibly oriented toward integration into the Euro-Atlantic geopolitical realm after joining NATO in 2009. In spite of some domestic political vacillations in Albania, the relations have a good basis and a positive perspective. Following is a chronology of relations between Tirana and Brussels over the last two decades:

Key dates in Albania's path towards the EU:

- 1992 - Trade and Co-operation Agreement between the EU and Albania. Albania becomes eligible for funding under the EU's Phare programme.
- 1999 - The EU proposes the new Stabilisation and Association Process (SAP) for five countries of South-Eastern Europe, including Albania.
- 2000 - Extension of duty-free access to EU market for products from Albania.
- November 2000 - [Zagreb Summit](#) launches the [Stabilisation and Association Process \(SAP\)](#) for five countries of South-Eastern Europe, including Albania
- 2001 - The Commission recommends the undertaking of negotiations on SAA with Albania. The Goeteborg European Council invites the Commission to present draft negotiating directives for the negotiation of a SAA.
- October 2002 - Negotiating Directives for the negotiation of a SAA with Albania are adopted in October.
- January 2003 - Commission President Prodi officially launches the negotiations for a SAA between the EU and Albania.
- June 2003 - at [Thessaloniki European Council](#) the [Stabilisation and Association Process \(SAP\)](#) is confirmed as the EU policy for the Western Balkans. The EU perspective for these countries is confirmed (countries participating in the SAP are eligible for EU accession and may join the EU once they are ready).
- June 2004 - Council decision on a first European Partnership for Albania
- May 2006 - Entry into force of the EC-Albania readmission agreement
- June 2006 - Signature of the [Stabilisation and Association Agreement](#) (SAA) at the General Affairs and External Relations Council in Luxembourg
- December 2006 - Entry into force of the [Interim Agreement](#)
- January 2007 - Entry into force of the new instrument for Pre-Accession Assistance (IPA).
- May 2007 - Adoption of the Multi-Annual Indicative Planning Document (MIPD) 2007-2009 for Albania under the IPA
- September 2007 - Signature of a [visa facilitation agreement between Albania and the EU](#)

¹⁵ National Assembly of the Republic of Albania. Available at: <http://www.parlament.al/index.php>

- 18 October 2007 - Albania signs the IPA Framework Agreement
- January 2008 - The [visa facilitation agreement](#) enters into force.
- 18 February 2008 - Council decision on a revised [European partnership](#) for Albania
- March 2008 - Visa liberalisation dialogue launched
- June 2008 - The European Commission presents a road map identifying specific requirements for visa liberalisation with Albania.
- 1 April 2009 - Entry into force of the [Stabilisation and Association Agreement \(SAA\)](#)
- 28 April 2009 - Albania submits its application for EU membership
- 15 April 2010 - Albania delivers replies to the Commission's Questionnaire
- 27 May 2010 - the European Commission adopted a proposal enabling citizens of Albania and Bosnia and Herzegovina to travel to Schengen countries without needing a short term visa.¹⁶

Albania is a EU potential candidate country whose European course is realised within the Stabilisation and Association Process for the Western Balkan countries under the European Partnership. Albania, as all other candidate and potential candidate countries, is a beneficiary of financial assistance from the European Communities under this process via the Instrument for Pre-accession Assistance (IPA) and previously CARDS. The European perspective of Albania was confirmed by the European Council conclusions of April 1997 and June 1999, as well as by the concluding documents of the EU-Western Balkan summits in Zagreb (November 2000) and Thessaloniki (June 2003). The same rules are valid for Albania as for the other Western Balkan countries that assistance will depend on progress in the fulfilment of the Copenhagen criteria and the concrete priorities under the European Partnership. Progress is observed via monitoring mechanisms, the most important of which are the annual progress reports of the European Commission.

The European Council endorsed in February 2008 a decision on the short-term priorities, expected to be pursued in one or two years, and mid-term priorities to be pursued in three to four years. The key priorities are:

1. Promote constructive dialogue between political parties and with stakeholders on the implementation of reforms;
2. Implement the recommendations made by the OSCE Office for Democratic Institutions and Human Rights on elections, in particular by improving voters' lists and amending the electoral code in line with the Venice Commission recommendations, in good time for the next parliamentary elections.¹⁷

It can be seen that political dialogue and the electoral process are again seen as problematic by the European Union. Nonetheless, the Albanian political elite once again was unable to organise, conduct and finalise a normal vote in 2009 without dragging the country into a domestic crisis. After the main political players could not handle the two key priorities, the EU's position is explicit: the domestic crisis is practically blocking the accession process.

Current snapshot of the situation in Albania: democracy, politics and the economy

The normal functioning of politics in Albania has been regularly obstructed by the already standard and traditional problem: the phenomenon of the disgruntled party or coalition that

¹⁶ See European Commission. "Enlargement-Albania". Available at: http://ec.europa.eu/enlargement/potential-candidates/albania/relation/index_en.htm.

¹⁷ Council of the European Union. "Council Decision of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Albania and repealing Decision 2006/54/EC. *Official Journal L 080*, 19 March 2008, pp. 1-17. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:080:0001:01:EN:HTML>

lost the election not recognising the victory of its adversary and boycotting the work of the National Assembly. The Albanian case is a typical example of how inter- and intra-party strife influences the country development dynamics and the success of national policy as a whole. The party calculations which took place before and after the June 2009 parliamentary election led to a one-year political crisis which practically thwarted Albania's Europe efforts. The ASP boycott of the National Assembly may cause the European Union to review its stance regarding Albania's integration. The domestic squabbles have also thrown a shadow on one of the most important events in modern Albanian history – the NATO membership which became a fact in that same 2009. But what led to the stalemate?

The main political confrontation in the 2009 election was, as usual, between the DP- and ASP-led coalitions. In the right-wing spectrum, DP's Berisha had no serious competition in former PM Aleksander Meksi, whereas in the left ASP's Edi Rama faced considerable challenges both by fellow-ASP man and former party leader Fatos Nano and by Ilir Meta – leader of the competition left-wing Socialist Movement for Integration. Thus, unlike Berisha, Rama led in the campaign a double battle with the aim of becoming the sole influential figure in the Albanian left. And while the Meksi-led coalition did not drain many right-wing votes from the DP, Meta's left-wing coalition took a not insignificant percentage from Rama's ASP. What is more, Ilir Meta's so-called left-wing movement in July 2009 accepted Berisha's offer to form a government with DP and pushed ASP in opposition. After in September international observers pointed to irregularities in 22 out of 66 ballot-counting centres, ASP launched its protests and stated it did not recognise the results and will come back to parliament only after a second ballot-count. Some 200,000 attended an ASP-organised rally against the government in Tirana on 1 May 2009. Although the DP-led coalition has a very thin majority (75 out of 140 seats), so far there has been no change in the post-election status quo.

Apart from the traditional problem with political dialogue, Albania confronts myriad other problems regarding democracy: level of civil liberties, media freedom and civil society as a whole, institutional efficiency, corruption and organised crime.

In its *Freedom in the World* 2010 report, Freedom House defined Albania as 'partially free', evaluating it with scores of 3 for political rights and civil liberties (on a scale from 1 to 7 where 7 is the lowest level of democratic development). The report pointed to many concerning facts regarding political influence over the media:

While the constitution guarantees freedom of expression, the intermingling of powerful business, political, and media interests inhibits the development of independent outlets. During the 2009 campaign period, most outlets were seen as biased toward either the PS or PD. Reporters have little job security and remain subject to lawsuits, intimidation, and in some cases physical attacks by those facing media scrutiny. Berisha routinely denigrates the media, and his government has placed financial pressure on critical outlets. In January, the authorities evicted a critical newspaper, Tema, from its offices in a state-owned building despite a court order to halt the action. In February, an editorial in a paper that was close to Berisha called for the murder of Mero Baze, Tema's publisher. Baze was allegedly beaten severely in November by oil magnate and Berisha associate Rezart Taci and his bodyguards, after the journalist accused Taci of tax evasion on his television show. Taci and two of his guards were subsequently arrested for the attack, and the case was pending at year's end. The government does not limit internet access.¹⁸

¹⁸ Freedom House. *Freedom in the World 2010*. "Albania". Available at: http://www.freedomhouse.org/inc/content/pubs/fiw/inc_country_detail.cfm?year=2010&country=7766&pf.

Freedom House also mentions, citing Transparency International, the alarming level of corruption in Albania, as well as some facts on organised crime. Let's take a closer look at the conclusions of Freedom House and other competent international organisations.

Institutional efficiency

In addition to the opposition ASP openly accusing the government of manipulating personal data of voters in order to model the election results, the fact that on election day some 720,000 voters did not have identity documents testifies about the capacity of Albanian institutions and public administration serving them. The roots of this inefficiency are well known. A brief comparison of the European Commission progress reports on the Western Balkan countries in their part on public administration reform shows that all of them more or less suffer from the same problems. In Albania: **First**, the adopted legislative framework and reform strategy either do not start or start inadvertently, and their implementation is slow, problematic, and in the end they do not come true. **Second**, the administrative capacity of the Department of Public Administration is as a rule weak and contains no plan for human resources management. **Third**, political appointments with temporary contracts of loyal party activists is common in the administration. The Commission report takes into account the situation and recommends:

Recruitment in the civil service continues to take place through non-transparent procedures. The capacity of the Training Institute for Public Administration (TIPA) has improved due to recruitment and training of managerial staff and heads of training centres. However, the role of the DoPA in ensuring implementation of the Civil Service Law, particularly in terms of political appointments, and the capacity of TIPA requires further strengthening. Overall, the legal framework for public administration reform is in place but the lack of transparency and accountability in appointments remains a key European Partnership priority to be addressed. Further progress is needed to establish an independent, merit-based and professional civil service, free of political interference. Full enforcement of the Civil Service Law and implementation of the Strategy for public administration reform will be key to progress in this regard.¹⁹

Complying with the Commission's directions, the Albanian government decided in 2010 to cut the number of employed in the public administration. It remains to be seen whether cutting the number from 89,879 to 89,204 will be a real improvement. The government will anyway have to handle a difficult situation in which in the circumstances of economic crisis it will have to pay 490 million euros in salaries, social security and health payments to public employees.

The Commission also criticises the judiciary:

Overall, judicial reform in Albania remains at an early stage. Key pieces of legislation needed to complete the legal framework have not been adopted. The justice system continues to function poorly due to shortcomings in independence, transparency and efficiency, which are key European Partnership priorities to be addressed. A comprehensive strategy to improve the judicial system will be key to progress in this area.²⁰

Corruption and organised crime

¹⁹ European Commission. "Albania 2009 Progress Report". Available at: http://ec.europa.eu/enlargement/pdf/key_documents/2009/al_rapport_2009_en.pdf.

²⁰ Ibid, p.11.

The opposition ASP leader Edi Rama has been incessantly blaming his political adversary, PM Sali Berisha, and the ruling coalition for the economic and political crisis in the country, but also accusing them of financial abuse and bribery. The publicity was scandalised by suspicions of abuse regarding blown up warehouses and by accusations of ruling party politicians' and government officials' illegal benefit from large infrastructure projects such as the motorway between Albania and Kosovo. Despite that, Berisha used this project for the purposes of his election campaign, as he opened officially a tunnel on the motorway twice: once with Kosovo PM Hashim Thaci and once with Turkish PM Recep Tayyip Erdogan. This, however, turned out to be not an empty political rhetoric but a series of murky cases, not unnoticed by international watchdogs. According to Freedom House,

Corruption is pervasive, and the EU has called for rigorous implementation of anticorruption measures. However, Prime Minister Sali Berisha has refused to dismiss key allies facing indictments by Prosecutor General Ina Rama, who has resisted government pressure with support from U.S. and EU officials. Fatmir Mediu, leader of the Republican Party, resigned as defense minister after the 2008 depot explosion, and his parliamentary immunity was lifted that year. He was indicted along with 28 other defendants in the depot case in early 2009, but the Supreme Court ruled in September that his reelection to the parliament in June effectively restored his immunity, and he was named environment minister in Berisha's new government. Similarly, Foreign Minister Lulzim Basha was indicted for corruption related to road-building projects, but he remained in government as interior minister after the elections. Former deputy transport minister Nikolin Jaka had been sentenced for related crimes in 2008, but was acquitted on appeal in 2009. In a survey released in 2009, 52 percent of respondents said they had to pay a bribe within the last year. Albania was ranked 95 out of 180 countries surveyed in Transparency International's 2009 Corruption Perceptions Index...

High-level crimes associated with the Balkan wars of the 1990s have gone unpunished. In 2009, former security service commander Arben Sefgjin and three former colleagues were on trial for the 1995 torture and murder of a man who may have witnessed conversations between then president Berisha and Yugoslav leader Slobodan Milosevic about oil smuggling. Berisha fired Sefgjin as head of the tax service in January.

Weak state institutions have augmented the power of crime syndicates, and Albania is reportedly a key transshipment point for drug smugglers. Traditional tribal law and revenge killings are practiced in parts of the north. In two high-profile crimes in 2009, Supreme Court judge Ardian Nuni was shot and seriously wounded in February, and PS lawmaker Fatmir Xhindi was assassinated by two gunmen in May. The cases remained unsolved at year's end, and Nuni reportedly sought asylum in the United States.²¹

Arguably, there hardly exists a published report by a competent international organisation in which ethnic Albanians are not suggested as the leaders in trafficking of drugs, weapons and human beings. According to the UNODC,

In the late 1990s, for example, Albania was a 'hot spot' for human trafficking. In 1996, about 40% of the victims of trafficking for sexual exploitation in Italy were Albanians. This dropped to 20% in 2000-2003 and 10% after 2003. A similar trend was recorded for Ukrainian and Moldovan victims.

[...]

Ethnic Albanians appear to be especially active in Greece, Switzerland and Italy. In Italy, one of the most important heroin markets in Europe and frequently identified as a base of operation for Balkan groups, Albanians make up the single largest group, constituting 32% of all arrestees between 2000-2008. The next active group was Turks followed by Italians and citizens of Balkan countries.²²

[...]

The relations between the Albanian secret police (known as the Sigurimi) and organised crime are less well documented, at least during the communist regime. Sigurimi members were kept very busy

²¹ Freedom House.

²² United Nations Office on Drugs and Crime. *The Globalization of Crime. A Transnational Organized Crime Threat Assessment*. 2010. pp. 50; 124. Available at: http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

repressing suspected internal dissidents, but would emerge as important figures after the death of Hoxha in 1985, and many were later associated with the Kosovo Liberation Army (KLA).

Corruption is believed to be widespread. Trial monitors in Albania, for instance, have documented numerous instances of judges accepting money and other consumer items from accused persons in return for a diminished sentence or favourable court decision.²³

[...]

1. COUNTRY OF NATIONALITY OF TRAFFICKERS ARRESTED IN ITALY FOR TRAFFICKING COCAINE INTO OR WITHIN THE COUNTRY, 2008

1. Morocco, 1,532, 11%
2. Albania, 1,137, 9%

2. DISTRIBUTION OF ARRESTED HEROIN TRAFFICKERS BY NATIONALITY IN ITALY, 2000-2008

1. Albanian 32%

3. COUNTRY OF NATIONALITY OF THOSE ARRESTED FOR SALE OF COCAINE IN GERMANY, 2008

1. Turkey, 450, 10%
2. Italy, 142, 3%
3. Lebanon, 113, 3%
4. Morocco, 76, 2%
5. Sierra Leone, 76, 2%
6. Albania, 74, 2%

4. COUNTRY OF NATIONALITY OF 'COCAINE IMPORTERS' ARRESTED IN GERMANY, 2008

1. Netherlands, 48, 8%
2. Turkey, 37, 6%
3. Nigeria, 30, 5%
4. Italy, 26, 4%
5. Jamaica, 11, 2%
6. Morocco, 12, 2%
7. Poland, 11, 2%
8. Albania, 10, 2%²⁴

The world economic crisis and its effects on Albania

Centuries without statehood, decades in isolation and totalitarianism, lasting political and social instability – all those factors have contributed to Albania's traditional economic backwardness. The technological obsolescence, general inefficiency and ecological harmfulness, so characteristic of all former communist economies, seem to have their full expression in Albania's economy. Nonetheless, Albania has been overcoming fundamental obstacles inherited from the isolation period and slowly achieving some progress. From 2004 to 2008 the Albanian economy grew by an annual average of 6%, with a low and stable inflation. But the world economic crisis hit Albania, too, and GDP shrank by around 4% in 2009.

The Albanian economy basically rests upon five fundamental pillars. The **first** source of financing is the diaspora through remittances. Like the case with mostly ethnic Albanian Kosovo, in the 1990s a relatively large emigration contingent from Albania proper left for the West (the big waves were after the pluralist changes in 1991 and during the financial and

²³ United Nations Office on Drugs and Crime. *Crime and Its Impact on the Balkans and Affected Countries*. pp. 32; 48.

²⁴ United Nations Office on Drugs and Crime. *The Globalization of Crime. A Transnational Organized Crime Threat Assessment*, pp. 100-123.

statehood slump in 1997), mostly to Italy, Greece, Switzerland, Germany and the United States. Currently, it is estimated that 25% of Albanians live abroad. Thus Albania's national economy has been strongly supported by remittances which gastarbeiters wire home to their families. These funds make up 15% of Albania's GDP per annum. Although a declining tendency was felt, this money inflow did not cease even at the peak of the crisis in the Western economies. The **second** pillar is the investment in construction. Albania has a very attractive Mediterranean coast, with beaches on both the Adriatic and Ionian seashores. During the isolation period under communism, this shoreline remained intact, while now it has turned into a construction site for tourism facilities and infrastructure. In addition, because of the favourable geographic and strategic location, Albanian ports are becoming more and more attractive for investment. The Durres port lies literally at the entrance of the Adriatic – a position the city of Durres has capitalised on throughout history. The city enjoyed the status of the biggest port in the European part of the Ottoman Empire and is the westernmost point of the ancient Via Ignatia. In Durres's vicinity is Tirana's modern airport, all three connected by a new 33-kilometre motorway. This infrastructure knot is also connected with Albania's second-biggest port – Vlore to the south. Vlore is just 70 km away from the Italian coast. There are regular ferry lines between Durres and Vlore on the Albanian coast and Bari, Brindisi and Otranto on the Italian. The great economic and geopolitical potential of the area is completed by the modern motorway connecting Durres and Kosovo's capital Prishtina (the trip now takes 3 hours), part of the EU-defined transport corridor 8. The **third** and increasingly important pillar for the Albanian economy is tourism. The Ministry of Tourism registers several millions of tourists coming to Albania every summer season. The **fourth** source are the EU's pre-accession programmes. And the **fifth** pillar are Albania's natural resources and agriculture. These two segments, however, due to the lack of modern equipment and the inadequate infrastructure do not contribute effectively to the overall economic growth. The world economic crisis maybe hit most seriously exactly these sectors, as FDI inflow fell and the country's underdeveloped resource deposits could not take off. Albania's more valuable resources include oil, natural gas, coal, iron ore, bauxite, chromium, copper and nickel. It also has rich salt deposits.

On the other hand, Albania suffers from serious electricity insufficiency which hampers economic development (it has scant generation capacities, and most of its transmission lines are still being built). Albania is still an agrarian country and falls into the category of the poorest in Europe. GDP per capita is only 25% of Europe's average.²⁵ According to most reports by international organisations, the country faces problems with unemployment, the institutionalised corruption at higher levels, as well as the traditional Balkan problem in transition – organised crime. The grey economy in Albania considerably harms its development: "Albania has an informal, and unreported, sector that may be as large as 50% of official GDP."²⁶

Current state of Albania's European integration and perspectives

By joining NATO in 2009, Albania attained one of its two most important strategic goals. Integration into the EU is the other strategic objective of Albania. When the Stabilisation and Association Agreement between Albania and the EU came into force on 1 April 2009, Albania

²⁵ European Commission. "Albania 2009 Progress Report".

²⁶ Central Intelligence Agency.

was quick to officially submit membership application at the end of the same month. The EU officially accepted the application in November 2009, and the following month handed Albania the questionnaire about the preparedness for membership. Unlike Macedonia, Montenegro and Serbia, however, Albania, together with Bosnia and Herzegovina, was not able to conclude the visa liberalisation process in 2009 because it did not fulfil all requirements. Moreover, Albania had already plunged into the political crisis caused by alleged election results fraud and instigated by the opposition ASP party. Apart from being the longest domestic political crisis in Albania since the fall of communism, it has also been the most harmful to the national interest: the European Commission has warned this crisis and the economic and corruption problems may slow down Albania's integration process. Thus Albania is prevented from continuing on the EU path and is reviving memories of being a permanently unstable country.

The essence of the problem is that the adoption of all EU-required legislation demands a qualified majority of 84 votes in the Albanian parliament, which is not at the disposal of PM Sali Berisha. In such a way, after Edi Rama's ASP has not only blocked work of the legislature but also the country's accession bid. Moreover, the Commission has said the abolishment of the visa requirement for Albanian citizens will depend on the solution of the domestic political crisis.

Albania and its political elite have difficult tasks and responsibilities with regard to the EU. The European Commission listed a series of tasks and commitments the country has to fulfil in its 2009 progress report on Albania. Some of them with high significance and priority are:

Political criteria:

Albania needs to make further progress, in particular regarding the rule of law and the fight against corruption and organised crime. The independence of state institutions, and in particular the judiciary, needs further strengthening.

Economic criteria:

The Albanian economy made further progress towards becoming a functioning market economy. In order to enable it to cope over the medium term with competitive pressure and market forces within the Union, Albania needs to reform and strengthen its legal system and address weaknesses in infrastructure and human capital.

Throughout 2008 economic growth continued to accelerate, but it slowed down in 2009 due to the impact of the economic crisis resulting in reduced exports, remittances and credit. Monetary policy remained sound and price stability was maintained, while the budget deficit grew mainly due to the large public road works. However, shortcomings in the rule of law, poor level of infrastructure and the large informal economy remain challenges to economic development and the business environment.

Restructuring and privatisation in the energy sector advanced although lack of energy supply security continues to hamper economic development. In order for the economy to cope with competitive pressures and market forces with the union over the medium term, Albania needs to reform and strengthen its legal system and address weaknesses in infrastructure and human capital.

European standards:

Albania has made progress in aligning its legislation, policies and capacity with European standards. It now needs to enhance its efforts in the implementation of these laws and policies. In areas such as free movement of goods, energy and SME policy, progress made in previous years has been sustained.

Progress remained limited in other areas, such as intellectual property rights, audiovisual, agriculture and veterinary/ phytosanitary controls. Tangible results as regards the fight against organised crime, drug trafficking and money laundering are also necessary.²⁷

On 8 July 2010 the European Parliament adopted a resolution on Albania and Kosovo in which it again urged Albania to put in additional effort: „Parliament acknowledges the progress made on reform but stresses the need for further substantial efforts to consolidate

²⁷ European Commission. “Albania 2009 Progress Report”.

democracy and the rule of law and to foster the country's sustainable development. This must include reform of the judicial system and the fight against corruption, which remains `a major political challenge`. The EP also calls for a solution to the current political stalemate following Albania's parliamentary elections of June 2009. It notes that `fully functioning institutions, especially the Parliament, are the backbone of a consolidated democratic system and (...) an important political criterion for EU integration`”²⁸

Perspectives

The image of Albania as a former isolationist and backward country should be changed into an idea of a consolidated and dynamically developing young democracy. The Albanian political elite should learn to tackle its domestic political problems through dialogue and within a smooth-going process. Albania, as a NATO and future EU member, should show that it has at last found a way to organise and hold normal democratic elections in which all sides accept the outcome. The international community has been witnessing the fact that Albanian politicians have not yet endorsed the values and rules of liberal democracy to share power and maintain normal political dialogue. The lost decades in isolationism should be made up for with a dynamic and pro-active regional policy in the context of Euro-Atlantic integration. The understandably strong and very close relations with Kosovo should be balanced with more intense contacts with the other countries in the region. In fact this is the gist, use, logic and very essence of Euro-Atlantic integration. Albania should fulfil the requirements and recommendations of the international democratic community. As put by the Commission, “Albania has continued to play a constructive role in maintaining regional stability and fostering good relations with other Western Balkan and neighbouring EU countries.”²⁹ “Albania's moves to waive visa obligations for the EU neighbourhood countries are seen as a positive step that facilitates people-to-people contacts and enhances regional reconciliation. But these initiatives should be taken in parallel with the visa liberalisation process under way between the Schengen countries and countries of the region”³⁰

²⁸ European Union @ United Nations: Partnership in Action. “EU Parliament considers EU membership prospects of Albania and Kosovo”, 8 July 2010. Available at: http://www.europa-eu-un.org/articles/en/article_9921_en.htm.

²⁹ European Commission. “Albania 2009 Progress Report”.

³⁰ European Union @ United Nations: Partnership in Action.

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http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

BOSNIA & HERZEGOVINA

STEFAN RALCHEV*

Bosnia and Herzegovina (BiH) is one of the successor states of the former Yugoslavia which suffered most severely from the painful process of the federation's disintegration, marred by war, devastation and population displacement. Some 100,000 people lost their lives or disappeared in the bloody conflict among Bosnian Muslims (Bosniaks), Serbs and Croats from 1992 to 1995, and more than two million, or half the population, were driven from their homes.³¹ Bosnia now has a complex administrative structure, which is the result of the Dayton Peace Agreement signed in 1995 and which reflects the established balance of power among the three main ethnic groups on its territory. However, this state arrangement continues to be above all a peace deal and has serious faults as regards democratic governance and human rights protection. It is also what holds back Bosnia on its way to integration with the European Union – Bosnia as such is not able to engage fully in the integration processes as prescribed by the EU and in the adoption of the *acquis communautaire*. What the country needs is a new constitution which will allow it to progress on the path to membership and take advantage of the benefits it offers. The process seems all the more difficult now, ahead of the October 2010 general election, as election time in Bosnia tends to see a rise in nationalist rhetoric among Bosniaks, Serbs and Croats and a slowdown in reforms. The global economic crisis has also had its toll on the reform agenda, with Bosnia's governments wasting time and resources on trying to avert bankruptcy rather than on true and quality decisions that will bring the economy and the institutions on the track to the EU.

Post-1991 developments in BiH

Bosnia was caught in the general tumult of Yugoslavia's disintegration, which started with the secession and proclamation of independence of Slovenia, Croatia and Macedonia from the federation in 1991. Serbia, the strongest republic in Yugoslavia, led by nationalist Slobodan Milosevic, was unwilling to let the other republics secede, relied on the support of Serbian minorities residing there and controlled the Yugoslav armed forces (JNA). While Macedonia's first steps as an independent country were peaceful and Slovenia waged only a 10-day war with the JNA to win its independence, Croatia was invaded and deprived of large part of its territories, which it was able to regain only in 1995.

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³¹ Research and Development Centre Sarajevo. Available at www.idc.org.ba.

Bosnia was the most ethnically diverse Yugoslav republic with the largest percent of Serbs living there. According to the 1991 census, the population was composed of 43.7% Bosnian Muslims (Bosniaks), 31.3% Serbs and 17.3% Croats. When it set off to follow the other republics in their bid for sovereignty and called a referendum for independence in February-March 1992, it was immediately clear that here tensions could escalate because of diverging interests of ethnic groups and the military significance of Bosnia for the JNA due to its central position in the federation.³² The Serbs boycotted the referendum, and soon after clashes erupted on the Sarajevo streets and spread to almost all of the country. The 43-month war which ensued saw all three ethnic forces clash with each other, with Serbs and Croats supported by the JNA and the Croatian army, respectively. The Dayton Peace Agreement, brokered by the United States, put an end to the violence in November 1995.

Post-war BiH took largely the form of a protectorate of the international community, which immediately engaged in the reconstruction of the devastated country. Dayton established a BiH consisting of two autonomous entities – a majority Serb-populated Republika Srpska (RS, 49% of the territory) and a Bosniak-Croat-populated Federation of Bosnia and Herzegovina (FBiH, 51% of the territory), each having its own parliament, government and budget. There are also central government, parliament and institutions with limited authority, the most prominent of which are foreign policy, defence and customs control. The new country's constitution was and still is in fact an annex of the Peace Agreement. While Bosnian citizens have been regularly voting in free general and local elections and thus democratically choosing who to represent them politically, the supreme authority in the country lies with the Office of the High Representative (OHR) – an administration appointed by the international community to see to the implementation of Dayton and having the authority to drop legislation or sack elected officials if it deems them detrimental to peace.³³ Moreover, the constitution guarantees the representation in state institutions only of the three main ethnic groups in BiH (the so-called constituent nations – Bosniaks, Serbs and Croats), while it does not provide for the rights of all other ethnic minorities such as Jewish or Roma, for example.

Bosnia's domestic political processes ever since Dayton have generally developed along ethnic lines, and not according to some form of modern left-right differentiation. The strongest political parties have been the Bosniak Party of Democratic Action (SDA) and Party for Bosnia and Herzegovina (SBiH), the Serb Alliance of Independent Social Democrats (SNSD) and Serbian Democratic Party (SDS) and the Croatian Democratic Community BiH (HDZ-BiH). The consociational model of Bosnia's post-war democracy has seen the respective ethnic parties alternating as the most popular within their national group and forming the RS and FBiH parliamentary majorities and governments, and at the same time participating in the central parliament and government proportionally, as ethnic representatives. This makes the Bosnian political system rather burdensome, diffused and unable to consolidate decision-making at a central level because of ethnic voting and vetoes interplaying there. And what the European Union has made clear is that it needs is a single authority to talk to in Bosnia – an authority to take responsibility of reform and adoption of the *acquis communautaire*.

³² Commission on Security and Cooperation in Europe. *The Referendum on Independence in Bosnia and Herzegovina, February 29-March 1, 1992*. p. 2. Available at www.csce.gov.

³³ General Framework Agreement for Peace in Bosnia and Herzegovina. Available at http://www.ohr.int/dpa/default.asp?content_id=380.

The political situation started to grow worse in 2006 ahead of the October general election, when nationalist rhetoric among parties exacerbated in their pursuit of more votes. Subsequently SNSD, led by Milorad Dodik, and SBiH, led by Haris Silajdzic, emerged as the strongest political factors in Bosnia.

Since then, both leaders have relied on ethno-nationalist rhetoric in their public talking, with Dodik suggesting the idea of a referendum for secession of RS and Silajdzic calling for the dissolution of RS and creating a unitary Bosnian state. Both claims are anti-Dayton in nature but tend to keep producing the necessary public support. Dodik won vast majority in RS, allowing him a strong grip of power and the freedom to challenge FBiH politicians and the international community. Silajdzic, the only Bosnian war-time leader still actively involved in politics, has held that RS was formed on the premise of genocide and has to be abolished, conveying this message both at home and at international forums. The confrontation between the two leaders, and especially Dodik's growing self-perception as a unifier of the Serb will in BiH, have led to the blockage of central state institutions and the lag in the implementation of important EU-required reforms.³⁴

The local elections of October 2008 reaffirmed Dodik's SNSD as the leading party in RS. Silajdzic's SBiH lost ground to Sulejman Tihic's SDA, but heated ethnic talk characterised this campaign and the following political seasons, too. Reform was stalling, Bosnia's central institutions were hardly working, and the country's EU integration was brought to a de facto standstill. Dodik's confrontation with the international community deepened: basically, RS politicians have been urging for the closure of the Office of the High Representative (OHR) and leaving Bosnia on its own, whereas Bosniak politicians have wanted a stronger OHR which would thwart any RS secession ambitions.

There were some attempts by both domestic politicians and the international community to initiate talks on overcoming the crisis. In November 2008, the leaders of the strongest ethnic parties of the day – Dodik, Tihic and HDZ-BiH's Dragan Covic – gathered in the town of Prud and agreed a loose framework for reforms, including the amendment of the constitution. But this agreement was again reached on the ethnic ticket and is in its essence undemocratic, as no other parties or civil society organisations were included in the discussion.³⁵ Subsequently the Prud talks proved a failure. In October 2009, the EU and the United States initiated a meeting with Bosnia's main political parties at Butmir near Sarajevo in order to offer them a constitutional reform package which would at least get them back on the way to EU integration. It included: "reforming state structures to make them comply with the European Convention of Human Rights (ECHR); creating a larger, more powerful and unicameral legislature and a larger and more powerful Council of Ministers with a prime minister; and giving the state authority to assume responsibilities and make commitments in the EU accession process. It also included a compromise on the resolution of the state property issue, the last remaining condition ... needed to be met in order to close the OHR. As an inducement for accepting the whole package, [international officials] pledged accelerated integration into the EU and NATO."³⁶ The Butmir initiative gave no results either: it was initially designed as a single effort that would give Bosnia a decisive push forward, but after the lack of success at the first meeting, additional rounds of talks were agreed with unclear outcomes and vaguer commitments of participants.³⁷ The sole step forward was the final

³⁴ Ralchev, Stefan. "Status Quo as the More Likely Alternative for Bosnia and Herzegovina". June 2009. Institute for Regional and International Studies. Available at: <http://www.iris-bg.org/files/iris-analysis-bosnia%202009.pdf>.

³⁵ Ibid., p.4.

³⁶ International Crisis Group. *Bosnia's Dual Crisis: Crisis Group Europe Briefing N°57, 12 November 2009*. p.4. Available at www.crisisgroup.org.

³⁷ Ibid., pp. 5-6.

settlement of the status of the neutral Brcko District via the first post-Dayton constitutional amendment which the central parliament adopted in March 2009. Brcko is a mixed enclave in northern BiH with none of the three constituent nations having a substantial majority.

BiH and European integration

In its latest progress report on BiH, the European Commission clearly states:

Bosnia and Herzegovina is a potential candidate for EU membership. The Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the EU was signed in June 2008. The Interim Agreement, which focuses on the trade-related areas of the SAA, has been in force since July 2008. However, constitutional elements established by the Dayton/Paris peace agreement have continued to be challenged by key political leaders in both Entities, and EU-related reforms have seen limited progress. There has been little consensus on the main reform priorities, and there have been attempts to reverse previously agreed reforms. A shared vision on the direction of the country remains necessary for the smooth operation of institutions, for creating more functional and efficient State structures, and for speaking with one voice on EU and international matters.³⁸

However, despite the pursuit of ethnic agendas by Bosnian politicians, there is an undisputable consensus both among political parties and among citizens that Bosnia belongs in the EU. Political parties, including parties from RS (which lately have been more sceptic about the international community's role as a whole), have repeatedly declared EU membership is a priority for Bosnia; and public opinion surveys have shown a stable support of over two-thirds of citizens for membership over the years.

The European Union has been heavily engaged in BiH in the reconstruction efforts after the 1992-95 war and in supporting reform and democratisation afterwards. The European Community (as the EU was called at that time) and major member states incurred lots of criticism during the Bosnian war for failing to intervene decisively in time and prevent the ensuing loss of life and devastation. But the EU and the member states have since 1995 been steadily devoting development grants, loans and investments to Bosnia. Of course, Bosnia's progress on its EU path has depended on its own reform effort, complying with the EU's carrot-and-stick approach with the potential candidate countries. The milestones in relations between BiH and the EU are as follows:

- **1997: Regional Approach.** The EU establishes political and economic conditionality for the development of bilateral relations.
- **June 1998:** the **EU-BiH Consultative Task Force (CTF)** is established.
- **1999:** The **EU proposes the new Stabilisation and Association Process (SAP)** for five countries of South-Eastern Europe, including BiH.
- **June 2000:** The European Council states that **all the Stabilisation and Association countries are "potential candidates"** for EU membership.
- **November 2000:** Zagreb Summit; the **SAP is officially endorsed by the EU and the Western Balkan** countries (including BiH).
- **2001:** First year of the **new CARDS financing programme**, specifically designed for the Stabilisation and Association countries.
- **June 2003:** Thessaloniki Summit; the **SAP is confirmed as the EU policy for the Western Balkans.** The EU perspective for these countries is confirmed.

³⁸ European Commission. *Bosnia and Herzegovina 2009 Progress Report*. pp. 4-5. Published 14 Oct, 2009. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/ba_rapport_2009_en.pdf.

- **June 2004:** the EU adopts the first **European Partnership** for BiH (amended in 2006).
- **October 2005:** The European Commission (EC) judges that BiH has made sufficient progress in the implementation of the Feasibility Study reforms and recommends starting **Stabilisation and Association Agreement (SAA)** negotiations.
- **November 2005:** **SAA negotiations** between the EU and BiH are officially launched.
- **December 2006:** **SAA technical negotiations** between the EU and BiH are successfully completed. However, the Agreement cannot be initialled and formally concluded due to lack of progress on key reforms.
- **December 2007:** Following Commissioner for Enlargement Olli Rehn's assessment that there is sufficient agreement on reforms among BiH political leaders, the **Stabilisation and Association Agreement with Bosnia and Herzegovina is initialled in Sarajevo.**
- **February 2008:** A new European Partnership is adopted by the Council 1 January 2008-Visa facilitation and readmission agreements enters into force.
- **February 2008:** BiH signs the Instrument for Pre-accession Assistance (IPA) Framework Agreement for the IPA financing facility.
- **May 2008:** Visa liberalisation dialogue launched.
- **June 2008:** EC presents the Roadmap setting out benchmarks for visa liberalisation
- **June 2008:** EC and BiH **sign the Stabilisation and Association Agreement and the Interim Agreement on trade and trade-related issues**
- **July 2008:** Interim Agreement on trade and trade-related issues enters into force.³⁹

In May 2010, the European Commission proposed to the Council to abolish visa requirements for Bosnian citizens for short stays in the EU starting from the autumn.⁴⁰

A current snapshot of BiH: democracy, politics and the economy

According to the latest evaluation of BiH by Freedom House in its *Freedom in the World 2010* report, the country's Political Rights Score is 4, Civil Liberties Score is 3 and overall Status is Partly Free (countries are ranked on a scale of 1-7, with 1 representing the highest level of freedom and 7 representing the lowest level of freedom).⁴¹ This ranks Bosnia as the second least free territory in the Balkans, outscoring only newly independent Kosovo. The report duly marks the forming of a state-level coalition following the 2006 election, which was supposed to embark on the necessary reforms needed for closer ties with the EU but turned out to be unstable due to squabbles between RS and FBiH politicians; it also mentioned the signing of a Stabilisation and Association Agreement with the EU in June 2008 as a clear step forward. But the report was generally critical when summarising Bosnia's political developments throughout 2009:

Nationalist rhetoric among politicians and the ethnically divided media began to increase in 2009 as the country prepared for presidential and parliamentary elections scheduled for 2010. Dodik and the Bosnian Serb authorities continued to stress Republika Srpska's autonomy and assert its right to seek independence from BiH. The entity's parliament in June passed a resolution that would have prevented any future transfer of power to the central government, but the measure was annulled by the OHR. Meanwhile, internal divisions plagued the government of the Federation. In May, Federation prime minister Nedžad Branković of the mainly Bosniak Party of Democratic Action (SDA) submitted his resignation after Sulejman Tihić was reelected as the SDA leader. Tihić had accused Branković of presiding over an ineffective government.

In March 2009, Austrian diplomat Valentin Inzko was appointed as the new High Representative, replacing Miroslav Lajčák, who had resigned in January to become the foreign minister of Slovakia. Tensions between the OHR and the Bosnian Serb leadership continued, with the

³⁹ Delegation of the European Union to Bosnia and Herzegovina. Available at <http://www.delbih.ec.europa.eu>

⁴⁰ Terzić, Almir. "Bez viza najesen" [No Visas in the Autumn]. *Oslobodjenje*, 27 May, 2010. Available at <http://www.oslobodjenje.ba/index.php?id=6856>.

⁴¹ Freedom House. *Freedom in the World 2010: Bosnia and Herzegovina*. Available at www.freedomhouse.org.

latter challenging several of Inzko's decisions and denying the OHR's authority to impose laws or fire officials. In December, Inzko accused Bosnian Serb leaders of violating the Dayton Peace Accords by undermining his authority.

While the country's rival factions were unable to agree during the year on reforms that would put the country's constitution in line with European requirements, the BiH parliament in March passed an amendment on the less controversial issue of Brcko's status, confirming the 1999 arbitration ruling. This marked the first time the constitution had been amended since Dayton Accords.⁴²

More specifically, the report points out that corruption remains a serious problem in BiH and political parties, the police, the healthcare system, the customs and the RS and FBiH governments are perceived the most corrupt institutions in the country. Despite some recently passed legislation designed to fight corruption, enforcement has been weak, due in part to the lack of strong and independent anticorruption agencies. Indeed, BiH ranked 99th out of 180 countries in Transparency International's 2009 Corruption Perception Index. Freedom House also notes that there is a wide range of broadcast and print media in Bosnia but they are characterised by a somehow low level of professionalism and a tendency to follow narrow ethnic interests. The report says that "the judiciary remains influenced by nationalist political parties and faces pressure from the executive branch... Ethnic nationalism presents a major obstacle to the country's integration. Individuals face discrimination in employment, housing, and social services in regions that are not dominated by their own ethnic group. Under the constitution, only Bosniaks, Croats, and Serbs are able to run for the presidency or serve in the upper house of parliament. In 2006, two would-be presidential candidates—one Jewish and the other Romany—brought a discrimination case to the European Court of Human Rights, which in December 2009 ruled that the constitution was indeed discriminatory and must be reformed."⁴³

Undoubtedly, reforming the constitution is the central issue as regards democracy and institutional development in Bosnia. A more centralised decision making will, on the one hand, relieve the multi-layered decision-making authorities of some doubling of functions and, most importantly, will make the country eligible to advance on its path to EU integration. Resolving the Brcko status in March 2009 by a constitutional amendment was a step in this direction. The second issue pertaining to this sphere which could be a sign of truly democratic progress in Bosnia would be the closure of the Office of the High Representative (OHR) and its transformation into a European Union Special Representative (EUSR). As put by the Peace Implementation Council (PIC) – the top international supervisory body gathering twice a year to assess BiH's progress whose executive representation is in fact the OHR – after its latest gathering in February 2010:

While reiterating that constitutional changes are not a part of the objectives and conditions for closure of the OHR, the PIC Steering Board remains convinced that constitutional changes are necessary to improve the efficiency and functionality of BiH's institutions so that they can be better equipped to serve the interests of BiH's citizens and meet future requirements for Euro-Atlantic integration. Delay in executing the recent judgment of the European Court of Human Rights would mean that forthcoming elections would take place under conditions incompatible with the European Convention on Human Rights and may therefore impact on the SAA. In this regard the PIC Steering Board welcomed initial steps undertaken by BiH authorities to amend the constitution, called upon them to complete this process in time for the next elections, and stressed that further constitutional changes would improve BiH's political functionality and facilitate BiH's EU aspiration.⁴⁴

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Peace Implementation Council. *Communique of the Steering Board of the Peace Implementation Council*. February 25, 2010. Available at the OHR website: http://www.ohr.int/pic/default.asp?content_id=44618.

In order for the OHR to close, BiH has to fulfil two conditions and five objectives, as set by the PIC. The conditions are signing of a Stabilisation and Association Agreement (SAA) with the EU and a positive assessment by PIC of the situation in BiH. The objectives are (i) resolution of property apportionment issues between the central state and the entities (FBiH and RS); (ii) resolution of defence property issues between them; (iii) settlement of the Brcko District legal status within BiH; (iv) fiscal sustainability; (v) entrenchment of the rule of law, especially adoption of a national war crimes strategy, judiciary reform strategy and a law on aliens and asylum.⁴⁵ The only unachieved objectives so far remain property and defence property status resolution.

Of course, Bosnia's advancement on the constitutional reform and OHR closure issues will depend on the willingness of the main political parties to make compromise in the name of EU integration. Right now, the moment seems not quite opportune. History has shown that attitudes among the main ethnic representatives tend to sharpen before elections, and BiH faces a general election in October 2010. Signs that the campaign has already begun are obvious. The leaders of the strongest parties from each constituent nation – and the most verbal in their nationalist rhetoric – appear to have again struck a pre-election deal for a possible coalition for state-level government.⁴⁶ Sulejman Tihic (SDA), Milorad Dodik (SNSD) and Dragan Covic (HDZ-BiH) did the same prior to the previous elections, but this did not prevent them from ranting at each other in the old ethno-national spirit. Naturally, they do so because the electorate buys it and secures them the votes they need to remain dominant. As aptly described by a Bosnian weekly,

[Still] mentally occupied by the [1992-95] war, the voting public cannot demand from its ethno elites any different political project than the current ones, as militant ethno-nationalism is realised as a policy of constant preparation for a new war, or for the defence of goals achieved in the previous one, or for rectifying war injustices... The ever greater radicalisation of the current election campaign shows that the BiH political scene is still using the last bloody war as a site for its complete legitimisation and is imposing on society the ethno-nationalistic ideology as the most ethical attitude possible. In such a way, war is perpetually reborn in the political realm.⁴⁷

Following are discussed some specific areas of Bosnia's development as a sovereign state and a democracy at their current state.

Institutional efficiency

As already mentioned, BiH faces serious problems when it comes to institutional development and efficiency. Institutions are mostly the product of the Dayton Peace Agreement and have not still taken modern shape and functions; they can be defined as nascent even 15 years after the end of the war. The most serious problem is, of course, their ethnocentric essence. This worked in the years after the war, but such institutions are incapable of appealing to the EU and its requirements. Ethnicity is the predominant factor in building and filling those

⁴⁵ Peace Implementation Council. *Declaration by the Steering Board of the Peace Implementation Council*. February 27, 2008. Available at the OHR website: http://www.ohr.int/pic/default.asp?content_id=41352.

⁴⁶ "Tihic 'Kaparisaio' Koalicione Partnere Dodika i Covica" [Tihic 'Books' Coalition Partners Dodik and Covic]. *Slobodna Bosna*, 10 June 2010. Available at www.slobodna-bosna.ba.

⁴⁷ "Politika Demonizacije" [The Politics of Demonisation]. *BH Dani*, 11 June 2010. Available at http://www.bhdani.com/default.asp?kat=txt&broj_id=678&tekst_rb=6.

institutions with staff, which curbs their efficacy and professionalism. Central-level institutions, the one Bosnia needs to be the strongest in order to be able to successfully negotiate membership with the EU, seem to be even weaker than institutions at RS and FBiH level. Of course, some exceptions exist, such as the Central Bank of BiH and the Indirect Taxation Authority, and they should be heeded when reforming the other institutions. The other problem with institutional efficiency is the fact that many institutions with the same functions exist at many levels of government – central state, RS, FBiH, cantonal, municipal. This makes their activities overlap and waste resources. And last but not least, as in all post-communist states, institutional weakness comes from high corruption levels.

Public administration functioning

Post-Dayton Bosnia has one of the largest public administrations that a state can have. Due to its complex structure, it has 14 governments, three parliaments, multiple municipal administrations and courts. The functions of many of those authorities overlap, making the state apparatus heavy and slow. Public administration reform is thus one of the greatest challenges on BiH's reform agenda.

According to a study by a Bosnian think tank, the main problems pertaining to public administration reform in BiH are lack of political will for reform, slowing down of the reform process, lack of institutional and legal capacity for administrative training, and insufficient funds allocated for conducting the reform.⁴⁸ The study mentions 37.69% as the level which public administration reform has reached as of September 2009, according to the state authority coordinating the process. It states the importance of this reform for BiH because: it is a key requirement for progress in EU integration (it is part of the SAA); every modern state needs to address adequately the challenges posed by globalisation and technological advancement, especially small states, and this cannot be done without an efficient and educated public administration; BiH is lagging behind its regional peers; and the citizens' trust in the public administration is declining, with tangible perceptions of lack of professionalism, inefficiency, corruption and politicisation.⁴⁹

Corruption and organised crime

BiH stands as the country with the highest corruption levels in the Western Balkans, according to Transparency International's Corruption Perception Index (CPI). Its 2009 score is 3.0 (on a scale from 1 to 10, where 1 is total corruption and 10 is lack of corruption), which ranks it 99th among 180 nations and places it along countries such as Zambia, Tonga and the Dominican Republic.⁵⁰ For comparison, Bosnia's Balkan counterparts' rankings are: Croatia (4.1, 66th); Montenegro (3.9, 69th); Macedonia (3.8, 71st); Serbia (3.5, 83rd); Albania (3.2, 95th).

A study by Transparency International BiH explains the high levels of corruption in Bosnia with the specific circumstances characterising its development as a sovereign state. Among the factors are the legacy of the centralised socialist state and the privileged access to its resources of the party elite; the bloated public administration, which remained unduly large

⁴⁸ ACIPS. "Quo Vadis, Upravo? Procjena ostvarenog napredka u provodjenju reforme javne uprave u Bosni i Hercegovini" [Quo Vadis, Actually? Evaluation of the Progress in the Implementation of the Public Administration Reform in Bosnia and Herzegovina]. February, 2010. p 1. Available at www.acips.ba.

⁴⁹ Ibid., p. 3.

⁵⁰ Transparency International. *Corruption Perception Index 2009*. Available at www.ti-bih.org.

and heavy as a result of the Dayton structure of the country after the war; the practices of war profiteering and the ensuing culture among ethno-nationalist elites; the lack of coherent anti-corruption legislation and of political will on the part not only of the elites, but of the entire society to combat the phenomenon; the complicated court system (*de facto* four autonomous court systems exist) which to enforce at least the rules that exist; and the dependence of the media on the political oligarchies and on the state enterprises (which are the biggest advertisers).⁵¹ The study mentions that even though fight against corruption is one of the key elements of the European Partnership process with the EU launched before 2008, not one measure defined by the document has been implemented as of June 2009.⁵² It finally calls for a common public demand for the implementation of reforms, including pressure on the institutions by the society and the media, in order to solve the problems in the most problematic agents: political parties, the executive, legislative and local authorities.⁵³

Organised crime has been traditionally a serious problem in all Balkan countries for a number of reasons, including the legacy of communism and the former security services' involvement with organised crime, the strategic position of the peninsula on the borderline between Europe and Asia and on the international trafficking routes, and the weak and corrupt institutions. While conventional crime levels are even lower in the Balkans than in Western Europe, organised crime poses a serious threat to the functioning of the Balkan societies.

A report by the United Nations Office on Drugs and Crime (UNODC) makes a good account of the growth of organised crime in the Balkans:

Organised crime has taken advantage of a recent period of intense vulnerability in the Balkans. The transition from totalitarian rule to democracy has been associated with the growth of crime in many countries throughout the world. Corruption, privatisation fraud, protection rackets, and other forms of organised crime flourish in an environment of disoriented law enforcement institutions, rapid changes in the social and economic norms, and policy uncertainty. As a result, many formerly communist countries have experienced rapid growth in organised crime.

In addition, post-conflict situations are often associated with rising crime rates. The proliferation of firearms, the establishment of cross-border smuggling routes to evade sanctions, the rise of local strongmen to positions of power through militia or paramilitary structures – these and many other factors promote criminality during and after civil war. This tendency is seen in regions around the world.

South East Europe is unusual in that it underwent both of these difficult historical processes simultaneously, and this has informed the character of organised crime in the region. After World War Two, every country in the region came under communist or socialist regimes. Although these regimes varied substantially in character between countries, all relied on well resourced police agencies to maintain internal order. As the guardians of national security, the secret police in particular operated above the law, and engaged in a wide range of questionable activities, including many instances of cross-border smuggling. This work brought them into contact with organised criminals, who proved especially useful for deniable operations in other countries.

The links between the state and organized crime were strengthened during the 1990s following the collapse of the socialist regimes and during the violent dissolution of Yugoslavia. After international sanctions were imposed, great fortunes were made smuggling weapons, oil, and other commodities needed by the warring parties. These were paid for, in part, through other forms of trafficking, including the smuggling of drugs and untaxed cigarettes, made possible by the chaos of the war and fledgling

⁵¹ Blagovcanin, Srdjan. "Korupcija u Bosni i Hercegovini" [Corruption in Bosnia and Herzegovina]. June 2009. Transparency International BiH. pp. 2-5. Available at http://www.ti-bih.org/documents/04-08-2009/Korupcija_u_BiH.pdf.

⁵² Ibid., p. 11.

⁵³ Ibid., p. 16.

democratic institutions. Wars and the new relationship with the West also led to large scale emigration and human trafficking.

Just as the wars between the Bosniaks, Croats, and Serbs were drawing to a close in 1995, new conflict erupted with ethnic Albanians in the Serbian province of Kosovo. In 1997, the government of Albania collapsed following the failure of financial pyramid schemes in which a large share of the population had invested. The national armouries were looted, masses of people fled to country, and an ungoverned zone appeared just a short boat ride from West Europe. These disruptions added new opportunities for smugglers and additional years of turmoil for the region.

Simultaneous with the conflict, the countries of the region were undergoing the transition to market economies. The people best placed to capitalise on privatisation were those who held power under the socialist regimes and who were profiting off the war, including the former secret police and their networks. The way each country dealt with their former leadership varied, but in most, some elements were able to both take advantage of the new capitalism and retain their links to political power. Smuggling brought the fortunes and the expertise to make the most out of 'nomenklatura privatisation', and strong links were forged between criminals and some members of the political and commercial elite. These links help explain how organised crime has been able to operate in the region with so little imprint on the conventional crime situation: organised crime in the Balkans has been very organised, and lubricated with corruption.⁵⁴

Bosnia makes no exception in this account. Furthermore, the country has been affected much more in some respects than other Balkan countries. The 1992-95 war has been a significant determinant in this respect, especially as concerns arms smuggling and trafficking in people. According to the UNODC report,

During the conflicts, smuggling was necessary for survival. Smugglers were able to simultaneously enrich themselves and serve their respective causes, rapidly gaining both economic and political capital. They have chosen to assume diverse roles in the post conflict period, with some vigorously pursuing legitimacy in business or politics, some remaining marginal, and some straddling both worlds. The Bosnian case is instructive:

... in the case of Bosnia, criminal capital accumulated during a criminalized war has been converted to political capital after the war... Some of those who profited the most from war have successfully "cleaned" their wealth, and now present themselves as legitimate economic elites.

Ironically, one key source of investment was the reconstruction industry, and many war profiteers opened construction firms. Since these men were often the only ones with the capacity in the region to deliver, the international community unwittingly contributed to their further enrichment by contracting them to rebuild what they had destroyed. Old habits die hard, though, and some reportedly chose to defraud the aid agencies rather than earn their money legitimately.

On the other hand, due to their connections with the security services, those who opted to remain in crime were able to operate with substantial impunity. In 2000, the editor of the Sarajevo weekly *Dani* claimed:

The mafia leadership is completely untouchable, like the Communist Politbureau. All the mafia leaders are well-known, their names have been published numerous times in various registers. What we have is ten-odd people who have more than a hundred crimes behind them, neatly reported, recorded in files and in the justice system. However, the justice system is definitely the best defense for criminals in Sarajevo...⁵⁵

The world economic crisis and its impact on BiH

⁵⁴ United Nations Office on Drugs and Crime. *Crime and Its Impact on the Balkans and Affected Countries*. March 2008. pp. 10-12. Available at www.unodc.org/documents/data-and-analysis/Balkan_study.pdf.

⁵⁵ *Ibid.*, p. 53.

The world financial and economic downturn hit the Balkans later than Western Europe, yet its impact has been even more damaging on the brittle, young market economies of the region. Before the crisis hit, Bosnia was one of the most stable economies in the Balkans, at least financially. The currency, the convertible mark (KM), has been pegged to the euro under a currency board arrangement. GDP was rising at around 6% every year. Although it experienced huge trade deficits, Bosnia's foreign reserves were ample enough to guarantee for stability. Foreign direct investment (FDI) was rising from year to year, reaching a record-high 3 billion KM (1.5 billion euros) in 2007.⁵⁶

The crisis had a devastating effect of Bosnia's economy. Estimated GDP growth slumped to a negative 3.2% in 2009, while FDI plummeted to 1.4 billion KM (700 million euros) in 2008 and only 382 million KM (192 million euros) in the first three quarters of 2009. According to a World Bank Economic *Newsletter* for BiH published in December 2009,

The BH economy is still in recession, with few signs of a possible recovery, but it has made an orderly adjustment on both the fiscal and external accounts. The reversal of BH's economic growth started at the end of 2008 and the country is still in recession. During the first 9 months of 2009, exports and imports dropped 21 and 26 percent respectively (yoy); thus, the trade deficit shrank 30 percent during the same period. With the reduction in the trade deficit, relatively stable remittances and other inflows on the current account, the current account deficit (CAD) halved during the first two quarters of 2009 (yoy). Despite its sharp reduction, financing the CAD has become challenging, as the inflow of private credit were reversed (dropping about 9 percent between Dec 08 and Sep 09) and FDI halved, which led to a reduction of foreign exchange reserves of the Central Bank from 6.9 billion in October 2008 to around 5.8 billion by July 2009. However, the reduction of reserves was reversed following the conclusion of the Stand By Agreement (SBA) with the IMF and the inflow of the related external financing. A significant degree of consolidation has also happened on the fiscal accounts following the conclusion of the SBA and what would have been an unsustainable deficit of around 8 percent of GDP for 2009 will be reduced to a level of around 5 percent, a level that is sustainable and financeable in the context of the SBA. The prospects of recovery are still uncertain, although the resumption of growth of exports in September and improvements in industrial output could be a hint of the start of a recovery.

As becomes clear from the *Newsletter*, one of the most serious issues has been the crisis's impact on Bosnia's fiscal account. While before 2009 the country managed to tie balanced budgets or minimal deficits, for 2009 and 2010 there exists real possibility of state bankruptcy. This is especially relevant for the Federation, where the system of social payments for war veterans and fallen soldiers' families is such that it drains almost half of the entity's budget. The signing of a 1.2 billion euro stand-by loan agreement with the International Monetary Fund has relieved the situation, but problems are far from being solved. One of the clauses of the agreement is that the Federation cuts drastically payments to veterans and fallen soldiers. When this was done, the veterans' associations staged mass protests in front of the government building in April 2010, erupting to violence, attempts at torching of the building and some 60 people injured. According to a Bosnian economist, the "attack by war veterans on a federal government office reflects the serious problems in the economy of Bosnia and Herzegovina: the unsustainable cost of public administration; the war-related welfare expenses; the consequences of the global crisis."⁵⁷ Indeed, the veteran's attack is the clearest manifestation of the political and social consequences of the global crisis for the weak states in the Western Balkans.

⁵⁶ All statistical data on the BiH economy are derived from the Central Bank of Bosnia and Herzegovina. Available at www.cbbh.ba.

⁵⁷ Pleho, Eldina. "Bosnia and Herzegovina: The Debts of War". *Osservatorio Balcani e Caucaso*. 4 June, 2010. Available at <http://www.balcanicaucaso.org/eng/All-news/Bosnia-and-Herzegovina-The-Debts-of-War>.

Current state of EU integration and perspectives

Although formally BiH has made some steps towards reform and getting closer to the EU, *de facto* there has been a serious slowdown ever since the 2006 elections and the stepping up of nationalist rhetoric then. The conflict between the Republika Srpska leadership and the international community on the OHR closure and the transfer of authority from the entity to the state level has blocked the work of state institutions and prevented the adoption of key legislature required on the way to EU. The two positive developments lately were the signing of a SAA in June 2008 and the proposition of the European Commission to the Council to abolish the visa regime for BiH citizens for short stays in the EU. These gestures of a “carrot” type on the part of the EU were rather the result of a goodwill not to isolate the country in the region that suffered the most during the 1990s conflicts than the reflection of a true Bosnian progress (with the exception of the technical reforms needed for visa liberalisation – here BiH performed really well and even better than its neighbours). The current state of affairs is well reflected in the latest progress report on BiH of the European Commission, which is the most critical report when compared to the reports on Bosnia’s Balkan peers.

Regarding **political criteria**, the report says that Bosnia and Herzegovina has made very limited progress. “The domestic political climate has deteriorated, and challenges to the proper functioning of the institutions and inflammatory rhetoric have continued. Reform implementation has been slow, due to a lack of consensus and political will, and to the complex institutional framework. A shared vision by the political leaders on the direction of the country and on key EU-related reforms remains essential for further progress towards the European Union.”⁵⁸ It explicitly states that the “European Union would not be able to consider an application for EU membership until the OHR has been closed” and that the “reform of Bosnia and Herzegovina's constitutional framework to permit its institutions to function effectively is necessary before the Commission can recommend the granting of candidate status.”⁵⁹ The report urges Bosnia to strengthen the technical and human capacity of the central parliament and to speed up public administration reform. It criticises particularly harshly the judicial system. BiH still does not have a unitary judiciary with central financing, a Supreme Court, and political interference in the work of courts is common.⁶⁰ BiH has made limited progress in the fight against corruption and in the protection of human and minority rights, although legal provisions exist. The Commission is concerned about the increasing harassment of journalists and the ethnic orientation of the media.⁶¹

Concerning **economic criteria**, the report says “Bosnia and Herzegovina has made little further progress towards a functioning market economy. Further considerable reform efforts must be pursued with determination to enable the country to cope over the long term with competitive pressure and market forces within the Union.”⁶² It praises central bank actions to

⁵⁸ European Commission. *Bosnia and Herzegovina 2009 Progress Report: Conclusions*. p. 1. Published 14 Oct, 2009. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_bih_en.pdf.

⁵⁹ *Ibid.*, p. 1.

⁶⁰ *Ibid.*, p. 2.

⁶¹ *Ibid.*, p. 3.

⁶² *Ibid.*, p. 4.

mellow down the effects of the global crisis and the credibility of the currency board arrangement, as well as decreasing inflation rates and external imbalances. “While the expansion of financial intermediation has slowed down, the banking sector has so far weathered well the impact of the global crisis. Some limited improvements in the business environment can be recorded, especially in the areas of construction permits, transfer of property, business registration, and market exit,”⁶³ the report says. However,

the quality and sustainability of public finances have further deteriorated. Current expenditures, especially on wages and social benefits, increased dramatically in 2008, and the share of general government in GDP remained high. Restructuring of public enterprises, the liberalisation of network industries and the privatisation have not proceeded further. The weak productive capacity and structural rigidities – high social contribution rates, distorted wagesetting mechanisms, high and poorly targeted social transfers and low labour mobility – continue to hamper job creation and the functioning of the labour market. Unemployment continues to be very high and the informal sector remains an important challenge. The business environment is still affected by administrative inefficiencies. Lower FDI and public investment slowed down the upgrading of infrastructures.⁶⁴

The Commission states that “Bosnia and Herzegovina has made limited progress in aligning its legislation and policies with **European standards**. Some progress has been made in areas such as transport, customs, taxation, education and culture, and a number of justice, freedom and security-related matters. Particular efforts remain necessary as regards movement of goods, persons and services, social and employment policies, state aids, energy and environment.”⁶⁵

Perspectives

BiH’s future is clearly as a fully fledged member of the EU, as stated by the Zagreb (2000), Thessaloniki (2003) and Sarajevo (2010) summits. The country did sign the SAA and was recommended for visa liberalisation, and did make a lot of efforts to achieve those goals. Bosnia’s administration responsible for EU integration, the Directorate for European Integration, has proved its capacity as a reliable domestic authority in the difficult process of legal synchronisation and fulfilment of various criteria. The problem is that the Directorate does not make up the whole country. Sometimes the impression is that to some Bosnian politicians EU integration is less a priority than their personal political and economic advancement on the domestic scene, well shrouded in the protection of “vital national interests.” This will be even more visible in the following months ahead of the October 2010 general election, when rhetoric will sharpen, the “national ideal” will be preferable to the “European future” and reforms will increasingly play second fiddle. So in the very short term little progress is expected and BiH may even start moving backward, as politicians hungry for votes will tend to appeal to populist demands which in almost every case act against BiH’s European bid.

In the medium term BiH has a real chance to get firmer on the EU path and take advantage of the opportunities so far offered by the EU. Once elections are past, politicians will have to concentrate on fighting the crisis and reforming the state to better face such major challenges. In fact the economic crisis may act unifyingly to the ethnically divided politicians and make them act pragmatically rather than ideologically. Indeed, Bosnia is the only Western Balkan

⁶³ Ibid., p. 4.

⁶⁴ Ibid., p. 4.

⁶⁵ Ibid., p. 4.

country which does not even consider yet filing a EU membership application, for obvious reasons.

As regards what an effective EU's policy towards BiH can look like, a recent policy brief by the European Council on Foreign Relations puts it aptly:

Bosnia-Herzegovina, which has not yet even submitted an application for candidate status, is a more difficult case. It remains trapped in a succession of political and constitutional crises. However, against this background, Bosnia-Herzegovina may actually benefit most from being given a questionnaire and starting the screening process early. This would give its politicians the incentive to overcome their stalemate and work on establishing a functional administration. After all, Bosnian Serb, Bosnian Croat and Bosniak politicians will all suffer politically if Bosnia falls behind the rest of the region, particularly Serbia. The visa liberalisation exercise showed that EU leverage is most effective when Bosnia is subject to exactly the same, non-negotiable conditions as its neighbours, rather than treated as a special case.

The questionnaire and screening exercises would provide Bosnia with many of the tools it needs for state building. The country would need to create administrative systems that work right across the territory – either by centralising functions at state level or by coming up with working arrangements across the inter-entity boundary line. For example, it will need a coherent statistical system for the whole country. These processes are far more likely to turn Bosnia's unwieldy constitutional structures into a working federal system than any attempt to renegotiate the constitution in isolation from the EU accession process. Once the Office of the High Representative (OHR) is closed, Bosnia-Herzegovina could formally apply for EU accession in 2011 with the answers to its questionnaire already prepared. This would allow the Commission to deal with Bosnia in parallel to Serbia, preparing its opinion on Bosnia in 2011.⁶⁶

It would be up to the politicians of BiH to realise the gesture hidden in such a policy line and begin to act accordingly.

⁶⁶ Grabbe, Heather, Gerald Knaus & Daniel Korski. "Beyond Wait-and-see: The Way forward for EU Balkan Policy". May 2010. p. 3. European Council on Foreign Relations. Available at http://www.ecfr.eu/content/entry/beyond_wait-and-see_the_way_forward_for_eu_balkan_policy.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

CROATIA

STEFAN RALCHEV

Croatia is the most economically advanced country in the Western Balkans and the one closest to European Union membership. Croatia, like Serbia, began its real transition process later than the rest of Central and Eastern Europe – only after the death of autocrat president Franjo Tudjman in 1999 and the election victory in 2000 of a centre-left coalition led by the Social Democratic Party (SDP). Croatia had also gone through the pains of a 1991-95 independence war with the then-Yugoslav army controlled by Belgrade. A positive factor in Croatia's democratisation process was the reforming of Tudjman's Croatian Democratic Community (HDZ) party after the lost 2000 election. The party won the 2003 election and its government made the most significant step in Croatia's EU integration – the surrender of war crimes fugitive Ante Gotovina, sought by the United Nations tribunal in The Hague. Croatia opened accession negotiation with the EU in 2005, and has currently closed 22 out of 33 chapters, with all remaining chapters currently open. It hopes it will be able to join the bloc by the end of 2012. However, Croatia had to face a major setback on its path to EU membership after its Western neighbour and EU member Slovenia blocked negotiations for almost a year over an unresolved naval border issue. The two countries in the end agreed on an international arbitration, but Croatia's integration process was delayed. Economically, Croatia has managed to respond astutely to the world financial and economic crisis with adequate monetary and fiscal measures and spending cuts. The first signs of a nascent recovery are already present in the second quarter of 2010. Yet risks of social unrest, especially among farmers, persist due to the unpopular measures the government has embarked on.

Post-1991 developments in Croatia

Croatia led the bloodiest war, second only to Bosnia, for independence from the former Yugoslav federation. The war started in 1991 and Croatia was able to regain its territory only in 1995. As an independent state, it was ruled by its wartime leader Franjo Tudjman and his HDZ party. Tudjman's rule was autocratic, EU-sceptic and little reform was achieved at that time.

Croatia firmly moved towards democratisation and political 'normalisation' following the death of its autocrat president Franjo Tudjman in 1999. The country is currently negotiating EU membership and hopes to join the bloc in late 2012. The election of Stjepan Mesic as president in 2000 marked the beginning of a 10-year period of distancing of Croatian political elite from the memories of the war and steadily looking ahead towards a European future. However, the main alternating parties in power – the rightwing Croatian Democratic Community (HDZ) and the Social Democrat Party of Croatia (SDP) –

had to deal and comply with a public opinion which might have been supportive of EU membership but has also been strongly negative towards neighbour Serbia as a consequence of the recent war. Nevertheless, Croatian society managed to transform from a post-war autocracy defined by negation of everything non-Croatian to an acting European democracy. A clear sign of that trend was the capture in 2005 in Tenerife of Ante Gotovina, a Croatian wartime general in hiding sought by the ICTY for war crimes against Serbs in the Krajina region in 1995.

Stjepan Mesic undoubtedly played a pivotal role in Croatia's normalisation process. As pointed out in Serbian media, "Mesic has made some mistakes during his 10-year tenure, but often, with very limited constitutional powers, he has been the moral arbiter who pushed the state and society back into the normal track. This has had its effect on Zagreb's relations with the neighbours, too."

The latest expression of the transformation of Croatian society was the election of Ivo Josipovic as Mesic's successor in January 2010. A Social Democrat, university professor of law and classical music composer, Josipovic collected over 60% of the ballots at the run-off, beating his opponent, populist Zagreb mayor Milan Bandic. The poll was a demonstration of the people's will for 'normalisation' of politics. Although he had previously declared himself as an agnostic and despite open Croatian Catholic Church support for his rival in a country where 90% of the people identify themselves as believers, Josipovic managed to win the presidency.⁶⁷

To sum up, as put by Gurdulic, Croatia's transition can be divided in three main phases, one of which has two sub-phases: (i) the 'pre-transition phase' (1989-95), including the break-up of Yugoslavia and the gaining of Croatian independence; (ii) the 'transition phase' (1995-99), when the 'false awakening' of democracy and the privatisation of the country's economy took place; "this was the time when priorities should have been shifted from statehood issues to economic reform and the improvement of transition and democratisation, However, it did not happen as HDZ was unwilling to develop a peacetime agenda"; and (iii) the 'consolidation phase' (2000-onwards), divided into the second transition, or 'New beginning', and 'Europeanisation'.⁶⁸

Croatia and European integration

Croatia is the most advanced of the Western Balkan nations on its path to EU membership. It is negotiating accession and hopes to join in late 2010. As mentioned above, as of July 2010 it has closed 22 out of 33 negotiating chapters, and is currently negotiating on all remaining and the most difficult chapters, including the one concerning judiciary reform and fundamental rights. Following is a short list of the key events for Croatia in its EU integration, chronologically:

- **November 2000:** Zagreb Summit launches the Stabilisation and Association Process;
- **29 October 2001:** Stabilisation and Association Agreement signed;

- **21 February 2003:** Croatia applies for EU membership;
- **1 February 2005:** Stabilisation and Association Agreement comes into force;
- **June 2003:** Thessaloniki summit confirms accession perspective of Western Balkans countries, including Croatia;
- **April 2004:** European Commission issues positive opinion (COM(2004) 257 final) on Croatia's application for EU membership application;
- **June 2004:** European Council confirms Croatia as candidate country;

⁶⁷ Ralchev, Stefan. "Serbia and Croatia Face Chance to Warm Ties and Lead Western Balkans Closer to the EU", pp. 4-5. Institute for Regional and International Studies. February 2010. Available at <http://www.iris-bg.org/files/iris-ralchev-serbia%20%26%20croatia%20waremr%20ties-feb%5C%2710.pdf>.

⁶⁸ Gurdulic, Jelena. "Transformation of Democracy in Croatia". Institut Européen des Hautes Etudes Internationales (IEHEI). Nice, May 2009, p. 6. Available at <http://www.iehei.org/bibliotheque/memoires2009/GURDULIC.pdf>.

- **December 2004:** European Council sets 17 March 2005 as starting date for negotiations conditional upon full cooperation with the International Criminal Tribunal for the former Yugoslavia;
- **16 March 2005:** EU postpones start of accession negotiations but adopts framework for negotiations with Croatia;
- **26 April 2005:** First meeting of Stabilisation and Association Council; meeting of extended “EU troika” on Croatia’s cooperation with the International Criminal Tribunal for the former Yugoslavia;
- **3 October 2005:** ICTY Chief Prosecutor assesses Croatia is now fully cooperating with the ICTY. Council concludes that the last remaining condition for starting negotiations has been met. Accession negotiations are launched the same day;
- **20 October 2005:** Beginning of the screening process, analytical overview and review of the degree of harmonisation of Croatian legislation with the *acquis communautaire*;
- **October 2006:** Screening finalised;
- **12 February 2008:** The Council adopts new Accession Partnership;
- **30 October 2008:** The meeting of the Accession Conference at a deputy level: number of negotiation chapters provisionally closed reaches four, 21 chapters have been opened so far;
- **2 October 2009:** The meeting of the Intergovernmental Conference with Croatia at ministerial level opened negotiations on six chapters and provisionally closed five chapters;
- **27 November 2009:** The meeting of the Intergovernmental Conference with Croatia closed negotiations on three chapters;
- **21 December 2009:** The meeting of the Intergovernmental Conference with Croatia at ministerial level closed negotiations on two more chapters;
- **19 February 2010:** The meeting of the Accession Conference with Croatia at Deputy level opened Chapter 13 - Fisheries and Chapter 27 – Environment;
- **19 April 2010:** The meeting of the Accession Conference with Croatia at Deputy level provisionally closed Chapter 1 - Free movement of goods Chapter 1 - Free movement of goods;
- **30 June 2010:** The meeting of the Accession Conference with Croatia at Ministerial level opened negotiations on the last three chapters and provisionally closed two further chapters;
- **27 July 2010:** The meeting of the Accession Conference with Croatia at Deputy level closed negotiations on two more chapters.⁶⁹

Although Croatia’s faster progress in EU integration compared to that of its regional peers is undoubted, the process has not passed without certain snags and faces some potential ones. There are at least three discernible issues. Firstly, in the beginning of the past decade, though firmly on the road to reform, Croatia was ambivalent in its cooperation with the United Nations war crimes tribunal for the former Yugoslavia in The Hague. The political authorities were still somewhat reluctant, maybe due to some inertia from the Tadjman era and responding to the public opinion, to face the past and understand that cooperation on the individualisation of war crimes is a genuine part of the EU system of values and philosophy. Croatia has always been economically better-off than the ex-Yugoslav countries to the south of its borders, and even more so compared to the latest Balkan EU members Bulgaria and Romania. That is why public opinion in Croatia, in view of the economic foundations of the EU, has been prioritising economic development to democratisation in the country’s accession bid. And up until 2005 so had been the Croatian governments, it seems. A major step towards endorsing the EU values in democracy and human rights was the capture and deportation in 2005 to The Hague of former general Ante Gotovina, the most wanted Croatian war crimes suspect.

Secondly, Croatia’s membership negotiation process was recently stalled for a period of almost a year (from late 2008 to October 2009) after vetoed by its neighbour and EU member Slovenia. Slovenia blocked the talks until a bilateral dispute between the two countries over a

⁶⁹ See Delegation of the European Union to the Republic of Croatia. Available at <http://www.delhrv.ec.europa.eu/?lang=en&content=63>.

maritime border in the Adriatic Bay of Piran was resolved. Basically, Slovenia was after a corridor of free passage for its ships through the bay and thus to open sea, while Croatia insisted this should happen through formally Croatian territorial waters. Slovenia and Croatia have also land border issues. But in November 2009 the two prime ministers, Borut Pahor of Slovenia and Jadranka Kosor of Croatia, signed an agreement in Stockholm under which the issue would be decided by a EU-appointed arbitration board, and Croatia's membership negotiations were formally re-launched.⁷⁰ This agreement was later backed by the two parliaments and sealed by a referendum in Slovenia.⁷¹ However, the issue remains sensitive: Croatia has border disputes with all other ex-Yugoslav states, and so do they between themselves; the EU's enlargement to the Western Balkans faces a wider potential problem.⁷²

And thirdly, and this is more of a potential hitch for membership, public support for EU membership in Croatia has been steadily falling since 2000, and is now far from the enthusiastic levels the other Balkan governments have enjoyed. As was well summed up by Kregar,

According to the recent Balkan Monitor only 35% of respondents told Gallup that they support EU membership, while 45% were against. In February 2007 34% were pro EU, 29% against and 37% undecided. The full importance of these data becomes evident when compared with the year 2000 when 70% were in favour of EU, 8% against and 15% undecided. The argument that the same happened in other candidate countries is not applicable because of the strength of the negative trend and the failure of pro EU campaigns. Both sides, the EU and Croatia, have to take this result seriously, because of the referendum which is necessary in Croatia in order to change the constitution before EU membership and the further ratification process.⁷³

Croatia has had long-standing issues also regarding the subsidising of its loss-making shipyards and the reform of the judiciary.

A current snapshot of Croatia: democracy, politics and the economy

Croatia set foot on its true way to democratisation only after the death of Franjo Tudjman, but has since 1999 achieved a tangible progress, acknowledged by international institutions and civil society organisations. Freedom House, the international democracy watchdog, rated Croatia in its latest 2010 *Nations in Transit* report with an overall democracy score of 3.71 (on a scale from 1 to 7 where 1 is the highest level of democratic development and 7 is the lowest), unchanged from 2009 and improved from 4.46 back in 1999-2000. Compared to the other Western Balkan countries, this ranks Croatia's democracy among the first (together with neighbour Serbia – its score is also 3.71). Broken down by components, Croatia kept its 2009 scores, influenced by adverse forces such as the unexpected resignation of Prime Minister Ivo Sanader in mid-2009, the pressing need for reducing corruption and speeding up judicial reform and the economic crisis, on the one hand, and the accession into NATO, the renewal of EU membership talks and the consistency of Kosor's policies, on the other. Thus the country stayed at the same levels in terms of national democratic governance (3.50), electoral process

⁷⁰ Swedish Presidency of the European Union. "Croatia and Slovenia agreed – EU closer to enlargement". Available at <http://www.se2009.eu>.

⁷¹ "Slovenians Back Border Deal with Croatia". *Balkan Insight*, 7 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28554>.

⁷² European Stability Initiative. "Bilateral vetoes: Slovenia's blockage of Croatia's EU accession negotiations". Available at <http://www.esiweb.org/enlargement/?cat=15#awp:::cat=15>.

⁷³ Kregar, Josip. "Croatia 2010: The Remains of Prosperity." Report presented at a debate organised by the Heinrich Boell Stiftung, 14 April 2010, p. 3. Available at http://www.boell.hr/downloads/Kregar_web.pdf.

(3.25), civil society (2.75), independent media (4.00), local democratic governance (3.75), judicial framework (4.25) and independence and corruption (4.50).⁷⁴

What has been visible in Croatia lately regarding democratic development (and it is reflected by the comparatively favourable Civil Society score by Freedom House), is the increased activity by civic groups in the form of direct democratic action – petition signings and street protests organised by trade unions, farmers, students and young people from the capital Zagreb disagreeing with the construction of a large mall in the city centre. The trend is well described by a Croatian journalist:

Throwing off their country's reputation for passivity, a restless new generation of protesters has decided that direct action tactics yield best results. "People have woken up and realised that their voice means a lot. This is a celebration of Croatian democracy and the citizens have sent a message to the authorities – we are here and you cannot avoid us any more." Thus spoke Croatia's trade union leader Kresimir Sever last week, after unions announced they had collected 813,016 signatures demanding a referendum on a government proposal to amend the Labour Act. The number is seen as exceptionally high in a country of only 4.5 million. By comparison, the ruling centre-right Croatian Democratic Union, HDZ, won the last parliamentary elections in 2007 with 834,203 votes. Analysts say Croatian society is obviously changing after 45 years spent under communism, when freedom of expression was limited, and after the following 20 "transitional" years when the population tended to passively observe what was going on. They see the high number of petitioners as a sign that people are becoming more politically active and are realising they can channel their discontent by seeking change in an organised manner...

A civil action group, Right to the City, and the environmental association, Green Action, collected only 54,000 names on a petition against the construction of a large business and residential complex in the downtown of Zagreb. However, that number was seen as a relatively massive expression of popular will. The investor, Tomo Horvatincic, had gained strong support from the mayor, Milan Bandic, and from all the other relevant institutions for his plans; they were ready to change urban planning laws so he could start construction. But local people rebelled vociferously. While they have not been able to halt construction entirely, activists are determined to protect the pedestrian zone in the city-centre Varsavska street, where a large access ramp to a private underground parking lot for the complex is planned. Throughout May and June, green activists have been on call day and night in Varsavska street in order to prevent construction of the entrance to the garage...

The student rebellion in Croatia, unprecedented since the early 1970s, began in the spring of 2009. Under the slogan "For A Free Education", students from a dozen faculties of mostly social studies at all the six universities in Croatia began to hold public protests.⁷⁵

Another sign of Croatian democracy's maturity may be the consistency with which Prime Minister Jadranka Kosor took over from her predecessor amidst times of economic downturn and ripening social unrest due to a need to reduce government spending in a number of areas. Domestic politics in Croatia faced turbulence in the middle of 2009 when Ivo Sanader, the reformist HDZ leader, suddenly resigned from that post and from the prime ministerial position. Kosor thus had to introduce the unpopular crisis measure which Sanader had until then postponed – reduction in pensions and farming subsidies, possible raise in value-added tax, etc. Many opposition politicians and economists predicted the first Croatian female PM would not be able to handle the situation, and the country would face early elections within a year.⁷⁶ But Kosor managed to confront the problems, and her efforts were acknowledged by international financial institutions such as the IMF and the World Bank (an IMF assessment will be reviewed in a section below). Her administration also turned out to be much more

⁷⁴ Freedom House. *Nations in Transit 2010: Croatia*, p. 158-60. Available at <http://www.freedomhouse.org/images/File/nit/2010/NIT2010Croatiafinalfinal.pdf>.

⁷⁵ Matejcic, Barbara. "Croat Activists Learn Art of Street Democracy". *Balkan Insight*, 1 July 2010. Available at www.balkaninsight.com.

⁷⁶ Hedl, Drago. "Croatia's New Leader Faces Grim Choices". *Balkan Insight*, 9 July 2009. Available at www.balkaninsight.com.

active in the fight against corruption, opening numerous investigations and indicting two former ministers, which earned the European Commission's praise and allowed Croatia to open important negotiation chapters.⁷⁷

However, political life today in Croatia has its rough ways, too. Kregar contends that

The evident problem is an inactive opposition, divided in blocks, divided by differences in tactics, not integrated because of personal jealousy and differences in temperament. Not enough and always too late is their characteristic. For the country in which no government can be formed without coalitions, this is dangerous for reforms and change – and comfortable for the government. The government is divided in two main fractions – one that openly supports Prime Minister Jadranka Kosor, whereas another part of the same government supports the ex-prime minister's less moderate and less pro-European orientation of Croatia (some of these members of government are afraid of future corruption investigations). This way we have a blocked society and a blocked government.⁷⁸

He is also critical of political parties per se: "In Croatia the political parties and civil society are isolated. Without ideology and active members, but with party oligarchies, centralised and not very democratic in their internal relations, parties are becoming less and less popular. The alternative- independent candidates, trade unions and civil society – also have weaknesses and can't replace political parties. There is no democratic system without active and supported political parties, and such a deficit is a sorrowful obstacle."⁷⁹ In this light, Kregar mentions the dwindling public support for the government – from 54% in February 2010, a peak after the 19% support for Sanader's government in July 2009, to 40% in April 2010.⁸⁰ Another source of trouble for Kosor's government is connected with the ruling bloc's stability. There are speculations that one of the coalition partners, the Croatian Social Liberal Party (HSL), might be considering quitting the coalition, and the HDZ leadership is in the process of seeking other parliamentary parties to join the government in case that happens.⁸¹ Following is a brief review of Croatia's current progress in each of several key areas.

Institutional development

Croatia's institutional infrastructure, like Serbia's, is one of the most stable in the Balkans, in part due to the legacy from the former Yugoslavia. Another reason is that Croatia and Serbia are relatively homogeneous in terms of ethnic composition, making state-building a significantly faster process than in Bosnia or Macedonia, for example. Once statehood is firmly in place, democratisation and institutional development have a much more fertile soil to grow on. In its latest progress report on Croatia (October 2009), the European Commission praises the functioning of the country's institutions, yet has some criticisms:

Croatia continues to meet the **political criteria**. Progress has been made in most areas and efforts intensified in the field of rule of law. However, the reform effort needs to be sustained, particularly in areas such as judicial and administrative reform, the fight against corruption, minority rights and refugee return. The Accession Partnership priorities have been largely addressed.

Democracy and the rule of law have been further strengthened. Both *government* and *parliament* have generally functioned well. However, significant improvements in the judiciary, in the public administration and in the fight against corruption are essential, not least to create a solid basis for

⁷⁷ Bilandzija, Zeljka. "Polancec Arrest Heats Up Croatia Corruption Battle". *Balkan Insight*, 15 April 2010. Available at www.balkaninsight.com.

⁷⁸ Kregar, p. 6.

⁷⁹ Ibid.

⁸⁰ Ibid., p. 4.

⁸¹ Milkovic, Ante. "HDZ poziva HSP u desni blok" [HDZ asks HSP into the right-wing bloc]. *Globus*, 6 July 2010. Available at <http://globus.jutarnji.hr/hrvatska/hdz-poziva-hsp-u-desni-blok>.

full implementation of the *acquis*. Police reform, including depoliticising key posts and improving professionalism, needs to continue.⁸²

Judicial reform remains the key challenge for Croatia, as in all Balkan countries. The Commission underlines that

Implementation of the *judicial reform* strategy has continued and a large volume of new legislation was adopted. The directorate for strategic development in the Ministry of Justice was reinforced. A new selection procedure for judicial trainees was introduced. The backlog of cases was further reduced. Steps were taken to rationalise the court network. Professional training programmes were further expanded. Ethnic bias in war crime cases is being reduced. The issue of *in absentia* verdicts from the 1990s has been partially addressed. However, the selection procedure for judges and prosecutors remains deficient. The overall case backlog remains high and the length of judicial procedures excessive. Problems with the enforcement of court rulings remain. Court rationalisation is at a very early stage. Monitoring of reform measures is still not adequate. Further improvements in case management and in the accountability, independence, professionalism and competence of the judiciary are also required. Impunity for war crimes remains a problem, especially where victims were ethnic Serbs. Many crimes remain unprosecuted. There is as yet no track record of implementation of new review provisions for *in absentia* cases. Overall, reforms in the judiciary continue but concrete results are only slowly appearing.⁸³

Nevertheless, Croatia has kept reforming itself in order to meet the EU membership requirements. For example in June 2010, the parliament approved changes to the constitution that would make possible the finalisation of accession negotiations. The amendments cover a number of areas such as voting rights of Croats in the diaspora and regulations concerning the extradition of Croatian citizens. “The most important amendment is related to the eased conditions for a referendum on joining the EU, which will now require the votes of a majority of voters in the referendum instead of a majority of registered voters.”⁸⁴

Public administration

Regarding public administration reform, the European Commission recognises the progress Croatia has made but criticises the politicisation of the civil service:

Some progress has been made on *public administration* reform. A new Law on General Administrative Procedures (LGAP) was adopted. A new post of Minister of Administration was established. The capacity of the newly created Ministry of Administration (formerly the Central State Office for Administration) has further improved and training measures have continued. However, important weaknesses in administrative procedures remain and implementation of the new LGAP has not yet begun. The civil service continues to suffer from many shortcomings, such as politicisation, low salaries, and weak human resources management. In addition, civil service salaries have been cut to mitigate the effects of the financial crisis and a recruitment freeze introduced. Anti-corruption measures and ethical principles remain to be embedded in public administration and the cooperation between different public stakeholders improved. A professional, merit-based, accountable and transparent civil service still needs to be established.⁸⁵

Another persisting problem with the administration is the “lack of career prospects for young qualified staff, enforced by an absence of incentives for horizontal mobility and weak accountability mechanisms. Owing to relatively low salaries in public administration, the civil

⁸² European Commission. *Croatia 2009 Progress Report/Conclusions*, p. 1. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_croatia_en.pdf.

⁸³ Ibid.

⁸⁴ Barlovac, Bojana. Croatian MPs Adopt Constitutional Amendments. *Balkan Insight*, 17 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28822/>.

⁸⁵ European Commission.

service has problems in recruiting and retaining qualified staff. Graduate recruits to the civil service tend to leave quickly, since the strict seniority principle restricts their career opportunities and there are few other incentives (pecuniary, responsibilities/job content) for them to remain.”⁸⁶

Corruption and organised crime

Corruption has been one of the main points of dissatisfaction of the European Union with candidate and potential candidate countries in the Balkans, and even with current members Bulgaria and Romania. In the Commission 2009 report on Croatia, it is noted that

There has been some progress in the *fight against corruption*. The legal framework to combat corruption has been further improved, including as regards confiscation of assets. A national police office for the fight against corruption and organised crime became operational. Special anti-corruption departments in four key courts were established. The office for the fight against corruption and organised crime continues to be active and has issued indictments and secured verdicts – notably in the Croatian Privatisation Fund (Maestro) case - in some important cases. It has also begun to investigate possible high level corruption involving a former government minister. However, corruption is still prevalent in many areas. The recently upgraded legal and administrative structures remain to be tested in practice. While the total number of corruption cases investigated so far has increased, the actual number of prosecutions and convictions remains low. There has been limited investigation of high level corruption. A culture of political accountability is lacking. The administrative capacity of state bodies for fighting corruption continues to need further improvement. There has been little progress in preventing conflicts of interest.⁸⁷

What is worth mentioning here is the greater political will of PM Jadranka Kosor to investigate high-level corruption in comparison with her predecessor Sanader. An emblematic case is the arrest of former Deputy Prime Minister Damir Polancec in April 2010 over alleged fraud in the partly state-owned food processing firm Podravka. Polancec was the second former minister to be investigated. Ex-Defence Minister Berislav Roncevic, is currently standing trial for abusing his official position in the purchase of military trucks in 2004. Regarding the Polancec actions, the EU’s Commissioner for Enlargement, Stefan Fuele, hailed Croatia’s efforts in fighting corruption: “Croatia is doing an excellent job regarding that serious issue. It’s moving in the right direction and the EU is monitoring the results of those actions with great interest.”⁸⁸

As regards organised crime, it is closely related to corruption in Croatia and the rest of the Balkans, as it is often the case that public officials are on the payroll of crime groups in exchange of favours and turning a blind eye on their activities. Organised crime in Croatia specifically can be connected with paramilitary and military groups which operated during the Yugoslav wars – both in Croatia and in West Herzegovina (the southern, mostly Croat-populated region of neighbouring Bosnia and Herzegovina). Of course, these groups have become truly international, with connections throughout the Balkans, Italy and wider Europe. For example, in June 2010 a Serbian member of a former crime gang responsible for the assassination of Serbian Prime Minister Zoran Djindjic in 2003 (the Zemun Clan), Sretko Kalinic, was by Croatian police on the outskirts of Zagreb suffering from gunshot wounds,

⁸⁶ Bejakovic, Predrag, Zoran Sucur and Sinisa Zrinscak. *The Social Dimension in Selected Candidate Countries in the Balkans: Country Report on Croatia*. p. 15. European Network of Economic Policy Research Institutes (ENEPRI). ENEPRI Research Report No. 39, December 2007. Available at the website of the Centre for European Policy Studies, <http://www.ceps.eu/book/social-dimension-selected-candidate-countries-balkans-country-report-croatia>.

⁸⁷ European Commission, pp. 1-2.

⁸⁸ Bilandzija.

caused by a fellow Zemun Clan member, Milos Simovic.⁸⁹ A notorious case of organised crime activity earlier was the deadly car bomb attack on the journalist and editor-in-chief of the Zagreb-based *Nacional* weekly Ivo Pukanic and a colleague of his in the centre of Zagreb in October 2008.

Dobovsek gives a good account of the nature, functioning and the legal ways to combat organised crime in Croatia:

International analysis [has] shown that Croatia is a very high risk country regarding organized crime. The most significant and frequent forms of tradition organized crimes are: illegal migrations, drug smuggling, smuggling and illegal selling of weapons, making and distribution of forged money and money laundering. Regarding trafficking, Croatia is transit, and also the aim country for some migrations. The most migrants come from Romania, Bosnia and Herzegovina, Ukraine, Moldova, Serbia and Montenegro. The main final countries for migrations are Italy and Slovenia...

Law regulations are better since the pressure of EU institutions on reforms and laws. Idea of needing the prevention regarding corruption, trafficking and money laundering begins to live in the institutions and among experts. Missing skilled workers, education and [inconsistency with modern principles] are the things which are reducing effectiveness and focusing on the problem of organized crime. Connections between organized crime and [political] and jurisdictional institutions are not systematic but are present. The most dangerous reports are that organized crime is penetrating in to legal business operations where the danger is not just in money laundering but also in criminals taking over the business. [The] situation is dangerous enough to [call for] better mobilization and observation. Organized crime in Croatia is not a system that is built into politics and economy but is the much bigger composition in the [economic] and political field.

Regarding the laws a lot has been done (Croatia has adopted and ratified the majority of international documents). The basic impression is that on a normative level Croatia has enough standard and international solutions. [The relevant question now is why Croatia is] not so good at detecting and prosecution [of] that kinds of crime...

Croatia needs effective [economic] and international reforms which will regulate the grey economy, the illegal economy procedures and organized crime. [Besides], there should be included also scientific projects mostly [in the] field of [cross-border] cooperation [by] which we could [trace] all forms of organized crime and order integral policies] which could reduce the organized crime on national and international [level]. Croatia should [improve collection] of data about the dimension and range of crimes... Especially there should be important observation and research on the new modern forms of organized crime, activities of organized groups and their connections with international groups. And, of course, [a unitary database must be set up].⁹⁰

The economy

Croatia was severely hit by the world financial and economic crisis, and the austerity measures which the government (particularly Kosor's cabinet after July 2009) took have produced negative social reaction by farmers, war veterans and trade unions. Nevertheless, the economy is getting back to its feet in the second quarter of 2010. The crisis did not shake Croatia's institutions to an extent that it did in neighbouring Bosnia, for example, due to institutional tradition and astute responses by the government. It neither obstructed significantly the country's EU integration bid (not as much as Slovenia's blockage did,

⁸⁹ Barlovac, Bojana. "Croatia Police Arrest Criminal Convicted for Serbian PM Murder". *Balkan Insight*, 9 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28622/>.

⁹⁰ Dobovsek, Bojan. "Transnational Organised Crime in the Western Balkans". pp. 5-6. Paper presented at the First Annual Conference on Human Security, Terrorism and Organized Crime in the Western Balkan Region, organized by the HUMSEC project in Ljubljana, 23-25 November 2006. Available at the website of the European Training and Research Centre for Human Rights and Democracy, Graz: http://www.etc-graz.at/cms/fileadmin/user_upload/humsec/Workin_Paper_Series/Working_Paper_Dobovsek.pdf.

anyway), with reforms still being implemented at a satisfactory level. The International Monetary Fund elaborated in June 2010:

The global economic and financial crisis has significantly affected the Croatian economy. With reduced capital inflows, subdued export demand, and tight credit conditions on the domestic front, real GDP fell by 5.8 percent in 2009, and unemployment rose sharply to 17 percent. While exports plunged, an even larger contraction in imports resulted in a near-halving of the current account deficit to 5 percent of GDP. The economy remained in the midst of a severe downturn in the early part of 2010, and positive growth is expected to resume gradually in the second half of the year, with a forecast for zero growth in 2010.

The authorities' policy response to the crisis has been swift. The Croatian National Bank (CNB) appropriately addressed liquidity shortages in the banking sector in 2009 through relaxation of regulatory requirements, repo auctions, and simplification of rules for banks to access CNB's emergency liquidity assistance. The timely policy response helped improve financial market sentiment: the kuna has fully retracted its losses, official reserves have been replenished, and bond spreads declined, which allowed the authorities to tap international capital markets twice in 2009. Liquidity pressures abated in 2009 as domestic deposits remained stable and foreign parent institutions maintained their credit lines to domestic subsidiaries.

The authorities also took strong fiscal actions in 2009 to offset plunging revenues and contain the 2009 budget deficit to financeable levels. Three supplementary budgets were adopted with a number of short-term measures that included expenditure cuts, a wage and pension freeze, a VAT rate hike, and the introduction of a temporary "solidarity tax" on incomes and pensions. These measures helped, but the fiscal deficit nevertheless widened to just under 4 percent of GDP (including the payment for a called guarantee of a public shipyard). Public debt also rose sharply to 50 percent of GDP including the guaranteed stock.

Banks have weathered the crisis relatively well owing to high capital buffers, but profitability has declined, largely reflecting an increase in the provisioning for nonperforming loans which reached 7.8 percent at end-2009. Private sector credit growth fell sharply as the uncertain macroeconomic environment lowered demand for new loans, and banks tightened underwriting standards. Concerns about the lack of credit recovery prompted the authorities to introduce earlier this year three schemes to revive credit to corporates, through loans to finance working capital as well as provision of government guarantees for investment loans. These schemes are expected to be in place until end-2010.⁹¹

The IMF expects that in 2010 real GDP growth will be 0.0%, but the economy will grow by 2.0% in 2011. Unemployment will hover around 9.0%, and inflation will stay at the healthy levels at around 2.0%. Budget deficit will remain below the four-percent-of-GDP notch.⁹²

Although Croatia has started to alleviate successfully the crisis effects, the downturn caused turmoil and led to direct action by farmers and trade unions. As put by a Croatian journalist, some farmers not only faced a survival battle but also the long-term issue of their future competitiveness within the EU was raised: "The sight of farmers protesting has become an increasingly common one in Croatia as it becomes clear that the country's path towards the EU will test the embattled agricultural sector to the limits. The latest protests in March followed a government announcement that subsidies to farmers would be cut this year. Although a compromise was hammered out with the government after a few days, questions over whether Croatia's often old-fashioned farmers can survive European competition remain unanswered."⁹³ As already mentioned above, trade unions organised one of the largest petitions against legal initiatives restricting union rights and enabling employers to lay off staff more easily, collecting more than 800,000 signatures.

⁹¹ International Monetary Fund. "IMF Executive Board Concludes 2010 Article IV Consultation with the Republic of Croatia". Press release, 21 June 2010. Available at: <http://www.imf.org/external/np/sec/pn/2010/pn1079.htm>.

⁹² Ibid.

⁹³ Separovic, Silvija. "Croatia Farmers Face Struggle for Survival in EU". *Balkan Insight*, 24 March 2010. Available at www.balkaninsight.com.

Current state of Croatia's EU integration and perspectives

In July 2010 the European Commission “provisionally” closed two more chapters in Croatia's EU accession negotiations, moving the country closer to membership. The chapters were Chapter 12 - Food Safety, Veterinary and Phytosanitary Policy, and Chapter 32 - Financial Control. In late June the Adriatic country made a decisive move in its EU bid by opening the final remaining chapters. The most important and difficult is Chapter 23, Judiciary and Fundamental Rights. “Brussels agreed to the opening of this chapter only after Croatia was given a positive evaluation by Serge Brammertz, the chief prosecutor at the UN war crimes tribunal for the former Yugoslavia.”⁹⁴ As of August 2010, Croatia has closed 22 chapters and negotiates on all remaining 11.

As the last European Commission progress report on Croatia has already been discussed in this review in the areas most sensitive to advancement, it will be helpful to mention two areas which the EU holds on to when talking to Croatia: cooperation with the UN war crimes tribunal in The Hague and regional cooperation. The former has been going on generally smooth after the capture of Ante Gotovina, with some problems of late regarding Croatia's providing access to a range of documents to the court. Nonetheless, as mentioned above, the latest assessment by Chief Prosecutor Brammertz is that the country is cooperating. But regarding regional cooperation, Croatia has made remarkable steps, especially in view of the progress in relations with neighbouring Serbia. After the election of President Ivo Josipovic in January 2010, there has been a visible willingness on the part of Croatia (and Serbia, too) to reconcile old animosities in the name of faster EU integration for both countries. A number of agreements have been signed in 2010, including an agreement in the sensitive defence sphere. Also, the two governments are increasingly mentioning dropping the lawsuits against each other at the International Court of Justice related to the 1991-95 war. This is a sign of maturity of not only the Croatian government but also of the Croatian society, signalled by the Josipovic election.⁹⁵

Perspectives

Croatia hopes to join the EU in 2012, and some commentators believe it would be rather 2013.⁹⁶ What is clear is that the country will be the next one joining the bloc, overtaking erratic Turkey and troubled Iceland. Croatia's membership will be a powerful, explicit signal to the rest of the Western Balkans that Europe is and will be one whole, despite sporadic falters caused by Euro-scepticism and economic woes.

⁹⁴ “Croatia Closes Two EU Accession Chapters”. *Balkan Insight*, 28 July 2010. Available at <http://www.balkaninsight.com/en/main/news/29718/>.

⁹⁵ See Ralchev.

⁹⁶ See Grabbe, Heather, Gerald Knaus & Daniel Korski. “Beyond Wait-and-see: The Way forward for EU Balkan Policy”, p. 2. European Council on Foreign Relations, May 2010. Available at http://www.ecfr.eu/content/entry/beyond_wait-and-see_the_way_forward_for_eu_balkan_policy.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

KOSOVO

GORAN STOJKOVSKI

There is no case involving the acquisition of state sovereignty in modern European history that is more contradictory and disputable than the case of Kosovo. There exists the criticism coming from most countries that the young state is the child of a precedent which is in contradiction with international law. The case of Kosovo has been a topic in contemporary European diplomacy for more than a century. Kosovo definitively became a central theme and the focus of international politics during the disintegration of ex-Yugoslavia. In fact, the Kosovo case was one of several problems which led to the break-up of the federation. In addition, Kosovo has remained the force pulling back Serbia in its general development, obstructing it from taking advantage of its previously leading position in the region. This is a problem from which Serbia has been slowly and painfully – yet gradually and progressively – freeing itself.

Post-1989 development of Kosovo

Despite the decade-long national struggle, the extraordinary political efforts, the diplomatic confrontation, the employed military action and open warfare – Serbia lost Kosovo. Historically, it has lost and won Kosovo several times, but it seems this time the loss is permanent. After the intervention by the West in the spring of 1999 via the NATO bombing operations, Kosovo was conclusively separated from Serbia and became a protectorate of the United Nations and the Alliance. Practically, from the signing of the Kumanovo Peace Agreement and the adoption of Resolution 1244 on the UN Security Council on 9-10 June 1999 to the declaration of independence of Kosovo on 17 February 2008 the young republic was an international political burden on the shoulders of the UN, NATO, the United States and other international organisations and missions, in which other Western countries took part.

Notwithstanding accusations that Kosovo would be a precedent in international politics, it obtained its independence based on several principles and amid important political circumstances. **First**, the majority Albanian population, backed by the Turkish and Bosniak minorities used their right of self-determination.⁹⁷ **Second**, Kosovo was able to politically capitalise on the imprudent moves of Serbian nationalism, thus getting the understanding of

⁹⁷ Albanians, together with Turks and Bosniaks make up more than 90% of Kosovo's population, according to the CIA World Fact Book. Available at:
https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_kv.html

the democratic world, after the Serbian political elite led by Slobodan Milosevic in the late 1980s abolished Kosovo's autonomy under the Yugoslav constitution of 1974. **Third**, until NATO's intervention, Serbia for almost 25 years had been facing the passive resistance of Kosovo's majority Albanian population, which opposed the Serbian sovereignty over the territory. Under the leadership of Ibrahim Rugova in the 1990s, the Albanians had segregated in a separate society and organised a parallel institutional system involving education, healthcare, economy, etc. The situation became particularly tense after NATO's 1999 intervention and in the period until the independence declaration in 2008, when Belgrade did not exercise any political or institutional control there; in other words, Belgrade had for a total of 34 years exercised limited or no sovereignty at all over the territory. **Fourth**, with the independence declaration, the majority Albanian population agreed to voluntarily cede some of its sovereignty and accepted some form of international protectorate until the attainment of a satisfactory level of democratic standards and protection of human and minority rights.

However, the entire story of Kosovo's political development and growing up has its dark side, too.

Although it had its origin in the Union of Yugoslav Communists, the generation of Kosovo politicians in ex-Yugoslavia practised modern politics. Among the elite of Kosovo Albanians at that time, with his political style, stood out Ibrahim Rugova, who managed, by means of a peaceful, rational and balanced policy to win the benevolence of the democratic world for the cause of Kosovo Albanians. After Milosevic failed to take advantage of engaging in a rational exchange with the moderate Rugova, he deprived Kosovo of its autonomy and imposed a 10-year repressive dictatorship. The regime of systematic and severe violation of human rights had a negative side effect: weakening of the position of the moderate elite and strengthening that of radical elements which subsequently produced much more intolerant and aggressive politicians. The conflict escalated to include mass executions and violence which the Serbian army and special forces did to ethnic Albanians, leading to NATO's 1999 military operation. In the meantime, Kosovo Albanians had created their own armed (paramilitary) forces – the Kosovo Liberation Army (KLA), who like their enemies gained notoriety for outrage and abuse of non-Albanians, and especially Serbs. Indeed, KLA has a very arguable reputation. According to the United Nations Office on Drugs and Crime (UNODC), the sources of financing for the armament of KLA were contraband, drug trafficking and other forms of organised crime; in a 2008 report it says:

According to an Interpol statement made before the U.S. Congress in 2000:

Albanian drug lords established elsewhere in Europe began contributing funds to the “national cause” in the 80s. From 1993 on, these funds were to a large extent invested in arms and military equipment for the KLA (UÇK) which made its first appearance in 1993... Of the almost 900 million DM which reached Kosovo between 1996 and 1999, half was thought to be illegal drug money.⁹⁸

The relations between the Albanian secret police (known as the Sigurimi) and organised crime are less well documented, at least during the communist regime. Sigurimi members were kept very busy repressing suspected internal dissidents, but would emerge as important figures after the death of Hoxha in 1985, and many were later associated with the Kosovo Liberation Army (KLA).⁹⁹

Also, the number of former commanders and fighters of KLA who transformed to politicians is not small. This presence contributes to increased discrimination against the non-Albanian

⁹⁸ United Nations Office on Drugs and Crime. *Crime and Its Impact on the Balkans and affected countries*. 2008, p. 52. Available at:

http://www.unodc.org/documents/data-and-analysis/Balkan_study.pdf

⁹⁹ *Ibid.*, p.48.

population in Kosovo. Kosovo still has not succeeded in fulfilling its commitments to build a state subordinate to the rule of law and maintaining normal standards of human and minority rights protection. Not one of the four governments of post-war Kosovo managed to guarantee the security of non-Albanians, let alone advance their rights.¹⁰⁰

The events in Kosovo on 17 March 2004 showed that it was moving very slowly towards a democratic and multiethnic society. The violence, provoked by the drowning of three Albanian children and escalated to crowds of ethnic Albanians taking justice in their own hands against non-Albanians and even against KFOR and UNMIK, created the impression in the democratic world that Kosovo was making one step ahead and then two steps back in its development. The spontaneous outrage also reinforced the case of those Serb nationalists talking about division of Kosovo or freezing of the borders of the Serbian enclaves.

After the declaration of independence, Kosovo was recognised by more than 60 states, including the International Monetary Fund and the World Bank. Serbia refuses to recognise Kosovo. It lost a legal case in the International Court of Justice in The Hague in July 2010 in which it challenged the legality of the declaration. Some states had adopted a waiting stance in view of the Court decision. Twenty-two out of 27 EU member states have recognised independent Kosovo.

In terms of domestic politics, currently Haradinaj and Kosumi; Ceku; Thaci; and Sejdiu are leaders in, respectively: Alliance for the future of Kosovo (AAK); Social Democratic Party of Kosovo (PSDK); Democratic Party of Kosovo (PDK); and the Democratic League of Kosovo (LDK). Those parties have the largest number of the 120 seats in the unicameral Kosovo parliament; hence the burden of responsibility for the backwardness or progress of the country lies exclusively on them.¹⁰¹ In order for the processes of international recognition and Euro-Atlantic integration of Kosovo to continue, exactly those political factors have to find the appropriate political formula for establishing Kosovo as an integrated country leading good-neighbourly and balanced regional policy. This, however, will hardly be possible without beginning normal political relations with Belgrade. This is now of particular importance as Serbia is moving fast ahead with its European integration and is gaining positions to become a regional factor which will be hard to neglect.

Kosovo and European integration

Until the toppling of the Milosevic regime in 1999-2000, Kosovo had no state sovereignty and, as an unrecognised entity, could not take part in the inter-state political exchange within

¹⁰⁰ From 2004 to date Kosovo had a total of 4 governments with Prime Ministers Ramush Haradinaj, Bajram Kosumi, Agim Ceku and Hashim Thaci.

¹⁰¹ The unicameral assembly has 120 seats of which 100 are elected directly while 10 are guaranteed to ethnic Serbs and 10 to the other ethnic minorities: 4 to Roma, Ashkali and Egyptians; 3 to Bosniaks; 2 to Turks; and 1 to Gorans. This multiethnic structure reflects the multicultural structure of Kosovo's society. In order to promote the status of minorities, these communities have been overrepresented. See Assembly of the Republic of Kosovo, <http://www.assembly-kosova.org/?cid=3,107>. The ethnic composition of Kosovo is (approximately, according to several sources): Albanians 89-92%; Serbs 5-7%; Other (Bosniak, Goran, Roma, Turk, Ashkali, Egyptian, Montenegrin): 3-5%. Sources: CIA, World Fact Book, available at https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_kv.html; Economic Initiative for Kosovo, available at http://eciks.org/shqip/publications/investing_in_kosovo/content/media/factsheet_web.pdf.

the system of international relations. Kosovo could not establish external political relations with regional and world organisations. If a separate activity of some EU member states is left aside (for example, under the NATO mission), it can be said that the history of EU-Kosovo relations is quite recent. More concretely, it began when on the eve of Kosovo's independence proclamation the EU sent a sizeable civil and police mission (dubbed 'rule of law' mission) to the territory, EULEX, which functions to date. The basis of the EULEX mission is the so-called Ahtisaari plan of the UN.¹⁰² The decision by the European Commission to send the EULEX mission, taken at the end of 2007, was the clearest signal by the EU that it intends to play a crucial role in promoting the political, economic and social development of Kosovo. This was Kosovo's specific introduction to the Stabilisation and Association Process which has been going on with the remaining Western Balkan states, and is in unison with the EU's political commitment for a European perspective for all countries in the region. Kosovo's European future in fact was delineated back in March 2007 by a European Parliament resolution on the future of the territory and the EU role.

The EULEX mission demonstrated that the EU's common foreign and security policy is evolving – apart from Euro integration, it takes another direction: the involvement of the EU in maintaining stability and security in the countries of the region, assisting them in the process of reform implementation and their transformation in stable democracies and functioning market economies. This mission is in fact an expression of the European Security and Defence Policy and practically confirms a common external relations and security policy. The EULEX mission, which was launched in February 2008 when Kosovo declared independence, hosts 1,950 international police personnel, judges, prison guards and customs officers and was fully prepared for civil and police operations.

The Kosovo Albanians were divided with regard to the EU mission, as some believed it is completely unacceptable, being neutral on the Kosovo status. Serbia renounced the Ahtisaari Plan but the Serbian government acceded to EULEX forces deployment – the biggest of all missions so far in the framework of the European security and defence policy. However, the deployment of the mission was virtually the application of the Ahtisaari Plan. According to it, the representatives of a EU mission were to undertake all responsibilities from UNMIK and would act on the whole territory of the province. In such a way, after a 10-year UN presence, a period in which corruption multiplied as it was not confronted, EULEX took upon its shoulders a very heavy load. In Kosovo there have been thousands of crime cases which have not yet been sent to court. This mission will have the task to uncover the most serious crimes on ethnic basis committed most of all towards the Serb and Roma population.

Currently, the formal relations between EU and Kosovo are summarised in the European Parliament resolution of 5 February 2009 regarding Kosovo and the role of the EU:

- C.[...]whereas this implies that Kosovo is managing its own affairs, whilst being supervised in its implementation of, inter alia, measures to protect and promote minority rights,
- D. whereas thus far 54 countries, including 22 of the 27 EU Member States, have recognised Kosovo's independence,
[...]
- E. whereas the 27 EU Member States have dispatched a European Union Special Representative (EUSR) to Kosovo, Pieter Feith, who also serves as the ICR; whereas the ICR supervises the full

¹⁰² For details on the Ahtisaari Plan, see United Nations Office of the Special Envoy for Kosovo. "The Comprehensive Proposal for Kosovo Status Settlement". Available at: <http://www.unosek.org/unosek/en/statusproposal.html>.

implementation of the CSP and the EUSR offers the EU's support and advice in connection with the political process in Kosovo,
The European role.

[...]

7. Expects EULEX to function in accordance with its EU mandate with a view to promoting the stable development of Kosovo and guaranteeing the rule of law for all communities throughout Kosovo; underlines in this regard that EULEX serves the interests of all ethnic minorities in Kosovo, since it will address, inter alia, complaints concerning ethnic discrimination, harassment and violence and the many outstanding property issues;¹⁰³

In June 2010, the EU decided to extend the mandate of its mission in Kosovo by two years to 8 June 2012.

Current snapshot of the Situation in Kosovo: democracy, politics and the economy

After more than 30 years of tension, conflicts and war in Kosovo, the political frustration is palpable. This frustration was expressed in the typical for the Western Balkans social aberrations: organised crime, large-scale corruption, structural inefficiency of the institutional system. The decade-long strife of the Albanians for Kosovo statehood on the one hand, and the Serbs' struggle to keep the status quo of Kosovo as Serbian province, on the other, made Kosovo a highly divided society. The social divergence between the two communities is hardly reconcilable. Whereas the other communities are more or less integrated in the Kosovo society, the Serbs have been totally segregated from the Albanians: these are two separate worlds, the world of 'Albanianness' and the world of 'Serbianness' (in Serbian, *srpstvo*). Whereas Albanians, most of them of the Muslim faith, are strongly tied to family and tradition and their social pattern involves clan-like family structures rather than loyalty to a hierarchic political-institutional system, Orthodox Christian and conservative Serbs are loyal to the *srpstvo* and subscribe to the legal and political order of the Serbian state. In this light, the internal integration of Kosovo is being realised very slowly, hence the comparatively low level of democratisation. Moreover, the promotion of classic liberal democratic values is difficult in an atmosphere of a recent strong linkage among institutions, clan chiefs and organised crime. The success of social integration and political democratisation of the country is also a function of the delayed process of international recognition of the Kosovo statehood.

As of late, however, some indicators are visible of positive, albeit humble, shifts. The biggest success, arguably, was achieved at the local election in 2009. Kosovo achieved a tangible success in the sphere of decentralisation, legitimised by the considerable Serb participation (Serbs won several seats in local councils and several mayoral positions). This happened despite Belgrade's opposition and the loyalty demonstrated by the Serb enclaves north of the Ibar river in boycotting the election.

The level of democracy in Kosovo and the state of the political and social development covered so far is also shown in Freedom House's latest *Freedom in the World 2010* report on Kosovo. The country was assessed as 'partially free' with a score of 5 and 4, respectively, for the categories of Political Rights and Civic Liberties (on a scale of 1 to 7 where 7 is the lowest level of democratic development).¹⁰⁴ An interesting fact is that the relatively weak

¹⁰³ European Union. *Kosovo European Parliament resolution of 5 February 2009 on Kosovo and the role of the EU*. Available at: <http://eur-lex.europa.eu/>.

¹⁰⁴ Freedom House. *Freedom in the World 2010*. "Kosovo". Available at: http://www.freedomhouse.org/inc/content/pubs/fiw/inc_country_detail.cfm?year=2010&country=7972&pf

democratisation level mentioned by Freedom House in its report is corroborated by some Kosovo politicians and public figures.

The Serb enclave north of the Ibar River remained separated from the rest of Kosovo, and the country continued to suffer from harassment of independent media and high levels of corruption.

[...]

The 2008 constitution protects freedoms of expression and the press, with exceptions for speech that provokes ethnic hostility. Freedom of expression is limited in practice by lack of security, especially for ethnic minorities. Although there is a wide variety of print and electronic media, journalists report frequent harassment and intimidation. Defamation remains a criminal offense. In 2009, the newspaper *Infopress*, which receives large amounts of advertising revenue from the government, issued thinly veiled calls for the murder of prominent journalist Jeta Xharra, who has reported on government corruption. In October, the director of the European Broadcasting Union criticized the government for political interference at the public broadcaster, Radio-Television Kosovo (RTK).¹⁰⁵

As regards corruption and political influence over the media, there is an agreement that they do a lot of harm on the Kosovo society; what is more, there is no political will or initiative on the part of government institutions to fight these phenomena.¹⁰⁶

Let's take a closer look at the aspects of democratic governance in Kosovo and the economic situation at present.

Institutional efficiency

Both the European Commission 2009 Kosovo progress report and the special communication to the European Parliament entitled *Kosovo: Fulfilling Its European Perspective* confirmed the EU's commitment for the European future of the country. However, both documents, published in October 2009, stressed that stability is present but fragile, and that's why the fight against corruption and organised crime, strengthening the administrative capacity and protecting minority rights were crucial. Apart from noting the negative trends for increased corruption practices and suppressing the freedom of speech (the government increased its control over broadcasting public information on the state-owned Radio-Television Kosovo), the EU said that the process of public officials' appointment is subject to political influence, while the role of the state in the economy has been dramatically increased.

However, important legislation relating to public administration reform is yet to be adopted, notably laws on the civil service, on salaries and on the organisation of public administration institutions. These laws are essential in ensuring the independence of the civil service. A clearer distinction is needed between civil servants and political appointments. The Senior Public Appointments Committee is not fully functional. This has hampered the recruitment process for senior positions in ministries. The administrative capacity of the Committee's Secretariat remains limited. The office of the Ombudsman needs to be strengthened further.

[...]

Overall, there has been some progress as regards public administration reform with the completion and the continuing implementation of the functional review. Key legal acts need to be adopted. Ensuring the delivery of public services to all people in Kosovo and establishing a professional, accountable, accessible, representative public administration free from political interference is a key European Partnership priority. This has not been fully guaranteed. The capacity of Kosovo's public administration remains weak. Substantial efforts are needed to ensure the transparency of public appointments.

[...]

¹⁰⁵ Ibid.

¹⁰⁶ Zejneli, Amra: "Freedom House: Negativne ocene zbog korupcije i slobode govora" [Freedom House: Negative evaluations because of corruption and freedom of speech]. *Radio Free Europe Service* in Serbian. Available at http://www.slobodnaevropa.org/content/kosovo_izvestaj_freedom_house/2087186.html.

However, the mechanisms to ensure their implementation are not yet in place. Some municipal human rights units are not operational, in particular in Kosovo Serb majority municipalities, which are reluctant to cooperate with the central authorities. The Ombudsman office has only limited oversight as regards Serbian parallel structures. The human rights units at the central level (e.g. Ministry of Justice, Ministry of Public Administration) mandated to implement the Ombudsman's recommendations are not yet fully operational.¹⁰⁷

As is the case with more advanced Western Balkan countries on the EU integration path (such as Macedonia, for example), in Kosovo there is no effective combination of legislation adoption and adequate implementation afterwards. The common issue eating at the effectiveness of the institutional system in the Western Balkans is that the governments lack political will or are calculating when they are supposed to guarantee the full transparency of appointing public officials as well as of awarding public procurement contracts.

These exactly problems are in the foundation of the large-scale corruption in Kosovo's institutions and society, in the economy and its governance, in the regulatory framework and business environment. All these spheres are causing concern, according to the European Commission.¹⁰⁸

Corruption and organised crime

In May 2010, a great concern was caused by the application of the Law on Public Procurement (which is not corresponding to EU standards), as well as by the government's decision to increase the allowed number of public offers at tendering, including the total value of the possible public contracts. At the same time, Kosovo's chief financial auditor had registered the irrational management of the state budget. The chief financial auditor emphasised the lack of political will for resolving these irregularities. Serious concern was also caused by the result of a EULEX investigation operation on corruption and abuses at high levels of government. In May 2010, EULEX prosecutor Johannes van Vreeswijk announced he was investigating as many as eight ministers for alleged corruption and organised crime abuses. This striking statement came after an EULEX operation in April when its staff made sudden checks in the offices of the Ministry of Transport and Telecommunications, including the home of Minister Fatmir Limaj. The operation was part of a two-year investigation on corruption in connection with a big motorway project worth 700 million euros. Limaj and his staff were suspected of soliciting bribes, money laundering, organised crime and abuse of office. The Prishtina daily *Koha ditore* reported that "besides Limaj and the head of public procurement in the Ministry of Transport and Telecommunications, EULEX is investigating a third suspect in this scandalous case."¹⁰⁹ The case escalated when Prime Minister Hashim Thaci publicly stated that "the head of the International Civilian Office Pieter Feith was interfering in the country's judiciary. The raids, he said, send a message that Kosovo's institutions are at war with the international institutions."¹¹⁰ This case, however, as can be

¹⁰⁷ European Commission. *Kosovo under UNSCR 1244/99 2009 Progress Report*. 14 October 2009. pp. 9-12. Available at:

http://ec.europa.eu/enlargement/pdf/key_documents/2009/ks_rapport_2009_en.pdf.

¹⁰⁸ European Commission. *Kosovo: Fulfilling its European Perspective*. Communication from the Commission to the European Parliament and the Council, p. 3. Available at:

http://ec.europa.eu/enlargement/pdf/key_documents/2009/kosovo_study_en.pdf.

¹⁰⁹ See "Limaj e Krasniqi dyshohen për pesë vepra penale". *Koha ditore*, 7 June 2010, Available at: <http://www.kohaditore.com/index.php?cid=1,7,24264> and „Krasniqi lavdëron Limajn”, 30 April 2010, available at: <http://www.koha.net/index.php?cid=1,22,19946>.

¹¹⁰ "EULEX fights Kosovo corruption". *The Southeast European Times*, 21 May 2010. Available at: http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/blogreview/2010/05/21/blog-02

understood from statements by EULEX, constitutes just a fragment of hundreds of others investigations on corruption and organised crime which the European mission is currently conducting on various levels. The latest instance was on 23 July 2010, when in Prishtina was arrested Kosovo's central bank governor Hashim Rexhepi.

Organised crime has traditionally been present in the Balkans and it gained significantly in influence and was internationalised during and after the 1990s wars. The roots of Kosovo's organised crime are clear and publicly known, as is the fact that Kosovo has been having difficulties in fighting this phenomenon - a threat to the peace in the region and to the development of Kosovo itself. Let's take a look what the newest UN report (2010) says about the globalisation of criminality, and then the assessments of the European Commission about the current state of affairs:

The Kosovo Liberation Army received weapons looted from the armories of Albania and support from the Albanian diaspora community. It also drew funds from heroin trafficking, making use of diaspora networks in Italy, Switzerland, and elsewhere in Europe. In 2001, ethnic Albanians in the Former Yugoslav Republic of Macedonia rebelled, a move that some have said was motivated more by criminal interests than political ones. During the conflict, Albanian traffickers enjoyed a great advantage in the heroin market, due to chaos in their home areas and large diaspora populations in several key destinations, including Italy, the second-largest heroin market in Europe. They were also highly motivated, since they were engaged in a civil war. When the war ended and a moratorium was imposed on speedboat traffic between the two countries, these traffickers lost their privileged position. Their declining participation in West European heroin markets can be seen in declining arrest and seizure figures, as noted above. It can also be seen in the decline of their traditional allies in Italy, the criminal group Sacra Corona Unita.

Without these organized criminal activities and the funds they provided, the wars could have been much shorter, and the parties quicker to come to the negotiating table. Having penetrated government and business, criminal elites applied the techniques of organized crime, such as assassination, in politics and commerce in the immediate post-conflict period.¹¹¹

The evaluations and conclusions of the European Commission are even more concrete in their critique:

However, Kosovo does not have a crime reduction strategy. Kosovo lacks adequate resources and criminal intelligence system to tackle this phenomenon. The lack of a witness protection law and programme still inhibits efforts in this area. EULEX plays a major role by investigating serious criminal offences and providing witness security and protection.

Overall, Kosovo needs to considerably step up its efforts. Kosovo remains a source and a place of transit for organised crime activities. The lack of cooperation between Pristina and Belgrade, as well as between the central Kosovo authorities and structures in the north, seriously undermine efforts in the fight against organised crime, which is a key European Partnership priority.

Kosovo has achieved limited progress in tackling the **trafficking of human beings**. The standard operating procedures were revised in November 2008 to encompass all victims of trafficking and to consolidate the system of victim identification and protection. Their full implementation is expected to be achieved shortly. The number of identified trafficking victims remains low. The victim advocacy and assistance division continues to operate within the Ministry of Justice, also providing assistance to victims of trafficking. The Deputy Minister of Internal Affairs is the national anti-trafficking coordinator. **Kosovo continues to be a source, a destination and a transit route for trafficked persons**. Most victims are internally trafficked (about 60%). Victims also originate from Moldova (20%) and Western Balkan countries (20%). Child trafficking for the purpose of forced begging is an increasing problem. **Overall, Kosovo efforts in the fight against trafficking of human beings are not very advanced**. Trafficking related corruption needs to be tackled. Investigation and prosecution of trafficking crimes by Kosovo authorities remain a concern.

¹¹¹ United Nations Office on Drugs and Crime. *The Globalization of Crime. A Transnational Organized Crime Threat Assessment*. 2010, p. 256. Available at: http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

Some progress has been made in the **fight against terrorism**. A strategy and an action plan for the fight against terrorism were adopted in June. **However, Kosovo has no law against terrorism.** Overall, Kosovo is at an early stage of tackling terrorism.¹¹²

The world economic crisis and its effects on Kosovo

At the climax of the world economic crisis, Kosovo was weakly and only indirectly affected by it, most of all due to the country's limited participation in the system of international economic relations. Because of the already mentioned problems with its recognition and its current status as an 'internationally monitored statehood', Kosovo is far away from integration with the international markets. Nevertheless, the influence of the global downturn excluded, Kosovo's weak economy has been in a constant state of tardiness. Kosovo was unable to rely on a more serious inflow of FDI and even less on opening new employment in 2009. Along with Bosnia and Macedonia, Kosovo is one of the European champions in unemployment. According to data by the European Commission¹¹³ and the CIA,¹¹⁴ Kosovo's extremely high unemployment was estimated at 40% in 2008, with approximately 75% of the young people being jobless.

Kosovo's economy is founded on **three** main pillars. The **first and foremost** is the European financial pillar, and the EU is Kosovo's main economic supporter. In July 2008, the EU organised a donor conference on Kosovo, as a result of which 1.2 billion euros in aid were pledged for the young state, including over 500 million euros in Community budget aid. The EU and its member states committed almost 800 euros in assistance. The **second** pillar is the large Kosovar diaspora in Western Europe and the United States. According to the CIA,

Over the past few years Kosovo's economy has shown significant progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance. Remittances from the diaspora - located mainly in Germany and Switzerland - are estimated to account for about 14% of GDP, and donor-financed activities and aid for another 7.5%.¹¹⁵

The **third** pillar of the Kosovo economy are the minerals and metals: lignite, lead, zinc, nickel, chromium, aluminium, magnesium, etc. This third pillar, however, has the smallest contribution due to the obsolete extraction equipment and the inadequate investments in this important and potentially perspective sector. Last but not least, the international missions in Kosovo are also sources of funds for the economy: EULEX and KFOR, including the U.S. military base Bondsteel. These missions possess rich financial portfolios the greatest part of which is spent in the local economy, and they also hire a large number of workers from the local population on contracts with sensitively higher salaries compared to average salaries in the region.

Despite the mentioned verbal conflict between the Kosovo government and EULEX regarding the high-level corruption investigations, it is exactly the presence of this mission that secures the proximity of Kosovo to the EU in the context of using the benefits of the first pillar, as well as utilising the EU aid in building the modern institutional system of Kosovo in

¹¹² European Commission. *Kosovo under UNSCR 1244/99 2009 Progress Report*.

¹¹³ European Commission. *Kosovo: Fulfilling its European Perspective*.

¹¹⁴ Central Intelligence Agency. *World Fact Book 2010*. "Kosovo" Available at: https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_kv.html

¹¹⁵ Ibid.

compliance with EU standards. What is more, it is the EULEX presence in Kosovo which provides the legal framework that would offer potential investors the needed stability and predictability. Strategically, the country necessitates the EU's support. Following are the assessments of the European Commission:

Kosovo faces serious economic challenges. According to the International Monetary Fund, Kosovo's GDP per capita is €1,726, which is 6.9% of the EU-27 average. Kosovo continues to face a considerable deficit in trade in goods and services. Kosovo's overall trade deficit is estimated at 43% of GDP in 2009. High external imbalances reveal underdeveloped domestic production capacity and points at significant vulnerabilities.¹¹⁶

It is of decisive importance for Kosovo to fight corruption and to clear itself of organised crime, to improve the competitiveness of its economy, to raise productivity, to consolidate its export sectors and to devote to the intensification of political dialogue and the economic ties with the countries in the region.

Current state of European integration and perspectives

Although Kosovo can fall into the category of an ethnically homogeneous society with its 90% Albanian population, actually it unifies various ethnic communities and religions. In such circumstances, the government has to embrace the values of liberal democracy and tolerance and apply them to its policies – policies of cultural diversity. The lack of a well integrated political elite with a serious democracy experience aggravates the difficulties inherited from the armed conflict. The conflict itself and the low levels of tolerance in the post-conflict period undermined the social confidence in the state's capabilities of peaceful conflict resolution – both among ethnic and social groups and in individual citizens. In such an environment every government has to put in much more efforts than usual. The relatively low capacity of the elites and the nascent institutional system necessarily orientate the state toward close cooperation with the European Union. At this point, the Kosovo government has not been able to find the formula for a prompt and effective application of the laws, without which any adopted legislation cannot have real impact on the situation in Kosovo. The government looks at greater cooperation with the EU, currently realised via EULEX. Unfortunately, as already mentioned, in the spring of 2010 it made the mistake to enter a verbal confrontation with the mission's representatives over the high-level corruption cases made public. Kosovo, as all other states in the region, will have to walk along the standard road and follow the procedures in its EU ambitions. In this light, the European Commission will certainly take heed of the EULEX input and the international representative Pieter Feith and they will find their place in the Commission's next progress report on Kosovo in autumn 2010. The gains from confrontation will be zero compared to the expected political benefit for Kosovo if it recognises the existence of corruption and starts a fight against it and against organised crime.

The year 2010 is decisive for Kosovo's progress. In June and July the EU again confirmed clearly the European future of Kosovo, and the Committee on Foreign Affairs of the European Parliament called on all member states which had not recognised Kosovo's independence to do so. The motion for a resolution also urges Kosovo's authorities and EULEX to demonstrate concrete results in the fight against corruption and organised crime, including the

¹¹⁶ European Commission. *Kosovo: Fulfilling its European Perspective*.

high-level cases. The document also expresses support for the inclusion of Kosovo in the EU visa liberalisation process.¹¹⁷

Certainly, Kosovo's integration into the Euro-Atlantic community cannot progress without solving the problems and getting results in several spheres. Summarising on the European Parliament resolution motion, there are six key areas:¹¹⁸

First, the government must recognise the essential importance of the participation of Serbs and other non-Albanian communities in the political process and administrative structures of Kosovo. In this light, it must welcome the wide participation of Kosovo Serbs living south of the Ibar river in the latest local election as a step towards building a sustainable future for them in the country. The government must firmly support the newly elected leadership in these municipalities and allot to them, together with EULEX, sufficient financial and political backing. **Second**, not only must it drop the confrontation with EULEX, but also encourage joint action with the mission – concrete measures against high-level corruption, organised crime and war crimes. In this context, it is important that the responsible institutions pay special attention to public procurement and political party financing. **Third**, the government must step up public administration reform so that Kosovo obtains a professional and independent administration, respecting gender balance and reflecting the diverse ethnic composition of the population. **Fourth**, it must reform the judiciary and the prosecution office and adopt a strategy and an action plan against corruption, as well as raise cooperation between police and judicial organs and with all countries in the region. **Fifth**, the government must guarantee media pluralism and their financial and editorial independence, to remove the political pressure over them and provide for the transparency of their financing and ownership; to urge and provide for journalists' rights and guarantee effective protection procedures for investigative journalists. **Sixth**, in view of the high levels of domestic violence, discrimination against women and trafficking of human beings, especially young women for sexual exploitation, the government must take active measures to guarantee gender equality and effective protection of women's and children's rights.

And, quite importantly, if Kosovo takes a look at its southern neighbour Macedonia and its EU integration, it will note that without establishing good and unproblematic relations with all its neighbours the advancement on the EU path is impossible, even if there is reform progress.

Perspectives

The very moment when Prishtina normalises its relations with Belgrade, a broad highway to Euro-Atlantic integration will open for Kosovo. However, the road to establishing normal interstate relations with Serbia passes through the northern Serb enclaves and other Serb territories and communities spread throughout Kosovo. The government in Prishtina has the hard task to find the right formula for integration of those Serbs that stayed in Kosovo who consistently defend their belonging to Serbia. Prishtina has been working more and more on its link with Albania via modern infrastructure, thus obtaining access to the Adriatic Sea. The construction of a tunnel on the motorway Durrës-Kuks-Prishtina, an oil pipeline, a 250-km-

¹¹⁷ European Parliament. "Motion for a Resolution to wind up the debate on statements by the Council and Commission pursuant to Rule 110(2) of the Rules of Procedure on the European integration process of Kosovo". Available at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+MOTION+B7-2010-0409+0+DOC+PDF+V0//EN>.

¹¹⁸ Ibid.

long, 400-kilowatt power transmission line and several industrial zones bid well for Kosovo's economic development. But in the context of Kosovo's Euro-Atlantic integration Kosovo cannot ignore the fact it should have normal political relations with the other neighbours. The enforced ties with Albania should be compensated by a regional balance policy – stepping up dialogue with the remaining countries around. The Balkan neighbours of ethnic Albanians – both of Albania and Kosovo – hold some suspicions not so much of their Greater Albania ambitions as of Greater Kosovo ambitions – Kosovo as a Balkan Piedmont which, apart from other ethnic Albanians, would be joined by the 'mother-state', too. A political initiative by Prishtina for a regional dialogue will play down such suspicions. A democratic Kosovo with a successfully integrated Serb community and cleared of traditional organised crime in fact opens the way for the normal development and success not only of the country itself but also for the entire Western Balkans.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

REPUBLIC OF MACEDONIA

GORAN STOJKOVSKI

Macedonia, as part of former Yugoslavia, inherited to a great extent the pro-European and pro-Western orientation of the federation and has kept it until the present day. The foreign policy course of the country has been established, consensually endorsed and recognised: integration into the European Union and NATO. Meanwhile, these aspirations have been frustrated by neighbour and EU/NATO member Greece's veto until the two countries reach a mutually acceptable deal on Macedonia's name – Greece does not recognise it as it is identical with the name of its northern province, allegedly suggesting Macedonian territorial claims. Also, the world economic crisis has hit Macedonia severely, pushing back reform as secondary priority, and thus slowing down European integration further.

Post 1991 development of Macedonia

Unlike most of the other Yugoslav successor states, Macedonia managed to gain its independence without being involved in the bloody interethnic and interstate conflict of the 1990s which accompanied the disappearance of the common federal state. The combination of: the clear vision and endeavour of the national right-wing parties at that time for the realisation of Macedonian statehood¹¹⁹; the moderate and balanced policy of President Kiro Gligorov which tactically operationalised this endeavour; and the strong political support from the West – gave its positive result: Macedonia gained its independence in a measured process without getting into a war with the Yugoslav National Army (JNA) and the Serbian nationalism and without plunging into ethnic strife such as Croatia and Bosnia. However, Macedonia was involved in myriad bilateral disputes with its neighbours at a later stage: with Greece about its name;¹²⁰ with Bulgaria about the name of the language and the existence of a separate

¹¹⁹ One of the founders and leaders of the VMRO-DPMNE party, Ljubco Georgievski, in the period of Yugoslavia's disintegration put forward ideas which sounded shocking for the time: that the struggle was starting for an independent Macedonian state, Macedonian currency, army, national football team. These elements of his political rhetoric have been perceived as key symbols in Macedonia's new history.

¹²⁰ The dispute with Greece began with the declaration of independence a few years prior to 8 April 1993, when Macedonia was accepted as the 181st member state of the United Nations. Because of this contradiction and Greece's pressure (it does not accept and recognise Macedonia's constitutional name), the UN membership was possible only with a temporary reference name for Macedonia – the Former Yugoslav Republic of Macedonia (FYROM). By signing a bilateral agreement in 1995, the two states pledged to negotiate for overcoming their differences under the mediation of United States diplomats Cyrus Vance and Matthew Nimetz and under the aegis of the UN. Under this agreement, Greece pledged to not obstruct Macedonia's joining international and regional organisations with the name FYROM. But in 2008 Greece blocked Macedonia's NATO membership,

Macedonian nation different from the Bulgarian; with Serbia – in the beginning there was the mutual border dispute, then the dispute between the Macedonian and Serbian Orthodox Churches (the Serbian Church refused to recognise the autocephaly of its Macedonian counterpart, regarding it as part of itself); and with Albania and Kosovo, relations with which were marked by the constant tension regarding the rights and situation of the big Albanian community in Macedonia. Although to a greater or lesser extent those disputes are topical to date, owing to the joint efforts of disputing sides and the international community they gradually find their solutions and are not on the agenda any more.

In the period before and right after the first parliamentary election held in independent Macedonia, the main political players emerged which remain almost the same today. The multiethnic character and the rich cultural variety of the society determined the plurality of the party system. Following ethnic lines, three main groups of parties were differentiated: i) parties of the Macedonians; ii) parties of the Albanians; and iii) parties of the remaining smaller or bigger ethnic groups and communities. Although each party declared its ideological profile in terms of the classical division – right-wing, left-wing, liberal, or Christian-democrat, conservative, social-democrat, socialist etc. – the right-wing VMRO-DPMNE, the left-wing SDSM, the social-democrat DUI and the right-wing DPA were and are above all the parties of the Macedonians and the parties of the Albanians, respectively. Their leaders, formal and informal, Ljubco Georgievski (currently Nikola Gruevski), Kiro Gligorov, Branko Crvenkovski, Arben Xhaferi, Menduh Taci, Ali Ahmeti – to more or less are the key and unavoidable politicians who have exerted their direct or indirect influence in the political process and the formulation of state policy. Nonetheless, the portrayal of Macedonia's political pluralism is not complete without mentioning the parties of all other ethnic communities forming Macedonian society: Turks, Vlachs, Serbs, Roma, Bosniaks, etc.¹²¹

The points of breach in Macedonia can be found on two levels. The **first level** is global – the entire Macedonian society is broken down into segments (nationalities with various ethno-cultural origins, religious and linguistic backgrounds); the **second level** is within the segments themselves – cleavages happening within them. The conflict develops in both directions: among the segments and between the segments and the state. The promoted ideas in Macedonia in the 1990s of “unitary Macedonia,” “Macedonian nationhood,” “Macedonia the nation-state” are all notions and arguments that neglect the obvious tendencies of Macedonia's pluralistic society to become a conglomerate of segments organised by those segments' representations, where loyalty within the segment itself is much higher than loyalty between and among segments. In the Macedonian case, the issues of cultural and regional autonomy are of special importance. The conflict here will be between two solutions: i) practical and formal-territorial autonomy on the one hand; and ii) real cultural and regional but non-territorial

leading Skopje to file a lawsuit against Athens in the International Court of Justice in The Hague. Nevertheless, to date (june 2010) the two countries are on the right track to finally put an end to the years-long dispute.

¹²¹ An illustrative example for party plurality following ethnic lines were the two coalitions taking part in the 2008 election. Two main coalitions competed led by VMRO-DPMNE and SDSM, respectively. The **Coalition for Better Macedonia** united: VMRO-DPMNE, Socialist Party of Macedonia, Democratic Union, Democratic Renewal of Macedonia, Democratic Party of the Turks in Macedonia, Democratic Party of the Serbs in Macedonia, Union of the Roma in Macedonia, VMRO-Macedonian, United Party for Emancipation, Party of Justice, Party of Democratic Action of Macedonia SDA, Party of the Vlachs in Macedonia, Party for Roma Integration, National Movement for Macedonia, Bosniak Democratic Party, Party of the Greens, Democratic Union of the Roma, Worker-Agrarian Party of the Republic of Macedonia, Party for Integral Emancipation of the Roma. The **Sun – Coalition for Europe** included: Social Democratic Union of Macedonia (SDSM), New Socialdemocratic Party, Liberal-Democratic Party, Liberal Party of Macedonia, New Alternative, Green Party of Macedonia, Party of Pensioners of the Republic of Macedonia, Democratic Union of Macedonia's Vlachs.

autonomy on the other. The segments forming the Macedonian society are separated by linguistic, religious and ethnic-national boundaries which are deepening.¹²² In other words, it is desirable that the multiple distribution of power be among identical or similar segments in terms of strength and number. Such a model and the political will of the segments' leadership to establish the consociational model will contribute to the society's normal functioning.¹²³

The constitution of 1991 defines the Republic of Macedonia as a national state of the Macedonian people, despite the society's complexities. The numbers and percentages of Albanians employed in the armed forces, the Ministry of Interior, the judiciary, public administration and the universities were not proportional by far to the percentage of Albanians in society overall. A tangible stability of the political system cannot be expected having such low representation of a relatively sizeable minority.¹²⁴ In practice, by the time the crisis and the armed conflict began in 2001, not a small number of public policy decisions on both institutional and party levels had been developed and implemented in the condition of Albanian under-representation – political-economic institutions, political actors and other factors. On the other hand, in Macedonia an effective civil society is lacking which to compel politicians via effective mechanisms to account for their actions. Additionally, a great number of high-ranking members of the former communist secret services – full-time collaborators – directors of socialist-era factories, plants and commercial enterprises – entered the nascent capitalist economy of Macedonia, particularly through the privatisation process. Macedonia's failure in breeding liberal democracy at that time is explained with the development of a “criminal democracy.” The lack of transparency, the criminal business and vested interests of the political elite/the oligarchy took over the interests of society. This elite in the Macedonian oligarchic democracy could not serve the citizens' interests in a multiethnic and multicultural society. The old political and economic elites of the totalitarian system succeeded in regrouping and restoring the old patterns of power, influence and money. In fact the change was limited to only symbolic and cosmetic developments, stopping short of a total break with the past. The restitution, rehabilitation, lustration and the opening of the secret services' archives should have taken place in the beginning of Macedonia's democratisation in order for the process of “de-communisation” to be finished now, the guilt to be individualised and a new model of civic moral to be present. Investigative journalism works speculate that the scandalous and criminal dossier of Macedonia's transition will most probably remain unsolved in the end.¹²⁵

¹²² The young generations belonging to the various ethno-cultural groups (nationalities and religions) almost exclusively do not know or understand the language of the other groups. For example the young Macedonians and Albanians do not understand each other's language in the same way as young Albanians do not understand the language of Serbs and Turks, Vlachs and Bosniaks; Macedonians, Albanians, Serbs, Turks, Vlachs and Bosniaks don't understand Romani and vice versa; not all Turks understand Albanian and not all Albanians understand Turkish, etc.

¹²³ Stojkovski, Goran. “Perspektivata na mezduetnicheskite otnoshenija I darzhavnoto ustrojstvo na Republika Makedonija” [The perspective of inter-ethnic relations and the state structure in the Republic of Macedonia]. Doctoral dissertation (unpublished), Sofia University St. Clement of Ohrid, Sofia 2007. Available in the VAK archives of the Council of Ministers of the Republic of Bulgaria, in Chapter 6, “Makedonija – opiti za ustanovjavane na evropejska konsociacija na Balkanite” [Macedonia – attempt at establishing a European consociation in the Balkans].

¹²⁴ See Maleska, Mirjana *Etnickiot konflikt I prilagoduvanjeto (Makedonija 1991-1997)* [The ethnic conflict and the Adaptation (Macedonia 1991-97)]. Skopje: Kultura (2007); Milosavlevski, Slavko & Mirce Tomovski. *Albancite vo Republika Makedonija (1945-1995) – Legislativa, politicka dokumentacija, statistika* [The Albanians in the Republic of Macedonia (1945-95): Legislation, political documentation, statistics]. Skopje: NIP Studentski zbor (1997), pp. 315-323, 347-348.

¹²⁵ See Ordanoski, Saso. “Putin vo Makedonija” [Putin in Macedonia]. *Forum Plus*, 28 October 2006; Trickovski, Branko. “Dvizenje na besmislenoto sobiranje vo Makedonija” [Movement of the useless association in Macedonia]. *Utrinski vesnik*, 5 June 2004; Casule, Slobodan. “Reformisti vo zatvor” [Reformists in prison].

Macedonia lost valuable time in “settling interethnic relations” while it should have consolidated its democracy and taken on the road of EU and NATO integration. Entangled in domestic political squabble and a web of conflict-generating factors, the country was slowly creeping down the spiral of political violence and unlawfulness, by substituting the legitimate democratic and institutional dialogue with armed conflict. The conflict between paramilitary Albanian groups and the Macedonian armed forces burst out in January 2001. With the help of the international factor and thanks to the moderate and peaceful policy of then-President Boris Trajkovski, it ended with a peace agreement determining the future institutional arrangement/regulation of interethnic relations. The document was agreed in Ohrid and signed in Skopje on 13 August, 2001. The Ohrid Framework Agreement is a political document on the agreement among the leaders of the main political parties of Macedonians and Albanians in Macedonia. The agreement precipitated constitutional amendments and the establishment of a model of consensual democracy in the country.¹²⁶

Macedonia and European Integration

On 14 October 2009 democratic and liberal Europe convincingly refuted Balkan chauvinism and its argument that Macedonia constitutes “only an ephemeral historical phenomenon which was to disappear before long.” On this day, the European Commission proposed opening of accession negotiations between the EU and Macedonia. Reflected in this act by the Commission, Macedonia made its historic “10-mile leap” by turning from a country which several times had been on the brink of interethnic war into a country firmly on the way to EU integration, ready to start membership talks. What is more, the same year, 20 years after Europe introduced visa requirements for the citizens of the disbanding Yugoslavia, the Council of Justice and Home Affairs Ministers lifter the Schengen barrier for Macedonia. Since 19 December 2009, visa-free travel in Europe again became a reality for Macedonian citizens.

The relations between Macedonia and the EU in their long history have ups and downs, such as the bright period in 2009 and hardships elsewhere. But despite all the meandering, temporary faltering and oscillations, viewed from today the EU-Macedonia relations are good and have a positive perspective.

Here is what a short chronology of the relations shows:¹²⁷

- **October 1992:** The Republic of Macedonia appoints its diplomatic representative in Brussels;
- **December 1995:** Diplomatic relations established between Macedonia and the EU (after signing the agreement with Greece in September 1995);
- **January 1998:** Cooperation Council formed;

Nedelno vreme, 29 October 2006; Kostovska, Jadranka. “Zosto samo Zapadniot Balkan ne rascisti so kodosite” [Why the Western Balkans are the only not to solve the former agents issue]. *Fokus*, 2 March 2007.

¹²⁶ More on the details of the conflict, the chronology of events and, the details of the Framework Agreement and the post-conflict on-the-spot situation in the country can be found in: Stojkovski, Goran. “Makedonskijat etniceski konflikt I Ramkovijat dogovor. Novijat pravno-politicheski porjadak” [The Macedonian ethnic conflict and the Framework Agreement: The new legal-political order]. Sofia, 2002. Graduation paper (unpublished). Available in the archives of Sofia University St. Clement of Ohrid; Institute For Regional and International Studies, *International Fact-finding mission to the Republic of Macedonia*, Sofia, 23-29 April, 2001, available at www.iris-bg.org; Stojkovski 2007 and Maleska.

¹²⁷ The detailed account of the chronology of relations between the EU and Macedonia is available at the website of Macedonia’s Foreign Ministry: <http://www.mfa.gov.mk/default1.aspx?ItemID=347>

- **February 1998:** First meeting of the Political Dialogue between Macedonia and the EU;
- **March 1998:** The first permanent representative of the European Commission to Macedonia appointed;
- **March 2000:** The Delegation of the European Commission to Macedonia opens;
- **March 2000:** Launch of negotiations on a Stabilisation and Association Agreement (SAA);
- **November 2000:** SAA signed at the EU-Western Balkans summit in Zagreb;
- **June 2003:** Western Balkans future as part of EU confirmed at summit in Thessaloniki;
- **April 2004:** SAA comes into force for Macedonia, the first country to achieve it from the Stabilisation and Association Process (SAP) countries;
- **February 2005:** Macedonia supplies to the Commission the answers to the Questionnaire regarding its membership application;
- **December 2005:** The Council awards Macedonia candidate country status;
- **19 September 2007:** An agreement on visa facilitation and one on readmission between EU and Macedonia signed;
- **25 December 2007:** Macedonian parliament establishes a National Council on European Integration;
- **February 2008:** The Council adopts a resolution on partnership for accession of Macedonia which includes key and priority reforms;
- **14 October 2009:** The European Commission publishes its progress report on Macedonia, recommending start of accession negotiations to the Council;
- **7-8 December 2009:** The Council decides the launch of accession negotiations with Macedonia to be postponed until the Spanish presidency in first-half 2010;
- **19 December 2009:** The decision on visa-free travel for Macedonians comes into force.

The chronology of events clearly shows the positive trend in intensifying relations and the good perspective for EU-Macedonian ties. However, the continuation of this good pace requires an intensified political action on the part of Macedonia in two spheres: **first**, maintaining good relations with neighbours and above all finding a solution for the name issue with Greece, acceptable to both sides and under UN aegis (this issue is also important for the awaited NATO membership, too); and **second**, continuing the needed reforms aimed at improving all sectors and equalising them with EU standards. “Official Brussels wants Macedonia to reform,” former enlargement commissioner Olli Rehn repeatedly said.¹²⁸ In its latest report on Macedonia, the European Commission mentions the convincing progress the country has made in conducting key reforms and that it fulfils the Copenhagen criteria; yet the Commission points weaknesses in several sectors: maintaining and conducting domestic political dialogue (government-opposition), judicial reform, public administration reform, raising the level of inclusion of smaller ethnic communities, overcoming problems in the energy sector – requirements which will be discussed in following section of this analysis.¹²⁹

¹²⁸ The European Union does not cease to urge Macedonia to continue with the reforms, regardless of the positive assessments and recommendations it gave. The eight tasks which commissioner Olli Rehn presented for Macedonia to fulfil in March 2008 in Skopje are: 1) Fulfilment of all commitments in the SAA. 2) Dialogue among political parties. 3) Implementation of the Law on the Police. 4) Adoption of ant-corruption legislation. 5) Judiciary reform. 6) Public administration reform. 7) Employment policy measures. 8) Improvement of the business environment. In the meantime, however, maintaining good relations with neighbours was added to the list, meaning the dispute with Greece may be an obstacle on Macedonia’s EU integration path.

¹²⁹ Commission of the European Communities. “The Former Yugoslav Republic of Macedonia 2009 Progress Report”. Brussels, 14.10.2009. Available at: http://ec.europa.eu/enlargement/pdf/key_documents/2009/mk_rapport_2009_en.pdf

Current snapshot of the situation in Macedonia: democracy, politics and the economy

The relations between ethnic Macedonians and Albanians today are not worse than they have been before. They have traditionally and continually been fluctuating. However, the Ohrid Framework Agreement established a model which guarantees a peaceful life based on a bearable level of (in)stability. This state of affairs has been going on despite friction and squabbles which tend to happen sporadically or on regular basis. For example, the Macedonian Academy of Sciences and Art (MANU) in 2009 published a national encyclopaedia which caused strong discontent with its insulting definitions of the origins of Albanians and cause open political protests by the Albanian ethnic community. Apart from that, ethnic segregation in schools and the fighting taking place between youths of the two communities has been nothing new for the Macedonian reality (the latest such events took place in Struga in 2009).

In June 2010 Freedom House published its report on the level of freedom in the various countries of the world.¹³⁰ The organisation defined Macedonia as partially free country, giving a score of 3 for political rights and civil liberties (on a scale of 1 to 7 where 7 means lowest level of democratic development). Freedom House registered the unusual situation with Macedonian media: concentration of media power in the hands of few proprietors as well as the unethical links between leading national media with politicians and political party leaders some of whom currently take part in the governing coalition.¹³¹ The conflict of interests is so blatant that three party leaders currently in government are at the same time owners of newspapers and TV stations. Another politician owns a TV station and several newspapers, while a third one – three newspapers.¹³²

The self-declared “right-wing” VMRO-DPMNE ruling party, while on its march to power in 2006, united 18 smaller parties in a voluminous multiethnic and multi-ideological conglomeration – For Better Macedonia. After winning the snap elections in 2008, the VMRO-DPMNE leader Nikola Gruevski formed a coalition government with former rebel Albanian Ali Ahmeti and his DUI party. The coalition was expected to make a tangible progress for Macedonia: to solve the dispute with Greece, to get Macedonia into NATO and to open EU membership talks. The coalition currently still enjoys the public support, though as shown by most social surveys – the trend is downward. The electoral positions of VMRO-DPMNE and DUI are from day to day more and more threatened by left-wing SDSM (led by ex-President Branko Crvenkovski) as well as by splinter groups from their own parties led by Ljubco Georgievski, Ljube Boskovski, Imer Selmani, Menduh Taci, Rufe Osmani.

The upsurge in the popularity of the opposition parties, the European Commission report and the Freedom House and Transparency International reports, as well as most public opinion surveys point to the same problems: economic stagnation and the impoverishment of the population, institutional inefficiency, corruption and the stalemate in Euro-Atlantic integration.

Let's discuss each of these issues in the following section.

Institutional efficiency

¹³⁰ The Freedom House Report on Macedonia is available at:

<http://www.freedomhouse.org/template.cfm?page=22&year=2010&country=7866>

¹³¹ Ibid.

¹³² For a detailed analysis of the media situation in Macedonia see Stojkovski, Goran et al. *Makedonija na krastopat* [Macedonia at crossroads]. Sofia: Iztok-Zapad (2008), pp. 66-69.

Macedonia has had the legacy of fairly developed Yugoslav institutions. The deterioration in their functioning began in the second half of the 1990s as a result of the change of the political elites, and thus the administrative technology. Currently, there is hardly any public opinion poll in which citizens express satisfaction with the functioning of Macedonian institutions, from the way they are welcomed and the professional attitude of public officials, the quality of service or the demonstrated efficiency in the work of the institutions. Also, the lack of systemic coordination and logical functional linkage among institutions and state agencies is evident. There is a common belief among Macedonian citizens that the institutional system is a slow, unkind and chaotic extension of the state, offering and executing low-quality services.

There are **five** main reasons for that: **first**, Macedonia inherited an obsolete, inefficient and highly ideologised and bureaucratised system, organised along the communist logic for functionality and serving of society; **second**, there has been a consistent lack of political will for reform during the entire transition; **third**, after coming to power, the political parties have had the practice to concentrate their activists exactly in the institutional administration, thus resolving the material needs of their membership without enforcing competence and professionalism criteria; **fourth**, a certain fuss and chaos took over the system when its adaptation to the new legal-political order began after the signing of the Ohrid Agreement. The agreement regulates the employment of a certain percentage of ethnic Albanians in the institutions, and the new personnel were hired without any preceding layoffs in order to free space. And **fifth**, the presence of corruption.

Public administration

In its 2009 report the European Commission mentioned some progress which the Macedonian government has achieved in reforming the public administration and the civil service. The Commission praised Macedonia in the following spheres:

- The formation of the High Committee for Public Administration Reform, presided by the prime minister, aimed at leading the reform process;
- The adopted amendments to the Law on Public Administration strengthening the role of the Agency for Civil Servants and encourage employment based on merit, introducing the elements of the vertical system for internal promotion;
- The introduction of the new methods of strategic planning with the preparation of a National Programme for the Adoption of *Acquis*, as well as the formation of planning sectors for planning in each ministry;
- The achieved progress in the application of the Law on the Free Access to Information of Public Character;
- The adoption of the Law on Internal Affairs regulating the management of the police force.

At the same time, however, the Commission states that the Agency for Civil Service has informed about 77 illegal promotions in the previous year, 38 of which in the Economy Ministry, an obvious non-compliance with the Law on Public Officials. On the other hand, the mass hiring of public officials under temporary employment contracts contradicts both the Law

and the new merit-based system. The newly appointed persons in public administration and in the municipalities have poorer qualification, often do not have the minimum necessary office space and are not provided with clear description of their tasks. The Commission states further efforts are needed in improving accountability of the administration and of the decision-making process as a whole.¹³³

The party and political influence over the public administration is obvious. It is a commonly known practice for political parties, a few months before and after the election, fill in the institutions with their loyal cadres and party activists. It is practically impossible to get a job in the public administration in Macedonia without being a member or supported by a political party.

Corruption and organised crime

It stands out in the ideological platforms, election programmes and all political documents of parties that they will take on a decisive battle against corruption. The legal framework regulating the state's fight against corruption in Macedonia satisfies the demanding contemporary criteria and offers quality legal acts: Law against Corruption; Law against the Conflict of Interests; State Programme for Preventing and Suppressing Corruption in the State and Public Administration, etc. There is also the enforcing State Agency for the Fight against Corruption. Nonetheless, Macedonian citizens complain that corruption is present in every sphere and everywhere there are conditions for corrupt practices. A press release by the Macedonian chapter of Transparency International is eloquent:

This year about 160 citizen complaints were received at the office for legal counsel of Transparency International – Macedonia from all parts of the country, 80 connected with the work of the judiciary. Every single citizen who came for a conversation holds the opinion that the courts are the most corrupt organs of the state, also being the organs with the lowest public confidence. The citizens have not yet felt the positive effects of the judicial reform which were supposed to improve the situation.

The people's rights defender Ixhet Memeti presented the alarming fact that out of more than 3,000 civic complaints arriving every year at the office of the Macedonian ombudsman, around 1,000, or one-third, concern the courts.¹³⁴

What has permanently been absent in Macedonia, not only regarding the prevention of corruption, but also the whole process of democratic transformation, are three things: first, lack of political will for decisive action; second, lack of efficient implementation of the existing and newly adopted legislation; and third, lack of coordination among institutions aimed at complementarity and common action. Additionally, the government in Macedonia never made a detailed study and never prepared a national report on the dynamics of corruption and organised crime since the declaration of its independence. Apart from inheriting given corrupt practices from communist times, Macedonia went through a stormy period of partly criminal privatisation, so a national report would at least try to bring to light the roots of corruption. The reluctance of political factors to initiate such a study is apparent, as is their failure to present arguments against the carrying out of such an expert and purely fact-finding effort.

A direct consequence of the efforts at mass “politicising” in lieu of “professionalizing” of the administration and the institutions, apart from the breeding of corrupt practices, inefficiency

¹³³ Commission of the European Communities.

¹³⁴ Transparency International – Macedonia. Available at:

http://www.transparency.org.mk/index.php?option=com_content&task=view&id=525&Itemid=77

and ineffectiveness, are also conflict of interests and cronyism. According to the State Commission on the Fight against Corruption,

The increased civil and institutional sensitiveness of late to the phenomenon conflict of interests, especially after the changes to the Law on the Prevention of Conflict of Interests from September 2009, resulted in the increased number of complaints which the State Commission receives daily. The complaints contain information that in most of Macedonia's municipalities there are people who are local city councillors and at the same time hold managerial positions: directors of public enterprises and state agencies, etc. founded by the local or central authorities. Such a situation is in contradiction with the law, as it constitutes conflict of interests. It is necessary that a system be established which will prevent... accumulation of functions – the classic form of conflict of interests.¹³⁵

The most frequent forms of corruption are commission reception on a struck deal, prearranged public tenders, direct bribes but also doing favours or running some errands (for accelerating a procedure or for circumscribing a procedure, etc.) Cronyism and nepotism are an expression of party political influence in the state administration.¹³⁶

In the whole period of the Macedonian transition, the problem with organised crime has been connected with corruption, as well as with the fact that it threatens national security and directly saps the foundations of statehood. Robert Hislop, in his work *Calm before the Storm*,¹³⁷ analysing some aspects of the 2001 conflict in Macedonia, says: “The main location of corruption in Macedonia is the political party... Parties endeavour to climb to power not because of some grandiose political beliefs but because of patronage and material gains coming with the ministerial portfolios.”¹³⁸

Studying the roots of organised crime, Hislope quotes an article published in the Austrian newspaper *Salzburger Nachrichten* which points out that “the Macedonian ten-year-long ‘oasis of peace’ was a camouflage of an ‘oasis of corruption and crime’”¹³⁹. Hislope studied the 2001 conflict in the aspect of the influence of transborder crime networks, corruption and smuggling over Macedonia's stability and security in the region. He concentrated his analysis on the ethnic Albanian riot and the link to criminal activity – as a way to finance political-military organisations and showed that Albanian criminal networks are the key element in the organisation and maintenance of the Albanian paramilitaries. Hislope maintains that “the mighty Albanian mafia, which appeared in the 1990s, controls the key structures dealing with smuggling of heroin, cigarettes, in human beings and with prostitution, serving Western Europe.”¹⁴⁰

In his book *What Happened to Us*,¹⁴¹ the journalist and analyst Dragan Nikolic studies the processes in Macedonian politics in a wider regional context. Following the connection between politics and criminality in the countries of the region, he singles out first Kosovo, followed by Serbia, Bosnia's Republika Srpska, Macedonia and Croatia. Nikolic finds out that “The system of secret services, sometimes more, sometimes less, orchestrated regional

¹³⁵ Информацијата е публикувана на веб-страницата на Комисијата и е достапна на:

http://www.dksk.org.mk/index.php?option=com_content&task=blogcategory&id=16&Itemid=33

¹³⁶ State Commission for the Fight against Corruption. Available at:

http://www.dksk.org.mk/index.php?option=com_content&task=view&id=197&Itemid=33

¹³⁷ Hislope, Robert *Zatisje pred bura* [Calm before the Storm]. Skopje: FIOOM (2002).

¹³⁸ Ibid., p. 18.

¹³⁹ Ibid., p. 5.

¹⁴⁰ Ibid., p. 3.

¹⁴¹ Nikolic, Dragan. *Sto ni se slucuvase: Regionot 2001-2004* [What happened to us: the region 2001-04]. Skopje: Kultura (2005).

developments. These are cocktails of criminalised secret services. The former secret services became a cadre foundation for the organised crime in the transition process, whereas in Kosovo the basis is the disbanded Army for the Liberation of Kosovo (UCK) or the mammoth Corps for the Defence of Kosovo.¹⁴²

The United Nations Office on Drugs and Crime (UNODC) presented its first report on the organised crime situation in the world. It warns that criminality is internationalising much faster than the laws against are applied. The international organised crime has already become a menace to world peace and development, even to nations' sovereignty, and criminals use – apart from weapons and violence – money and bribes to buy off voters, politicians, power and even military force.¹⁴³

The world economic crisis and its effects on Macedonia

The global economic crisis, apart from hurting Macedonia's traditionally weak economy, also saw a multidimensional spread of the economic problems into the social and political sphere. Over the last several years, Macedonia witnessed an average annual economic growth of some 5%, but the crisis caught political and economic factors in the country unprepared to fight its first waves. In such a way, the global crisis indirectly contributed to a slowdown in implementing the needed reforms and caused an overall lag in Macedonia's integration into the EU. The downturn first precipitated a shrink in real sector activity: a fall in industrial output and exports, a fall in retail trade and services, in turnovers and profits, in foreign direct investment.¹⁴⁴ All this led to a general decrease in incomes, sometimes to lack thereof, so the purchasing power of the population dropped, causing a fall in consumption. The lower economic activity of both firms and individuals resulted in much lower tax revenue for the state budget. So came the overall result: a gross domestic (GDP) contraction with 0.9% in the first quarter of 2010 and a rise in the already high unemployment levels.¹⁴⁵ The Macedonian State Statistics Office in June published figures showing unemployment for the first quarter of 2010 was 33.5%. This unemployment is structural, accumulated for decades, culminated in the transition period in the 1990s, particularly during the privatisation, so problematic in some areas.¹⁴⁶ Unemployment in Macedonia is the key problem and is not only a social phenomenon but a problem which directly or not influences interethnic relations and security in Macedonia as a whole.¹⁴⁷

However, there is this long spread belief in Macedonian society that the State Statistics Office is being politically influenced in its work.¹⁴⁸ There are widely held doubts that each and every government following independence exerts pressure over the Office so that the published statistical data, demographic, social or economic, always provoke political polemics between

¹⁴² Ibid., p. 190.

¹⁴³ United Nations Office on Drugs and Crime. *The Globalization of Crime. A Transnational Organized Crime Threat Assessment*. 2010. Available at: http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf; Additional information available at: http://www.unodc.org/documents/data-and-analysis/Balkan_study.pdf.

¹⁴⁴ Detailed assessment of the state of the Macedonian economy available at the State Statistics Office website: www.stat.gov.mk/Publikacii/3.4.10.01.pdf

¹⁴⁵ According to data from the State Statistics Office. Available at: <http://www.stat.gov.mk/statistiki.asp?ss=09.01&rbs=2&izbranPeriod=I+2005>.

¹⁴⁶ Stojkovski 2007.

¹⁴⁷ Ibid.

¹⁴⁸ Ibid., p. 11-12.

the government and the opposition or are disputed by numerous observers, analysts and commentators.¹⁴⁹ Anyway, it is indisputable that with the record-high unemployment even on a world scale and the oscillating economic growth, the Macedonian economy ranks as one of the weakest in the region and in Europe.¹⁵⁰

In any case, the forecasts of the European Bank for Reconstruction and Development (EBRD) that FDI in Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Montenegro, Romania and Serbia would be almost 50% down compared to 2007 and partly 2008 were right. Regarding Macedonia, EBRD made an estimation in July 2010 that its GDP would grow 0.5% that year and 2.5% in 2011. The EBRD also plans to intensify its investment activity by raising its Macedonia and Serbia portfolios in infrastructure development.¹⁵¹ Macedonia needs priority investment in the following spheres: **1) Modernisation of infrastructure networks aimed at developing road and communication links with the region (including telecoms); 2) the energy sector.**

Macedonia's weak economy, in need of cheaper energy resources, pushed the government in a geopolitical direction about which Macedonian society is not much informed and has little knowledge about the possible uses and risk it offers – namely, Russia. The visit of President Georgi Ivanov in Russia in June 2010 took place in a context of escalating tension between Sofia (the focal point of Russian energy interests in the Balkans) and Moscow after Bulgarian Prime Minister Boyko Borissov announce he would freeze two of Russia's biggest energy projects in the region on Bulgarian territory – the oil pipeline Burgas-Alexandroupolis circumscribing the Turkish Straits and the Belene nuclear power plant on the Danube river. As a result, Russia launched an offensive with all other Balkan countries, including Macedonia, to intensify energy cooperation with them (mostly with regard to the South Stream gas pipeline project) to the detriment of Bulgaria, hoping to scare Borisov's government into being more cooperative.

Current state of Macedonia's EU integration and perspectives

In its 2009 progress report on Macedonia the European Commission once again confirmed the continuation of the financial assistance to the country under the Instrument for Pre-accession Assistance (IPA) tool. With the adopted document the Commission plans additional 2009-11 financing. Macedonia can also benefit in the future from the EU's regional programmes. There is a financial effect for the local economy from the portfolio of the European Union Delegation to Macedonia, as one-fourth of these funds in 2009 were utilised in contracts with local partners. As a response to the global economic crisis, the Commission created an IPA crisis package of 200 million euros aimed for the Western Balkans – funds which will hopefully bring about investments worth a billion euros, co-financed by partner financial institutions. According to the plan, Macedonia will use money from the competition funds aimed for small and medium-sized enterprises (SMEs), energy efficiency and banking sector regulation. In

¹⁴⁹ See for example a discussion in daily newspaper *Dnevnik*, "Politicka ujdurma so statistikata" [Political bickering over statistics], 30 June 2010. Available at:

<http://dnevnik.com.mk/?ItemID=2787D9B7E132EC4F894DF817CCB39216>

¹⁵⁰ See Sauter, Michael B., Douglas A. McIntyre & Ashley A. Allen. "The Fifteen Nations With The Highest Unemployment In The World". June 2010. Available at: <http://247wallst.com/2010/06/23/the-fifteen-nations-with-the-highest-unemployment-in-the-world>.

¹⁵¹ For more detailed information about EBRD's investment plans see EBRD Office of the Chief Economist. „Regional Economic Prospects in EBRD Countries of Operation: May 2010 Update.” Available at: http://www.ebrd.com/downloads/research/economics/REP_May2010.pdf.

such a way the EU helps the government's efforts in fighting the crisis, including by the planned big infrastructure projects in transport, the environment and SMEs. The EBRD plan for its Macedonia and Serbia portfolios, announced in June, corroborates the plans laid out in the Commission report of October 2009.

Macedonia, however, faces the responsibility to implement its own part of the partnership arrangement. The country had committed still in summer 2009 in two months' time to halt corruption, to fight public administration partisanship, to improve political dialogue and to reform the judiciary. The Commission's report of October 2009 was more positive than negative but had the same recommendations; yet one year later, in June 2010, Macedonia has not still implemented what it committed to. More concretely, Macedonia is expected to accomplish the following four things: **first**, the Agency for Public Officials to prepare normative acts that will make the application of existing laws easier; **second**, the governing coalition to stop the ongoing temporary appointments in the administration and start conducting transparent procedures under the law on the State Servant instead; **third**, the judiciary reforms to concentrate on the Prosecution, the Judicial Council and the courts' budget; special attention should be paid to the fact that courts fail to cut down the number of unresolved cases; Brussels insists that it is unacceptable for the judiciary to be influenced by politics, as is unacceptable that judges undergo political pressure when or after taking a decision; the EU believes that the status of the Minister of Justice is questionable – he is member both of the Judicial Council, the Prosecutorial Council, and has the right to vote in both institutions; and **fourth**, to make amendments in the Rules of Work of Parliament, which were adopted under urgent procedure in 2009 only with the votes of the majority.

The political dialogue on which the EU keeps insisting in fact means the achievement of a durable political consensus among the players – generally in the political process, as well as in the process of taking decisions on all significant socio-political issues – in accordance with the logic of the democracy model set forth by the Ohrid Framework Agreement.

Perspectives

Macedonia's outlook for the future is optimistic. With the hopefully settled name dispute with Greece by the end of 2010 and an intensified reform effort as required by the EU at this stage of integration, Macedonia, *ceteris paribus*, may become a fully fledged NATO member and may launch EU accession talks in 2010. The realisation of this historic goal is in the hands of the Macedonian political elite. At this stage, it is important that national unity be reached, one thing that Macedonia has very much lacked historically. Put in brief, there are four basic components of the platform on which Macedonia's domestic and foreign policy should tread on: **1) An initiative for a pro-active maintenance of a continual political dialogue and balance (at home and abroad); 2) Tolerance and political consensus applied at home and in multilateral relations; 3) Maintaining a strategic balance based on good-neighbourliness and in the spirit of liberal-democratic values; 4) Devotion to an intensified and unyielding reform implementation.** The success of such a political strategy is attainable because it will certainly find a positive response in the Euro-Atlantic space and will gain international support. Such a consensus policy approved by all would also be a guarantee for the advancement and good perspectives for Macedonia, in the EU accession process and in joining the Euro-Atlantic geopolitical realm. By joining this realm, Macedonia will cement its statehood and secure a stable and prospective political and social development. Having such a status in international affairs, Macedonia's troubles will fade away, as well as its

complaints that it has always been a victim of regional hegemony plays in its history. This time, however, everything – present and past – is in the hands of the Macedonians.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

MONTENEGRO

STEFAN RALCHEV

Montenegro is the smallest Western Balkan country with a population of just some 650,000 people. The tiny republic gained its independence after leaving a state union with Serbia in 2006 following a referendum. The independence caused an unprecedented boom in the Adriatic country's economy fed by huge inflow of foreign direct investment, particularly in the tourism and real estate sectors. But Montenegro had started important structural reforms even before 2006, when its autonomy within the state union with Serbia allowed it to have its own domestic policies, and it reduced its taxes to a Europe-wide low. Just because the economic boom was based mostly on foreign capital inflow, the economic crisis hit Montenegro very seriously in the beginning of 2009. The government, however, took some important measures and managed to weather its effects, thus avoiding at this point a loan agreement with the International Monetary Fund (IMF). Montenegro is achieving quick progress in its integration into the European Union after gaining independence. The government is expecting the country to be granted a EU candidate status by the end of 2010, after a positive recommendation by the Commission to the Council. Nevertheless, Montenegro faces some problems. EU officials have repeatedly urged more efforts in establishing rule of law, reforming the judiciary and fighting corruption and organised crime. Also, Prime Minister and Montenegro's undisputed leader for the last 20 years, Milo Djukanovic, has hinted he may seek retirement before his tenure expires in 2013, which may cause some political instability in the country.

Post-1991 developments in Montenegro

Montenegro conducted its first multiparty election in 1991 while still part of the former Socialist Federal Republic of Yugoslavia. After Slovenia, Croatia, Macedonia and Bosnia seceded in 1991-92, Montenegro and Serbia remained the only two republics in the newly formed Federal Republic of Yugoslavia. A good account of the period is offered by Drakic et al:

During the mid 1990s, nationalists who backed the unification of Montenegro with Serbia outnumbered the supporters of an independent Montenegro, and political and economic tensions that existed since the inception of the new Federal Republic divided Montenegro's ruling party [Milo Djukanovic's Democratic Party of Socialists, DPS] into a pro-Milosevic group and an anti-Milosevic group. However, the victory of the anti-Milosevic group in the 1997 election marked a turning point for Montenegro. Although some attempts at economic reform had been made in the 1990s, resistance to change and the existence of conflicts in the region prevented any systemic reform process. Montenegro

started substantial reforms in 1998—one of the few countries to undertake economic reforms without first achieving independence.¹⁵²

Relations with Serbia remained delicate:

The difference in size of the two states—Montenegro’s population represented only five percent of the total population—caused a permanent disequilibrium in their relations, leading to unfavourable conditions for economic and political cooperation. While Serbia leaned towards the protection of inherited industries and agriculture, Montenegro tried to develop a small, open, service-oriented economy based on free-market principles. Political tensions increased between Serbia and Montenegro. At one point, the two states almost abolished trade relations with each other. In 2000, political changes in Serbia, primarily the political defeat of Milosevic, caused the two countries to redefine their relationship. Trade between the two republics intensified although some problems persisted. While Serbia remained uninterested in reform, Montenegro decided to unilaterally reform its legislative and economic institutions. While technically still part of the Federal Republic of Yugoslavia, the Montenegrin government took over the economic functions of an independent and sovereign state, including monetary policy, the banking system, trade policy, and customs and border control... While Montenegro used the deutschmark and then the euro as its official currency, Serbia clung to the dinar...Montenegro also took drastic measures against inflation and had import tariffs several times lower than those of Serbia, enlarging the rift between the two countries. Nevertheless, representatives of Serbia, Montenegro, (federal) Yugoslavia, and the European Union (EU) established a political solution to the growing rift in March 2002, signing the Agreement on Principles of Relations between Serbia and Montenegro, commonly termed the “Belgrade Agreement.”¹⁵³

The State Union of Serbia and Montenegro

The main goal of the Union of Serbia and Montenegro (USM) was harmonization of the economic systems of Serbia and Montenegro. Legislation dealing with customs harmonization became a major test for the future of the USM because tariffs between the two countries differed greatly. Montenegro’s average tariff, at the time the agreement was signed, was 2.8 percent while the tariff rate in Serbia was 11 percent... The USM failed to achieve many of its goals, in part because each state within the union retained most levers of authority. The USM represented Serbia and Montenegro with regard to international organizations and could sign international agreements, but it could not implement them. Since it didn’t have any power to implement decisions and was a large bureaucracy running on taxes from both Serbia and Montenegro, citizens often questioned the existence of the USM. At best, the USM was seen by many as a body safeguarding the status quo of the socialist period under the appearance of reform. However, the Belgrade Agreement included a clause that gave each member state the right to hold a referendum in 2006 to allow its citizens to express their preference with regard to the future of the USM. Montenegro, which had been trying to recover its independence since the First World War, decided to organize its referendum for May of that year... Around 87 percent of the electoral body of Montenegro voted on the referendum. Of those, 55.5 percent voted for independence and 44.5 percent against it... Shortly after the referendum, almost all countries officially recognized Montenegro’s independence. On June 28, 2006, Montenegro became a member of the United Nations. The first independent local and parliamentary elections were held soon after the referendum. Milo Djukanovic’s party achieved a majority in Parliament and therefore the ability to appoint members of Government (i.e., the cabinet) for the next four years.¹⁵⁴

Independence brought political stability and confidence in the future of Montenegro in foreign investors. The economy experienced close to double-digit growth in 2007 and 2008, after huge tourist revenues and sharp rise in foreign direct investment, mostly in tourism and in real estate along the country’s Adriatic coast. Bank lending for real estate investments grew significantly, causing local banks to lend from foreign sources. Montenegro was also quick to

¹⁵² Drakic, Maja, Frederic Sautet and Kyle McKenzie. *Montenegro: The Challenges of A Newborn State*, Mercatus Policy Series, Country Brief No. 2, p. 2. Mercatus Centre, George Mason University, February 2007. Available at <http://mercatus.org/publication/montenegro-challenges-newborn-state>.

¹⁵³ Ibid., pp. 2-3.

¹⁵⁴ Ibid., pp. 3-4.

move on its European integration path, now that it was not restrained by its bigger and clumsy neighbour Serbia and its problems (a short chronology of Montenegro's EU integration steps follows in the next section).

Politically, Milo Djukanovic's DPS remained the leading and unchallenged force in government. In March 2009 it organised an early election to reassert its power, saying it needed a new mandate for reforms. But the opposition parties claimed that "the election was called before the full impact of the global financial crisis has become clear."¹⁵⁵ However, since late 2009, there has been some talk that Djukanovic plans to step down as PM to devote to private business after almost 20 years at the helm of Montenegro. The DPS party congress is expected to be held in early 2011.

Montenegro and EU integration

Montenegro embarked on its individual path to EU membership immediately after it gained its independence in 2006 and was recognised by the EU member states. Montenegro had made some progress before that as part of the State Union with Serbia, but progress has been much faster since 2006. Following is how the EU Delegation to Montenegro describes the country's advancement towards full membership:

Montenegro is a potential candidate for membership of the EU. Its European perspective was reaffirmed by the Council in June 2006 after the recognition of the country's independence by EU Member States. Montenegro submitted an application for EU membership on 15th December 2008. In line with Article 49 of the EU Treaty, the Member States requested, on 23 April 2009, that the European Commission prepare an opinion upon the merits of the application.

Based on the decision of the EU Ministerial Council of 15th September 2006, a political dialogue was established at ministerial level between the Government of Montenegro and the EU institutions. The first such dialogue took place on 22 January 2007 and further political dialogue meetings take place annually.

On 22 January 2007, the EU Council passed a Decision on the adoption of a new European Partnership with Montenegro. The priorities set forth in this document have been incorporated into the Action Plan for Implementation of Recommendations from the European Partnership adopted by the Government in May 2007. Reports on the fulfilment of the recommendations are submitted on regular basis.

On 15 October 2007 Montenegro signed a Stabilisation and Association Agreement (SAA) and an Interim Agreement on trade and trade-related issues. The latter entered into force on 1 January 2008 while the SAA will enter into force once its ratification process is completed.

By the act of signing the Stabilisation and Association Agreement, Montenegro formally agreed an association with the European Community and its Member States, thereby accepting responsibility for its European future. The Agreement was unanimously supported by all parliamentary parties and ratified in the Parliament of Montenegro on 13 November 2007. The consent to the Agreement was given by the European Parliament on 13 December 2007.

The Interim Agreement allows Montenegro and the EU to benefit from the trade parts of the Stabilisation and Association Agreement while the agreement itself is still being ratified. The Montenegrin government adopted an action plan for its implementation on 17th May 2007. The Interim Agreement entered into force on 1 January 2008. The Interim Committee, which is responsible for ensuring that the Interim Agreement runs smoothly, held its inaugural session on 22 January 2008.

Agreements between the EU and Montenegro on Visa Facilitation and Readmission took effect on 1 January 2008.

On 22 July 2009 European Commissioner for Enlargement Olli Rehn handed over to Montenegro's authorities a Questionnaire to help prepare an assessment of the country's readiness to fulfil EU membership obligations.

¹⁵⁵ "Montenegro Ruling Party Claims Victory". *Balkan Insight*, 30 March 2009. Available at <http://www.balkaninsight.com/en/main/news/17764>.

On 9 December, Montenegro's Prime Minister Milo Djukanovic delivered the answers to the EC's questionnaire to Commissioner Rehn.

As of 19 December 2009 EU visa were altered, allowing Montenegro's citizens (along neighbours from Serbia and the former Yugoslav Republic of Macedonia) visa-free access to all 25 Schengen member states within the Union, as well as three states outside the European Union; Iceland, Norway and Switzerland. This was a result of a process that was launched in May 2008. Granting of visa-free travel required the fulfilment of key benchmarks in the areas of rule of law, travel documents and border security.

Diplomatic relations between Montenegro and the European Communities are conducted through the Montenegrin Mission to the EU in Brussels, which has been fully functional since 2006, and the EU Delegation to Montenegro in Podgorica, which has been open since November 2007.¹⁵⁶

The SAA came into force on 1 May 2010, after being ratified by all EU member states. Montenegro's government hopes that by the end of 2010 the European Commission will submit to the Council a positive evaluation of the Questionnaire and the latter will grant the country a candidate status, allowing it to launch accession negotiations soon after.

Current snapshot of Montenegro: democracy, politics and the economy

Montenegro is one of the youngest states in Europe and still faces typical challenges of state-building and consolidation. International organisations and the EU point to its persisting problems with the rule of law and corruption in its institutions. Yet, Montenegro is progressing well when compared with its older regional peers, partly thanks to an inherited Yugoslav tradition of some form of institutionalism and plurality. According to the latest 2010 *Nations in Transit* report by world democracy watchdog Freedom House, Montenegro's score of 3.79 (on a 1-7 scale, where 1 is highest level of democratic development and 7 is lowest) has not changed over the last three years and has improved just a little compared to the years before 2008. In regional, Western Balkan perspective, Montenegro ranks on a par with Macedonia, just behind the leaders Serbia and Croatia (3.71) and ahead of Bosnia (4.25) and Kosovo (5.07). Broken down by components, the Freedom House reports points out that Montenegro kept its 2009 scores in almost all areas, except it made a regress in Independent Media (due to a number of defamation lawsuits by the ruling coalition against independent media and a physical altercation of the capital Podgorica's mayor and his son with the most popular daily's editor-in-chief) and a progress in Judicial Framework and Independence (due to the initiation of war crimes trials by the judiciary and the reduction of unresolved cases).¹⁵⁷

The European Commission summarises Montenegro's progress in the political/democratisation areas of integration in its latest report on the country of October 2009:

Montenegro has continued to make progress in addressing the **political criteria**. In line with the European Partnership, it further pursued the completion of its legal framework and strengthened administrative and institutional capacity. The constitution was on the whole implemented effectively. Judicial reform continued and started to produce results. Yet political influence on the judiciary and the prosecution persists. The fight against corruption and organised crime needs to be pursued with determination. Strengthening of administrative capacity remains a major challenge. Political consensus

¹⁵⁶ Delegation of the European Union to Montenegro. Available at <http://www.delme.ec.europa.eu/code/navigate.php?Id=56>.

¹⁵⁷ Freedom House. *Nations in Transit 2010: Montenegro*, p. 378-80. Available at <http://www.freedomhouse.org/images/File/nit/2010/NIT-2010-Montenegro-proof-II.pdf>.

on EU-related issues remains strong. Parliament's capacity to scrutinise legislation and monitor the implementation of reforms needs to be enhanced.¹⁵⁸

As regards domestic politics, Montenegro has been quite foreseeable over the last twenty years. The scene has been dominated by the Democratic Party of Socialists and its leader Milo Djukanovic. Djukanovic took three terms as prime minister from 1991 to 1998, was president from 1998 to 2002, and again premier in 2002-06, when he stepped down. He came back as head of government in 2008 to replace the then-PM due to an illness. The main opposition parties in Montenegro have been those representing the Serbian minority in the country.

Two features of current political life in Montenegro are worth mentioning which may have an effect on the country's EU bid and the weathering of the economic crisis, mainly through their implications for stability. The first concerns the increasingly mentioned and frequently downplayed planned resignation of Djukanovic. The leader first mentioned this possibility in an interview with Reuters News agency in December 2009. He confirmed in March 2010 he wanted to step down and continue working privately in Montenegro, without specifying a date: "Experts in Podgorica had long predicted that the Prime Minister's was likely to quit before the next congress of his ruling Democratic Party of Socialists in May 2011. But there is less agreement on the factors behind his withdrawal, with critics asserting that Djukanovic was leaving mainly because he was unwilling to arrest leading figures in the crime fraternity. Montenegro is the only country in the region where no senior officials have been sentenced for corruption, they say, and as Podgorica accelerates its campaign to join key international organisations like the EU and NATO, firm demands have started to arrive from the West for a more serious fight against corruption. Officials from the ruling party have robustly dismissed these allegations, saying the only factor behind Djukanovic's imminent departure is physical exhaustion."¹⁵⁹ But in June 2010 Djukanovic said in Strasbourg he had no plans to leave the political scene at that moment, amid rumours he was planning to depart for a high-ranking position at the NATO headquarters in Brussels.¹⁶⁰ In any case, the DPS leader's stepping down and leaving politics may bring about instability both in the party itself and in Montenegro as a whole, after his continual reign and consolidation of power. In August 2010 Reuters News Agency mentioned the possible development as a risk to watch for in Montenegro: "Another uncertainty is the possible retirement of Prime Minister Milo Djukanovic, who has dominated Montenegrin politics for two decades. Some experts say central institutions are not well prepared to handle major political change or deal with other challenges such as corruption and organized crime."¹⁶¹

The second feature of domestic political life in Montenegro is the emergence of signs of a somewhat unified opposition at the last local election: "The results of Montenegro's municipal elections, held on 23 May, appear to demonstrate that the country's politics continues to follow a familiar script. Montenegro, after all, has not seen a change of government, at least not through the mechanism of democratic elections, since the first democratic elections took place there in 1990. But we may be entering a sustained period of flux. While the seemingly resounding election victory of the "Coalition for a European Montenegro", led by the Democratic Party of Socialists, DPS, may on a superficial level seem

¹⁵⁸ European Commission. *Montenegro 2009 Progress Report/Conclusions*, p. 1. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_montenegro_en.pdf.

¹⁵⁹ Rudovic, Nedjeljko. "Veteran Leader's Imminent Exit Divides Montenegro". *Balkan Insight*, 10 March 2010. Available at www.balkaninsight.com.

¹⁶⁰ "Djukanovic Refutes Rumours about Departure", *Balkan Insight*, 22 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28955/>.

¹⁶¹ "FACTBOX-Key Political Risks to Watch in Western Balkans". *Reuters News*, 3 August 2010.

convincing, these results may be obscuring the bigger picture and overshadowing the developing political climate in Montenegro.”¹⁶²

Following is a closer look at some aspects of Montenegro’s democratisation progress in view of EU membership and the economic crisis: institutional efficiency, public administration reform, corruption and organised crime, and the economy.

Institutional efficiency

Montenegro’s young institutions have the benefit of being successors of the strong Yugoslav institutional apparatus, but at the same time face the classic difficulties of all institutions in transitional societies: weakness, insufficient administrative capacity, inefficiency and corruption. In addition, Montenegrin institutions function in a very small country setting – Montenegro’s size and tradition (with still prevailing informal clan and kinship bonds over formal state-legal bonds in some places) have their effects on the proper functioning of institutions.

In its latest (October 2009) progress report on Montenegro, the European Commission concludes that, “Democracy and the rule of law continued to be strengthened. Overall, the implementation of the constitution proceeded well. However, some key laws remain to be aligned with it. The functioning of state institutions has improved in particular in the areas related to European integration. The need for greater political will in the fight against corruption, in particular high-level corruption, remains. There has been some progress in the functioning of the *parliament*. Legislative activity continued to be intense and its administrative capacity was strengthened. However, parliament needs to substantially enhance its efficiency as a legislative body and its capacities of oversight. Parliamentary elections held in March 2009 met almost all OSCE and Council of Europe commitments. However, OSCE-ODIHR identified a number of challenges and shortcomings which remain to be addressed. Electoral legislation needs to be aligned with the constitution. The *government* continued to set up new administrative structures following the country’s independence. The framework for coordination of European integration improved and continued to function smoothly... Montenegro has made moderate progress in judicial reform. The legal framework was further strengthened by the adoption of a new Criminal Procedure Code. However, further efforts are required to ensure the independence of the judiciary and the autonomy of the prosecution. The capacity of the prosecution to undertake its new tasks under the Criminal Procedure Code must be enhanced. Further consolidation of the accountability, integrity and efficiency within the judicial system is required.”¹⁶³

A February 2009 comprehensive study by the National Democratic Institute on the compliance of Montenegro’s institutions and political system with the EU’s Copenhagen criteria (mostly in terms of transparency and accountability) gives a better idea of the underlying problems with which Montenegro has to cope. It finds that:

In less than three years that Montenegro has operated as an independent state, it has adopted a new Constitution, enacted almost 250 laws and amended laws, established 20 new institutions, and formulated a number of strategies to address the key challenges of European integration. Through these efforts, Montenegro is well on its way to establishing the conditions for fulfilment of the Copenhagen

¹⁶² Morrison, Kenneth. “Local Elections May Herald A Period of Flux in Montenegro”. *Balkan Insight*, 26 May 2010. Available at www.balkaninsight.com.

¹⁶³ European Commission, p. 1.

Criteria in order to become a member of the European Union. Based on this initial assessment of Montenegro's governance system, the principle challenges to accountability and transparency are:

- The overall legal framework establishes a number of legal guarantees, institutions, and regulations that create the basis for stable institutions that can guarantee democracy, rule of law, human rights, and respect for and protection of minorities, but there is an absence of detail necessary to establish accountability and ensure implementation.
- While the principles of division of state power and of balance and mutual control exist in the new Constitution, neither is fully functional in practice.
- The supervisory function of Parliament is weak due to a legal framework that minimises its ability to obtain the information needed to exercise oversight; to a lack of capacity and resources; to an excessive concentration on politics and an overemphasis on an effort to control, rather than to oversee.
- Independent public institutions lack the necessary legal framework to guarantee their independence in practice and establish public confidence in the independence of their actions.¹⁶⁴

Public administration

Public administration in Montenegro faces several important problems. First, even though it is large in number, there is insufficiency of qualified personnel that must handle the tough requirements of EU integration and actually carry it out. Second, it needs to raise its existing capacity generally. And third, in the conditions of a crisis, wages in public administration consume too large a share from the state budget.

The World Bank described well the outstanding issues before Montenegro back in November 2008 and gave the relevant recommendations:

The authorities have already taken important steps towards reforming the public administration by adopting the Law on the Civil Service and implementing relevant regulations, including on those defining the civil-service salary system. A set of further policy measures will have to be implemented to (i) increase effectiveness and professionalism of the public administration in key areas critical for achieving the EU integration objective; (ii) prevent a “brain drain” towards the private sector among the high-skilled; and (iii) contain the overall expenses for public-sector employees to a level that is consistent with the realization of the Government's broader fiscal-policy priorities.

To achieve these objectives, Government should initiate a pay and grading reform. The current pay system—based largely on seniority—will need to be replaced by system that links remuneration to performance. The complex collective bargaining process needs to be streamlined. It should start earlier each year and be concluded before the regular budget preparation process. Over a more medium-term horizon, Government needs to reduce public employment in selected areas. Staff reduction could be achieved through a combination of attrition with a partial and selective hiring freeze. Similarly, there is scope for rationalizing the structure of government operations, which would presuppose a comprehensive functional review of the size, functions, and staffing of all government organizations. Government will need to develop policy criteria to facilitate decision-making on whether a given function should be undertaken by central government or be dissolved, devolved to local government, or privatized. Non-civil servant positions in non-core functions could be transferred, by public tender, to the private sector. The main source of inherent cost savings would come from the increased efficiency, with which the private sector can perform these tasks.¹⁶⁵

And the European Commission stated in its 2009 report on Montenegro that “Some progress has been made in reforms of the *public administration* through the adoption of key legislation,

¹⁶⁴ National Democratic Institute. *Transparency and Accountability in the Montenegrin Governance System: Report of an Assessment with Methodology and Assessment Framework Described*, p. 5-6. Podgorica, February 2009. Available at <http://www.ndi.org/node/15568>.

¹⁶⁵ World Bank. *Montenegro. Beyond the Peak: Growth Policies and Fiscal Constraints. Public Expenditure and Institutional Review*, p. vii. 24 November 2008. Available at www.worldbank.org.me.

upgrading of administrative capacity and improved human resources management. However, lack of human and financial resources, along with structural weaknesses and corruption continue to hamper the overall effectiveness of the public administration. Administrative capacity remains limited. Significant efforts are required to establish a professional, accountable and merit-based civil service, free of political interference. Most of the opinions and recommendations issued by the Ombudsman's office have been followed up. However, the Law on the Ombudsman remains to be fully aligned with the constitution and the office's capacities require further strengthening. Greater efforts are needed to establish and empower independent, supervisory and regulatory bodies that operate effectively.”¹⁶⁶

Corruption and organised crime

Insufficient effort in combating corruption and organised crime has been one of the most vocal criticisms to Montenegro by the European Commission. The small country first gained international focus in the 1990s when ubiquitous Milo Djukanovic “was accused of organising, or allowing others to organise, a lucrative tobacco smuggling racket. He repeatedly denied involvement in these illicit operations but has admitted being a friend of one of the principal suspects, Stanko “Cane” Subotic, against whom Serbia issued an international warrant in 2007 for cigarette smuggling. Subotic remains at large. Other close friends of his face charges in Italian courts connected to smuggling. In October 2008 the Italian Prosecutor's Office filed charges against seven people from Serbia and Montenegro over their alleged involvement in smuggling. Their trial has not yet started. The Italian prosecutors investigated Djukanovic too but the case was suspended on account of his immunity from prosecution, owing to his position as prime minister.”¹⁶⁷

According to Transparency International’s *Corruption Perception Index 2009*, Montenegro ranks 69th out of 180 countries with a score of 3.9 (on a scale from 1 to 10 where 1 is total corruption and 10 is no corruption), improving tangibly from the previous year, when it ranked 85th with a 3.4 score. Compared with its Western Balkan peers, in 2009 Montenegro was behind Croatia (66th, score 4.1) but ahead of Macedonia (71st, score 3.8), Serbia (83rd, score 3.5), Albania (95th, score 3.2) and Bosnia and Herzegovina (99th, score 3.0).¹⁶⁸ Indeed, the European Commission acknowledged the progress the Adriatic country had made in its 2009 progress report, but stated corruption remained widespread and the government needed to put more endeavour into fighting the phenomenon:

There has been good progress in building the legal and administrative framework for *the fight against corruption*. Progress has been made on further enhancing preventive and investigative anti-corruption bodies. However, corruption remains prevalent in many areas and continues to be a particularly serious problem. There are concerns over the comprehensiveness and effective implementation of legislation in this area. While there is a positive trend, investigation capacities and co-ordination of law-enforcement agencies are weak, resulting in low numbers of convictions. There is insufficient supervision in the areas of financing of political parties and conflict of interests.¹⁶⁹

Corruption and especially organised crime are also major concerns of the Montenegrin citizens. As shown by a July 2010 public opinion survey conducted by a Montenegrin think

¹⁶⁶ European Commission, p. 1.

¹⁶⁷ Rudovic.

¹⁶⁸ Transparency International. *Corruption Perception Index 2009*. Available at http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

¹⁶⁹ European Commission, pp. 1-2.

tank, 73.9% of the respondents, or the largest share by far, said the main threat to security in Montenegro was organised crime.¹⁷⁰

The economy

Montenegro experienced robust growths in the years after gaining independence as a result of previous reforms, boosted confidence of foreign investors (particularly in real estate) and rises in tourist revenue. The World Bank aptly described the situation in late 2008, at the threshold of the world economic crisis spreading to the Balkans, and warned of some negative signs:

1. In 2007, Montenegro was one of the world's fastest growing non-oil economies. The country reaped the benefits from its comprehensive, pre-independence reform program. After the international recognition of statehood had removed the lingering uncertainty over Montenegro's political status, investors reassessed the country's relative attractiveness as a site for business, responding positively to (i) the implementation of the privatization and structural-reform agenda; (ii) the provision of a low-tax, probusiness environment; and (iii) a clearly defined European perspective. In response, investment surged. Capital inflows from foreign direct investment (FDI)—largely absent during the first half of this decade—reached a level of 30 percent of GDP in 2006 and 40 percent in 2007, fueling domestic demand and stimulating economic growth. Real GDP grew at double-digit rates in 2007, an outcome that stands in stark contrast to the period of economic anemia characterizing Montenegro's pre-independence years. In this buoyant environment, commercial banks supported private-sector activities with very large increases in credit to the economy (with 12-month growth rates exceeding 180 percent at end-2007). These helped to finance higher imports of goods and services, leading to a rapid widening in the current-account deficit from 8.5 percent of GDP in 2005 to 40 percent in 2007. The economic dynamism, exceeding all (published) projections, resulted in an unexpected abundance of fiscal revenues and—with generally effective control over public expenditures in 2007—a very substantial overall surplus.

2. The post-independence economic boom has been fueled by very large—and, to a considerable extent, unsustainable—external capital inflows. Apart from tourism receipts and foreign acquisitions of companies, banks, and shares of publicly traded enterprises, more than one-third of capital inflows consisted of elements that are temporary and will dissipate over the medium term—in particular, purchases of (coastal) real estate by foreigners (20 percent of GDP in 2007) and external borrowing by the domestic banking sector (14 percent of GDP).

- With a coastline of less than 300 kilometers, the supply of beachfront property is—*per definitionem*—finite. This implies that purchases of Montenegrin-owned coastal real estate by non-residents (which represented more than one-half of total FDI in 2006 and 2007) cannot be maintained at current levels and will dissipate as a source of capital inflows.

- Domestic banks will not be able to lend to the private sector as aggressively as they did during the immediate post-independence period. Credit to the economy had grown at unprecedented rates and, in 2007, considerably faster than deposits, necessitating increased foreign borrowing by domestic banks. Because of the financial institutions' rapidly increasing degree of external indebtedness, Standard & Poor's rated Montenegro's banking sector as the riskiest in the region.¹⁷¹

According to the International Monetary Fund (IMF), real GDP growth slowed down from 10.7% in 2007 to 6.9% in 2008 and turned to a negative 6.6% in 2009; the relatively high budget surplus of 6.7% of GDP in 2007 turned to a deficit of -0.3% in 2008 and 3.2% in 2009, while gross government debt rose from 27.5% of GDP in 2007 to 38.8% in 2009; GDP is expected to shrink by 1.8% in 2010 and the budget deficit to grow to 7.1%, while government debt to further swell to 44.0% of GDP.¹⁷²

¹⁷⁰ Centre for Democracy and Human Rights - CEDEM. *Citizens' attitudes towards NATO integration in Montenegro*, July 2010. Available at http://www.cedem.me/fajlovi/attach_fajlovi/pdf/nato_july2010-2010-7-19.pdf.

¹⁷¹ World Bank, p. ii.

¹⁷² International Monetary Fund. "IMF Executive Concludes 2010 Article IV Consultation with Montenegro". Press release from 27 May 2010. Available at <http://www.imf.org/external/np/sec/pn/2010/pn1067.htm>.

Montenegro has so far restrained from signing a loan agreement with the IMF. According to this institution, although the country was hard hit by the crisis, the measures undertaken by the government have been timely and helpful:

Montenegro has been hit hard by the global financial crisis. Contagion and concerns about the robustness of the banking system have triggered large deposit withdrawals and a credit crunch. Moreover, the unwinding of the real estate boom has generated strong negative wealth effects that depressed demand. Finally, adverse terms of trade shocks have strained the industrial sector. As a result, GDP contracted sharply in 2009 and unemployment inched up. Meanwhile, upward pressures on wages and inflation have eased.

The economic contraction has been contributing to the restoration of internal and external balance, but it has also revealed an underlying fiscal deficit. The heretofore sizeable positive output gap has practically been eliminated and the sharp drop of imports has halved the very high external current account deficit. On the other hand, fiscal revenue plummeted revealing a substantial fiscal deficit that reflects the fundamental inconsistency between low tax rates and the large size of the public sector. Public debt has reached 38.8 percent of GDP and could rise further due to unfavorable debt dynamics, uncertain contingent liabilities, and population aging.

The authorities have taken wide-ranging measures to stabilize the financial system and rekindle lending activity. These included a blanket deposit guarantee; early repayment of government loans; emergency liquidity support and the placement of state deposits with Prva (the largest domestic bank); and the reduction of required reserves. Foreign parents have also stepped in with substantial liquidity infusions while the Central Bank of Montenegro has pressed effectively for capital injections and stepped up its surveillance. Moreover, the revamping of banking legislations is at an advanced stage, and the authorities have issued guarantees for lending supported by International Financial Institutions. On their part, banks have made progress repairing their balance sheets and overhauling their credit risk management systems. Deposits started to reflow in mid-2009.

The authorities have reacted swiftly to the fiscal deterioration. A mid-year revision of the state budget and similar adjustments at the local level stipulated large cuts in capital expenditure, goods and services and the wage bill limiting the actual cash deficit to 3.2 percent of GDP. In their three-year budget plan, the authorities envisage the phasing out the deficit by 2012 but measures remain to be articulated.¹⁷³

Although Montenegro has so far weathered the economic downturn comparatively successfully, possibilities for social tensions exist, especially in view of the recommended cuts in public spending and the country's large public sector. According to the July 2010 public opinion survey, the second most tangible threat to Montenegrins' security (56.8% of the respondents said so) is economic and social clashes.¹⁷⁴

Current state of Montenegro's EU integration and perspectives

Montenegro is advancing steadily on its path to European integration. The country expects to get a candidate status by the end of 2010 after turning in to the Commission the Questionnaire in December 2009. Also in December, Montenegrin citizens gained the right to travel visa-free across the EU. In spring 2010 the member states completed ratification of the Stabilisation and Association Agreement. Montenegro hopes to start accession negotiations soon after it officially becomes a EU candidate country. Yet problems still exist. EU officials use every occasion to remind their Montenegrin counterparts that much more effort is needed in the areas of rule of law and the fight against corruption and organised crime. In March 2010, the EU enlargement commissioner Stefan Fuele said in Podgorica that "Montenegro was facing a more demanding EU integration phase full of challenges, and that concrete

¹⁷³ Ibid.

¹⁷⁴ Centre for Democracy and Human Rights – CEDEM.

results were necessary in the fight against corruption and organised crime in the country... [He] said that Montenegrin reform efforts must be more comprehensive as the EU integration process becomes more demanding and new challenges present themselves. ‘The good news is that these reforms are necessary in any case. Things such as fighting corruption and organised crime, strengthening the rule of law, and strengthening administrative capacity are all things that are necessary for your citizens,’ the commissioner said.”¹⁷⁵ Three months later in Brussels the Commission president Jose Manuel Barroso praised Montenegro for its progress, “but insisted on the importance of increased reforms in the rule-of-law and the fight against organised crime and corruption... [He] stressed that Montenegro has to make more progress in key areas, especially in the rule of law. ‘One area we can now identify and where attention is needed is strengthening of rule of law, including establishing a clear track record on the fight against corruption and organised crime and pursuit of judicial reform,’ Barroso said.”¹⁷⁶

Montenegro has the chance to overcome the effects of the world economic crisis faster than its regional peers because of its small size and clearer EU perspective (compared with that of neighbours Bosnia and Albania, for example). Political risks still exist in case PM Milo Djukanovic steps down abruptly, before the country has obtained its candidate status, as some internal political tumult may slow down the integration process. Montenegrin politicians have to concentrate on reform in order to prevent that, especially in the implementation mechanisms of already existing laws on the fight against corruption and organised crime.

¹⁷⁵ Barlovac, Bojana. “Fuel: Montenegro Faces Challenging EU Integration Phase”. *Balkan Insight*, 19 March 2010. Available at <http://www.balkaninsight.com/en/main/news/26746>.

¹⁷⁶ “Djukanovic Meets with EU Officials in Brussels”. *Balkan Insight*, 10 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28650/>.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

SERBIA

STEFAN RALCHEV

Serbia is the biggest successor state of the former Yugoslav federation and the biggest factor in the Western Balkans in terms of territory and population. Serbia, like Croatia, started its true transition to democracy and market economy no earlier than in 2000, when autocrat and warmonger Slobodan Milosevic was ousted after popular protests and the first democratic government was elected. Even after 2000, Serbian transition has been characterised by some controversies and tensions between the modern, pro-European forces in society and politics and the conservative, nationalist residues of the 1990s. But since 2008, when the general election was won by the clearly pro-European Union parties and when the country signed an association agreement with the EU, Serbia has been one of the fastest reforming Western Balkan nations. This was well acknowledged in the European Commission's latest progress report on Serbia, and the country filed its application for membership in the EU in December 2009. Yet serious work remains to be done. The world economic crisis absorbed most of the new government's energy and reforms tended to slow down in 2009. Serbia has still to adopt lots of legislation as part of its Stabilisation and Association Process with the EU, and fully cooperate in the search for the two remaining war crimes fugitives sought by the United Nations tribunal in The Hague (the ICTY) – Ratko Mladic and Goran Hadzic. Although Serbian economy has been picking up as a result of growing exports and industrial production, inflation risks remain high and foreign direct investment low. Social tensions are possible because the government will have to step up pension reform and cut public sector expenditure as part of a loan agreement with the International Monetary Fund (IMF).

Post-2000 developments in Serbia

Serbia began its authentic transition to democracy and market economy after Slobodan Milosevic was removed from power on October 5, 2000, and the first truly democratic general election was held on December 23, won by a landslide of the Democratic Opposition of Serbia. Then conditions were created for the country to set on its path to European integration:

The fall of Milosevic was a turning point in Serbia's political development, but what has kept the country on the track to real democratisation are the governments led by the Democratic Party (DS) – first the cabinet headed by Prime Minister Zoran Djindjic, assassinated in 2003 by organised crime groups for his decisive crackdown on criminality, and then by the current president and party leader Boris Tadic. Djindjic and Tadic faced the difficult task of leading Serbia to Europe amidst a deep nationalist wave and a harsh economic situation. But the Serbian voters have shown at the latest series of elections that they are clearly for a European future for their country and would not opt for a regress to the pre-2000 isolation. After several presidential and parliamentary votes which produced nationalist or quasi-nationalist majorities in 2002 and 2003, Tadic won the presidential polls in 2004 and 2008, and his Democratic Party was able to form a pro-European ruling coalition and government after the May 2008 general election.

Upon the approval of his government in parliament, Prime Minister Mirko Cvetkovic said that Serbia's priorities for the following four years were preparation for European Union membership, inalienability of Kosovo from the territorial integrity of the country, economic growth, fight against corruption and organised crime and respect for international law. Of course, here a mention of the EU's own activities in support of the democratic, pro-European option in Serbia is due. The bloc signed a Stabilisation and Association Agreement with Serbia, the first rung on the way up to membership, just ahead of the key poll in May 2008, and has been active in cooperating with Tadic and his DS party ever since he came to power in 2004.

Serbia has since the DS-led coalition came to power in 2008 proved that its European aspirations are serious. In July 2008, weeks after the new government came into office, it tracked down, captured and surrendered to the ICTY in The Hague one of the most sought-after war crimes suspects after the 1990s wars – the Bosnian Serb wartime leader Radovan Karadzic. Karadzic's capture played a crucial role in raising the country's international profile and had been one of the conditions (and causes) for progress along the EU membership track. More recently, in December 2009 the Serbian parliament granted the northern province of Vojvodina, home to many minorities, the status of autonomy it had lost back in 1990. The new status will present Vojvodina with the possibility to apply for EU regional funding in the future. This is seen as a move by President Tadic to accelerate Serbia's EU integration process and took place days before the country officially deposited its application for membership of the bloc. On its part, the EU sent a positive signal to the country by removing travel visa requirements for Serbian citizens on December 19.¹⁷⁷

Serbia and European integration – a chronology

Following is an account of Serbia's (initially FR Yugoslavia, then the State Union of Serbia and Montenegro) progress in relations with the European Union, as summarised by the delegation of the European Union to Serbia:

The European Union – as it currently is, or under its previous name 'the European Community' – has been present in the Balkan region for over 20 years. In 1980, the Community signed a Cooperation Agreement with the Socialist Federal Republic of Yugoslavia. A Delegation of the European Commission was opened in Belgrade in 1981. The Cooperation Agreement was abrogated by the EC in November 1991 when the former Yugoslavia disintegrated, but the Delegation in Belgrade remained in place and has been continuously operational.

Following the disintegration of the Socialist Federal Republic of Yugoslavia and the violence that ensued in Croatia and Bosnia and Herzegovina, the EC maintained a political presence in the new self-styled Federal Republic of Yugoslavia comprising of Serbia and Montenegro, but the relations were at a low level based on the sanctions regime introduced by the United Nations.

With the victory of a wide coalition of Serbian democratic forces at the federal elections in 2000, the Federal Republic of Yugoslavia joined the European integration process defined at the Zagreb Summit in November 2000. In 2002 the Federal Republic of Yugoslavia was restructured into the State Union of Serbia and Montenegro. After Montenegro opted for independence in a referendum held in 2006, Serbia, as a successor state of the State Union, has continued its relations with the EU.

Key events:

- **1997:** Regional Approach. The EU Council of Ministers establishes political and economic conditionality for the development of bilateral relations.
- **1999:** The EU proposes the new Stabilisation and Association Process (SAP) for five countries of South-Eastern Europe, including Serbia (then within Federal Republic of Yugoslavia - FRY).
- **October 2000:** fall of the Milosevic regime.
- **November 2000:** "Framework Agreement FRY-EU for the provision of Assistance and Support by the EU to the FRY". Serbia benefits from Autonomous Trade Preferences from the EU.

¹⁷⁷ Ralchev, Stefan. "Serbia and Croatia Face Chance to Warm Ties and Lead Western Balkans Closer to the EU", p. 3-4. Institute for Regional and International Studies. February 2010. Available at <http://www.iris-bg.org/files/iris-ralchev-serbia%20%26%20croatia%20waremr%20ties-feb%5C%2710.pdf>.

- **June 2000:** Feira European Council states that all the SAP countries are “potential candidates” for EU membership.
- **November 2000:** at Zagreb Summit, the SAP is officially endorsed by the EU and the Western Balkan countries.
- **2001:** First year of the new CARDS programme specifically designed for the SAP countries.
- **July 2001:** start of the EU-FRY Consultative Task Force.
- **March 2002:** signature of the Belgrade Agreement on a restructured State Union.
- **February 2003:** entry into force of the Constitutional Charter.
- **June 2003:** at Thessaloniki Summit, the SAP is confirmed as the EU policy for the Western Balkans. The EU perspective for these countries is confirmed.
- **July 2003:** EU Enhanced Permanent Dialogue with Serbia and Montenegro replaced the format of the Consultative Task Force
- **June 2004:** Council decision on the European Partnership for Serbia and Montenegro, updated in January 2006.
- **October 2004:** Council conclusions on the twin-track approach.
- **April 2005:** the Commission adopts a Feasibility Report which concluded that Serbia and Montenegro is prepared to negotiate a Stabilisation and Association Agreement [SAA] with the EU.
- **October 2005:** Launching the negotiations for a Stabilisation and Association Agreement.
- **3 May 2006:** Negotiations with Serbia and Montenegro called off as the country did not fulfil its commitment to fully co-operate with the ICTY.
- **June 2006:** Following the declaration of independence by Montenegro, on 5 June the Serbian Parliament, acting in accordance with Article 60 of the Constitutional Charter of Serbia and Montenegro confirmed the continuity of Serbia as a legal successor of the State Union. On 12 June the EU and its Member States recognized Montenegro as an independent state and took note that Serbia is the continuing state of the State Union. On 15 June 2006 the Government of Serbia officially recognised Montenegro as an independent state.
- **September - October 2006:** a new Constitution is adopted by the Parliament and confirmed by referendum.
- **13 June 2007:** SAA negotiations with Serbia resumed, following a clear commitment by the country to achieve full cooperation with the ICTY, and concrete actions undertaken by the country that have matched this commitment.¹⁷⁸

In November 2007 the SAA was initialled; in January 2008 the Visa Facilitation and Readmission agreement between Serbia the EU and came into force; and the European Council adopted a revised European Partnership for Serbia a month later. On 29 April, 2008, the Stabilisation and Association Agreement and the Interim Agreement on Trade and Trade-related issues between Serbia and the EU were signed in Luxembourg. However, the SAA was to come into force only after all 27 member states ratify it, and the EU suspended the trade-related agreement from coming into effect until Serbia demonstrated it cooperated with the ICTY. In May 2009, the European Commission handed over to the Serbian government a Road map on Visa Liberalisation, whose final aim was achieving a visa free regime for Serbian citizens wishing to travel to the Schengen countries, and in July 2009 the Commission proposed to grant Serbia the liberalisation. On 19 December, 2009, the visa-free travel for Serbian citizens in the EU became a fact, and three days later the country officially deposited its application for membership of the bloc. Earlier that month, the EU unblocked the Interim Trade Agreement, which Serbia had unilaterally started to implement. In June 2010, after a positive report by the ICTY chief prosecutor, the process for the SAA ratification in all EU national parliaments was officially launched.¹⁷⁹

¹⁷⁸ Delegation of the European Union to the Republic of Serbia. Available at <http://www.delscg.ec.europa.eu/code/navigate.php?Id=194> (my bulleting).

¹⁷⁹ See European Commission, http://ec.europa.eu/enlargement/potential-candidate-countries/serbia/eu_serbia_relations_en.htm.

A current snapshot of Serbia: democracy, politics and the economy

According to the latest *Nations in Transit* report by Freedom House, released in June 2010, Serbia has slightly improved its overall democracy score to 3.71 from 3.79 in 2009 (on a scale from 1 to 7, where 1 stands for highest level of democratic progress and 7 for lowest). Compared to the other countries of the Western Balkans, Serbia shares the best 2010 score together with Croatia, followed by Montenegro and Macedonia with 3.79, Bosnia with 4.25 and Kosovo with 5.07. The report states that “there were significant improvements in Serbia in 2009 in the areas of civil society, local governance, and national democratic governance. Parliament passed a number of long-awaited laws, including the Antidiscrimination Law, the Law on Associations, the [northern province of] Vojvodina Statute and accompanying Law on Transfer of Jurisdiction from national to municipal government, as well as the Law on Financing of Political Organisations.” It mentions the country’s progress on the EU path (the visa abolishment, the unfreezing of the trade agreement and the membership application). At the same time, Freedom House points out that “[d]espite these welcome trends, concerns persist over whether Serbia can maintain full cooperation with the ICTY in apprehending the two remaining fugitives—Ratko Mladić, former military chief of Serbs in Bosnia, and Goran Hadžić, a former Serb leader in Croatia.”¹⁸⁰

Viewed in terms of the different components of the general democracy score, Serbia has made progress in “National democratic governance” (3.75 from 4.00 a year ago), reflecting the EU integration progress; in “Civil society” (2.50 from 2.75), after a marked increase in cooperation between the government and NGOs; and in “Local democratic governance” (3.50 from 3.75) following the settling of the Vojvodina status. Serbia stayed at the same level in the categories of “Electoral process” (3.25), “Judicial framework and independence” (4.50) and “Corruption” (4.50). It registered deterioration in “Independent media” (3.75 to 4.00) due to the adoption of controversial new laws, causing concerns that they “could further increase self-censorship, economically weaken the media sector, and jeopardise its independence in relation to the country’s political powers. Recent attacks against journalists and media outlets, in addition to previously unresolved murders and attacks, have created a climate where violence against journalists increasingly appears to go unpunished.”¹⁸¹ The report concludes that “Serbia has applied for EU candidacy and membership negotiations are expected to begin in 2010, conditioned on the state’s full cooperation with the ICTY as well as continued harmonisation of laws with European standards. The government will need to balance international obligations while undertaking major economic and political structural changes in the country. Some of these changes, such as budgetary cuts, reduction in salaries and pensions, as well as job cuts, may face strong public opposition and lead to social unrest.”¹⁸²

Of course, the most important challenge before the Serbian government has been implementing reforms. The last year or so has been a murky period of economic recession and austere recovery measures. This is understandably not characteristic only of Serbia, but being a country in transition Serbia had to incur specific political and social repercussions of the crisis. The government had to devote more of its time and resources to crisis management and leave for awhile some important reforms. A study by the Belgrade-based Centre for Liberal-

¹⁸⁰ Freedom House. *Nations in Transit 2010: Serbia*, p. 454. Available at <http://www.freedomhouse.eu/images/nit2010/NIT-2010-Serbia-proof-IL.pdf>.

¹⁸¹ *Ibid.*, p. 455-56.

¹⁸² *Ibid.*, p. 457.

Democratic Studies (CLDS) says that “in 2009 the main focus of attention both of the government and the public was the economic crisis, which spilt in at the end of 2008 from the developed world [into Serbia], and for that reason economic and social policy took precedence over institutional reforms.”¹⁸³ It pinpoints several areas where reform effort has not brought about the desired results. According to the study: the newly agreed status of Vojvodina does not in fact offer real decentralisation but only nominal; the role of the International Monetary Fund and the World Bank has been downsized in 2009 as opposed to their previous insistence on reform; the work of the parliament was hasty, with its endorsing many imperfect laws without due debating; the parliament’s relative balance against the government has been losing ground, as it merely voted on legislative bills prepared by the government, with no initiatives on its own; regulatory reform has severely lagged behind, and introduction of licensing laws will be of little benefit to the functioning of the institutions and businesses.¹⁸⁴

Regarding internal political relations, Serbia has enjoyed a relatively stable coalition government since the 2008 election. The leading parties in the coalition are DS, the Socialist Party of Serbia (SPS) and G17+. While DS and the expert and economically oriented G17+ have had a record of cooperation, there were initial fears that SPS will not be able to fit in the scheme. Indeed, SPS is the party of former president Slobodan Milosevic. But judging by their performance so far and the number of EU-required legislation that the majority in parliament has adopted, the coalition is functioning. For example, in 2009 the parliament passed 265 bills compared to 184 bills in the entire three-year period before that (2006-08). In 2008 it passed only 50 bills.¹⁸⁵ On the other hand, the coalition nature of a government is always a predisposition for instability. Serbia has since the fall of Milosevic in 2000 enjoyed exclusively coalition governments, and has had several early elections because of dissent in the ruling majority. As put by Vujacic, “The character and composition of the coalition government have for only a year of activity had immediate effects, showing that the strength of the government is inversely proportional to the party interests, and that the functionality of the executive and the state interest were often set aside when the interests of the coalition partners were at stake. As regards coalition looseness and unsteadiness, these are demonstrated by the mutual blackmailing while adopting laws, when one coalition partner threatens to not take part in the voting... and the failure to pass certain bills which thus linger in procedure.” Yet the government has been strong in another way – a dominant factor in relations with parliament.¹⁸⁶

The policy lines and behaviour of opposition parties in Serbia have also been heterogeneous, even concerning strategic foreign policy objectives such as EU membership. While a general consensus about the EU future of the country exists, and the public has shown that in the 2008 election, the opposition Democratic Party of Serbia (DSS), led by former prime minister Vojislav Kostunica, has sent controversial signals. In June 2010 Kostunica said that “Soon there will be two years since the erroneous policy of the current government was launched that the EU has no alternative. Serbia will have to find an alternative because the EU, with its problems, is putting further enlargement in a parallel or blind track.” He also cited internal

¹⁸³ Mijatovic, Bosko. “Opsti pogled na institucionalne reforme” [General View on Institutional Reforms]. In Bosko Mijatovic (ed), *Institucionalne reforme u 2009. godini* [Institutional Reforms in 2009]. Belgrade: Centre for Liberal-Democratic Studies (2010), p. 9. Available at www.clds.org.rs.

¹⁸⁴ Ibid., p. 10-23.

¹⁸⁵ Vujacic, Ilija. “Upravljanje u Srbiji ili kako funkcionise institucije” [Administration in Serbia or How Institutions Function]. In Bosko Mijatovic (ed), *Institucionalne reforme u 2009. godini* [Institutional Reforms in 2009]. Belgrade: Centre for Liberal-Democratic Studies (2010), p. 26. Available at www.clds.org.rs.

¹⁸⁶ Ibid., p. 32.

contradiction between Serbia's constitution, which states that Kosovo is part of Serbia, and the fact that 22 EU member states have recognised independent Kosovo.¹⁸⁷ On the other hand, another big opposition party, the predominantly nationalist Serbian Progressive Party (SNS), which splintered from the Serbian Radical Party led by United Nations war crimes indictee Vojislav Seselj (currently in custody in The Hague), has stated it is in favour of European integration and if it came to power the current policy would not change.¹⁸⁸ SNS has also succeeded in becoming an acceptable partner of the West.¹⁸⁹ The current movements and processes on the Serbian political scene are aptly described by *Vreme* weekly:

In the so-called right-wing (pro-European) opposition, an intense struggle is going on for the leading position – but not on the so-called patriotic issues, as it might be expected in light of the forthcoming decision of the International Court of Justice on the self-proclaimed independence of Kosovo, but on economic and social issues. The so-called left-wing (pro-European) opposition, at the same time, defies the government because of the lack of promptness in adopting European [EU-required] laws and urges all scary secrets in the talks with the International Monetary Fund to be revealed. The government (pro-European, certainly) also re-arranges its forces and makes new, seductive promises.¹⁹⁰

Institutional functioning

While the last year or so has been extremely important for Serbia's advancement on the EU path, there are some characteristics of its democracy and political process which may still be regarded as controversial. These shortcomings will need to be addressed in the future if Serbia is to obtain an EU candidate status and start accession negotiations. Before taking a closer look at them, it should be noted that Serbia's institutions are direct successors of the relatively stable and efficient institutions of the former Yugoslavia. The country's institutional infrastructure has at any point in time been better placed even than that of current EU member states Bulgaria and Romania. What is crucial is that there is political will at the elected top that will propel those institutions into effective action. Coming back to the problematic aspects, the first one is what Vesna Pestic calls "feudal-type party system" or "confederation of party fiefs."¹⁹¹ As mentioned above, Serbia has since 2000 had only coalition governments. This coalition structure has led to a practice of vertical distribution of governance portfolios, and virtually the whole public sector, among the parties in the ruling coalition (leading eventually to widespread corruption and state capture). For example, one party controls the communications ministry and the national telecoms company and the postal monopoly and so on downward on the vertical axis. Thus the political party in Serbia has become the centre of real political power, its leader being the "feudal landlord," and traditional institutions for a democracy such as the cabinet of ministers or the parliament have been weakened.¹⁹²

Second, and partly explaining the first feature, there is the constitutional postulate that in Serbia MPs' mandates are not given to the MPs themselves but to the party they represent.

¹⁸⁷ "DSS: EU ima alternative" [DSS: EU Has Alternative]. *Radio Televizija Srbije (RTS)*, 24 June 2010. Available at www.rts.rs.

¹⁸⁸ "Nova vlast ne bi promenila odnos prema EU" [New Government Would Not Change Attitude to EU]. *Radio Televizija Srbije (RTS)*, 12 June 2010. Available at www.rts.rs.

¹⁸⁹ Bacevic, Batic. "Marketing ce odluciti sve" [Marketing Will Determine Everything]. *NIN*, 6 May 2010. Available at <http://www.nin.co.rs/pages/article.php?id=52046>.

¹⁹⁰ Didanovic, Vera. "Kampanja za izbore kojih nema" [Campaign for Elections Which Do Not Exist]. *Vreme*, Issue 1013, 3 June 2010. Available at www.vreme.com.

¹⁹¹ See Pestic, Vesna. "State Capture and Widespread Corruption in Serbia". The Centre for European Policy Studies (CEPS), working document No. 262/March 2007. Available at www.ceps.eu/ceps/download/1309.

¹⁹² *Ibid.*, p. 7.

Thus when a given candidate is elected, the one who *de facto* receives the mandate is his or her party leader. It has also been a practice in Serbia the MPs to sign blank resignations upon assuming office and hand them to their leader, so that he can dispose of them whenever they show disobedience or whenever some personal disagreements appear.¹⁹³ Another persisting constitutional weakness which directly breeds conflict of interest and corruption and which holds back institutional development in Serbia is the fact that MPs are allowed to take up several posts apart from their MP position. Thus they participate in numerous company boards, serve as directors in state agencies and other executive bodies and also run their own businesses.¹⁹⁴

The third shortcoming of institutional performance, as already mentioned, may be sought in the fact that although the parliament adopted numerous laws required by the EU in Serbia's Stabilisation and Association Process, many of them were adopted hastily, under urgent procedure, with the sole purpose of getting it done to make eyes in front of the European Commission. Many of the bills passed in 2009 were not preceded by debates (and thus in a way improved), and some laws were supposedly irrelevant to Serbian reality.¹⁹⁵

Public administration

Public administration reform is one of the key requirements of the European Commission in the association and accession process of potential candidate and candidate countries. This is because the public administration of a country is the key agent of the entire European integration process – it must have the necessary capacity and be efficient enough in carrying it on its shoulders. This process has two closely related aspects: i) developing a capacity to prepare, coordinate and successfully conclude the association/accession process; and ii) building a capacity to implement the EU's *acquis communautaire* and secure the smooth functioning of the new member state within the EU. Indeed, the fulfilment of pre-accession criteria involves the incorporation of some 20,000 legal acts in the domestic legislative system of a candidate country. What is more important, public administration is the agent of execution of these acts and of implementation of public policy in general.¹⁹⁶ All these reforms, of course, contribute to institutional advancement and better functioning of democracy.

The European Commission's 2009 progress report on Serbia praises the country's advancement in, among other things, public administration reform. While the report will be the subject of a section below, alternative views within Serbia point to some difficulties in this important process on Serbia's EU integration path. According to Vujacic, despite the Commission's positive assessment, little has been done in the legislative framework regulating public administration reform in 2009. The main problems of present-day Serbian administration and civil service are: the vulnerability to political influence – an independent administration with more authority would be more efficient and contribute to the rule of law; and the high number of civil servants and public officials (30,730 in 2009) – their reduction would contribute to professionalization and rise in effectiveness.¹⁹⁷

¹⁹³ Vujacic, p. 35.

¹⁹⁴ Pesic, p. 19.

¹⁹⁵ Vujacic, pp. 27-31.

¹⁹⁶ Rabrenovic, Aleksandra. *Reforma drzavne uprave I integracija u EU* [Public Administration Reform and EU Integration]. Belgrade: Ministry of Public Administration and Local Self-government (2009), p. 31. Available at www.undp.org.rs.

¹⁹⁷ Vujacic, pp. 36-37.

Corruption and organised crime

As aptly described by Pesic, the main agents of corruption in Serbia have been political parties. They redistribute public resources via a vertical “feudal-type” scheme, whereby each partner in the ruling coalition obtains a portfolio in government and a portion of the public sector corresponding to it and assigns party cadres to run it and exploit it. This contention by Pesic is reflected in a March 2010 public opinion survey conducted by TNS Medium Gallup and supported by the UNDP. According to the survey, 80% of the respondents (the highest number by far) said political parties are the sector in society which is most affected by corruption. Parties are followed by judges and the health system (each with 70%). “In addition, 87% think that politicians have no true will to fight corruption, because they benefit from it.”¹⁹⁸ Other interesting figures found in the survey are: almost 90% of Serbs say that corruption is common practice; 55% think that giving a bribe is sometimes the only way to overcome bureaucracy; 61% said that new legislation on corruption will not be effective; and yet 57% believe that the government is the most powerful institution for corruption suppression.¹⁹⁹ However, Serbian anti-corruption campaigners hailed the publication in June 2010 of a list of public officials’ assets on the anti-corruption agency’s website.²⁰⁰

International opinion on corruption in Serbia has not been so harsh, though. Serbia ranked 83rd out of 180 countries in Transparency International’s 2009 Corruption Perception Index with a score of 3.5 (scale of 1 to 10, where 10 is lowest corruption), up from 85th place and a 3.4 score in 2008.²⁰¹ In its latest 2009 report, the European Commission states that

Serbia made progress in the fight against *corruption*. The law enforcement authorities have shown higher commitment to fighting corruption, leading to the arrests of several suspects, and a number of high-profile cases have been opened. Parliament has elected the executive board of the new Anti-Corruption Agency which will become operational in 2010. Corruption, however, remains prevalent in many areas and continues to be a serious problem. Public procurement and privatisation are particularly vulnerable sectors. Final convictions in corruption cases are rare. There are shortcomings in the Law on the Anti Corruption Agency and there is insufficient supervision of the financing of political parties and of cases of possible conflict of interest.²⁰²

According to Freedom House’s 2010 *Nations in Transit* report, “[i]n 2009 corruption and economic crime in Serbia remained major issues for public policy...The sectors most vulnerable to corruption were public procurement and other large public expenditures, as well as taxation, customs, and licensing.”²⁰³

Organised crime has been one of the most serious challenges to security, democracy and European integration not only in Serbia, but also on the entire Balkan peninsula. Serbia has been especially notorious in this respect after the assassination of prime minister Zoran Djindjic in 2003 by an organised crime group known as the Zemun Clan. Organised crime in

¹⁹⁸ TNS Medium Gallup. *Serbia Corruption Benchmarking Survey, March 2010*. Available at www.undp.rs.org.

¹⁹⁹ Ibid.

²⁰⁰ Barlovac, Bojana. “Serbia Corruption Campaigners Hail Publication of Officials’ Assets”. *Balkan Insight*, 17 June 2010. Available at <http://www.balkaninsight.com/en/main/analysis/28838/>.

²⁰¹ Transparency International. *Corruption Perception Index 2009*. Available at www.transparency.org.

²⁰² European Commission. *Conclusions on Serbia: extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2009-2010"*, COM(2009)533 final, pp. 1-2. Brussels, 14 October 2009. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_serbia_en.pdf.

²⁰³ Freedom House, pp. 468-9.

the Balkans has been strongly connected with the former communist security services and has benefited from the cross-border channels established by them to exert destructive influence on the West. In the countries successors of the former Yugoslavia, these groups are also linked with the paramilitary formations which took part in the wars between 1991-95.²⁰⁴

After Djindjic's assassination, Serbian police and security forces undertook a major crackdown on organised crime, the so-called operation "Sword". The Zemun Clan accomplices were apprehended and subsequently sentenced. The latest arrests in this case were in June 2010 when Milos Simovic, a member of the Clan, was caught trying to cross illegally into Serbia from Croatia after killing another Zemun Clan member in Zagreb, Sretko Kalinic.²⁰⁵ Yet challenges remain. According to the European Commission, "[o]verall, there has been progress in the fight against organised crime, but tangible results are still rare. Organised crime remains a serious cause for concern, in particular in the region adjacent to the administrative boundary line with Kosovo."²⁰⁶

The economy

Economic growth in Serbia was robust in the mid-2000s. After having grown by 5.6% in 2005 and 5.2% in 2006, the Serbian economy expanded by 6.9% in 2007.²⁰⁷ In 2008, the year the crisis began, economic growth reached 5.5%, despite the weaker fourth quarter. The vibrant growth was to a great extent the result of a high inflow of foreign capital – remittances, cross-border, interbank and intercompany credits, support by the international financial institutions, foreign direct and portfolio investments – which spurred domestic demand and the consequent high economic activity. That is why Serbia has maintained a very high current account deficit for years, reaching 18% of GDP in 2008, and has become highly dependent on capital inflow.

The spill-over of the financial and economic crisis into Serbia took place in the same pattern and simultaneously with the spill-over in other countries in transition. The first signs of crisis showed in the third quarter of 2008, when exports and industrial output started to fall. The economy, however, kept growing in the fourth quarter, too, despite at a lower pace. It shrank by 4.2% year-on-year in the first quarter of 2009, 4.0% in the second and 2.3% in the third quarter. "Such GDP dynamics is the consequence both of a reduction in demand for Serbian products abroad and the fall of foreign capital inflow, which brought down domestic consumption."²⁰⁸ The effects were most visible in the volumes of retail trade, real estate purchases and in new car purchases. Unemployment rose, and loan indebtedness rose due to the weaker national currency, the dinar, compared to the euro.

In sum, Serbia was not prepared when the crisis hit. The private sector is small, with low levels of savings and humble exports; the public sector is too big... salaries and pensions are too high, dependent on foreign capital inflow, and all this makes the structure of unhealthy. The result is an economy of low

²⁰⁴ See United Nations Office on Drugs and Crime. *Crime and Its Impact on the Balkans and Affected Countries*. March 2008. pp. 10-12. Available at www.unodc.org/documents/data-and-analysis/Balkan_study.pdf.

²⁰⁵ Barlovac, Bojana. "Serbian Police Arrest Second Man Convicted for PM Murder". *Balkan Insight*, 10 June 2010. Available at <http://www.balkaninsight.com/en/main/news/28654/>.

²⁰⁶ European Commission. *Serbia 2009 Progress Report*, p. 54. Brussels, 14 October 2009. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/sr_rapport_2009_en.pdf.

²⁰⁷ The account of the effect of the economic crisis on Serbia, including the data, is drawn from Matkovic, Gordana, Bosko Mijatovic & Marina Petrovic. "Utica j krize na trziste radne snage i zivotni standard u Srbiji" [The Effects of the Crisis on the Labour Market and the Standard of Life in Serbia]. Belgrade: Centre for Liberal-Democratis Studies, January 2010. pp. 11-13. Available at <http://www.clds.org.rs/newsite/Utica j%20krize.pdf>.

²⁰⁸ *Ibid.*, p. 12.

productivity, low savings and low exports. Nevertheless, the Serbian economy managed to stay on its feet. This is a consequence of the mildness of the recession in developed countries and the low export dependence of Serbia, as well as the support of international financial institutions and some smart moves by the central bank. The fundamental problem was the fiscal system, torn between the need to finance inelastic expenditures and falling revenues.²⁰⁹

A very important factor in Serbia facing the challenge of the crisis was the signing of a stand-by loan agreement with the International Monetary Fund (IMF). The agreement was approved initially in January 2009 for 15 months for an amount of some 420 million euros. In May of the same year it was extended by one year and the amount raised to 3.88 billion euro “to support the government's economic program amid a sharper than expected impact from the global financial crisis.”²¹⁰ Some of the conditions for the loan were Serbia to step up pension reform and cut public sector expenditure. In June 2010, the IMF board concluded Serbia is fulfilling its obligations and approved a fourth tranche as part of the loan. The IMF said that

Economic performance continues to be broadly satisfactory, in spite of a weaker macroeconomic environment during the first half of 2010. Serbia's external financing position has improved markedly, the reserve position is broadly comfortable, and inflation remains in check. Notwithstanding these positive developments, Serbia remains vulnerable to adverse financial spillovers from the region.

The authorities' fiscal adjustment strategy continues to focus on medium-term consolidation. Automatic stabilizers will be allowed to operate in the short term in response to a shortfall in tax revenues. The planned fiscal responsibility legislation will further enhance policy credibility.

The continued disinflation has allowed a gradual easing of monetary policy. Nevertheless, vigilance is called for, given still unanchored inflation expectations and the potential for increased pass-through of recent exchange rate depreciation. The authorities have developed a strategy for reducing risks from high euroization.

The Serbian financial sector has proved resilient, and foreign parent banks' exposures have remained stable despite the recent lowering of exposure limits under the Bank Coordination Initiative.

The authorities remain strongly committed to the structural reform agenda aimed at improving the business environment, promoting private investment, and enhancing the country's export capacity, including through privatization and upgrading of infrastructure.²¹¹

Despite the healthy influence the IMF agreement may have on the Serbian economy, the country's finances and its European integration, there might be also some negative collateral effects. As the agreement requires cuts in public sector spending and pension reform, it will lead to substantial layoffs in the administration and freezing of pensions, which might cause social tensions and slowdown in reforms. If these changes are implemented, they will also lead to further drop in the purchasing power of Serbian population and thence to reduction in consumption, which will not have a positive impact on economic growth in the midst of crisis.

As regards the perspectives for the Serbian economy, growth indicators are positive, with merchandise exports and industrial production on the rise. GDP fell by 3.0% in 2009 but is forecast at 0.0% this year and a positive 2.2% in 2011.²¹² The launched SAA ratification by EU member states will send a positive signal to investors. On the other hand, recovery is still weak and centred on only a few sectors, the depreciating dinar may bring about inflation concerns, and lower FDI inflows drive higher basic balance deficit.²¹³

²⁰⁹ Ibid., p. 13.

²¹⁰ International Monetary Fund. “IMF Completes Fourth Review Under Stand-By Arrangement with Serbia and Approves US\$472.9 Million Disbursement.” Press release from 28 June, 2010. Available at <http://www.imf.org/external/np/sec/pr/2010/pr10265.htm>.

²¹¹ Ibid.

²¹² Sararvanja, Goran. “Serbia”. *UniCredit CEE Quarterly*, June 2010, p. 44. Available at <http://www.bankaustria.at/en/5295.html>.

²¹³ Ibid.

Current state of EU integration and perspectives

Serbia has achieved palpable progress on its path to EU membership since the DS-led government came to power in mid-2008. The kick-off event was the capture and extradition to The Hague of key United Nations war crimes suspect Radovan Karadzic in July 2008. Serbia's cooperation with the ICTY has been of central significance for its advancement to the EU. Many Commission and Council decisions on Serbia have been taken only after the regular report of ICTY Chief Prosecutor Serge Brammertz on countries' cooperation has been consulted. From a press release on Brammertz's latest report before the UN Security Council it becomes clear that Serbia is cooperating with the ICTY, yet more needs to be done:

The Prosecutor ... noted that Serbia "has continued to respond adequately to requests for assistance, by providing access to documents, archives and witnesses" and highlighted the importance of the recently seized diaries and other materials belonging to the fugitive Ratko Mladić. He also noted, however, that Serbia's efforts to apprehend the two remaining fugitives – Ratko Mladić and Goran Hadžić - "have thus far produced few tangible results" and that "Serbia's current operational strategies need to be reviewed." The Prosecutor also informed the Security Council that he had "expressed these concerns at the European Union's Foreign Affairs Council" and that he "reiterated to the Ministers that the support of the European Union in securing cooperation of States, has not only been extremely effective in the past, but will remain essential in the future."²¹⁴

In 2009 the Skupstina (the national parliament) passed a record number of bills (three times as many as in the whole period 2006-08) which were entailed in the Stabilisation and Association Process. In December 2009 Serbian citizens obtained to travel visa-free in the EU, the bloc started to apply the Interim Trade Agreement with the country (part of the SAA) and Serbia officially filed for membership. In June 2010 the SAA ratification by EU member states was launched. Serbia hopes to obtain an EU candidate status by the end of 2010.

The European Commission's 2009 progress report on Serbia reflects the positive developments in the Balkan country's European bid. It notes the progress in meeting the **political criteria**, with important laws having been drafted by the cabinet and passed by parliament, with a public administration with a good overall capacity and with a broad respect for civil and political rights and better communication between the authorities and the civil society. It said further efforts were needed in smoothing out the electoral process, in the judicial reform and the freedom of expression of minority groups.²¹⁵

Because of the world economic crisis and its severe impact on Serbia, the economy part of the report was less encouraging: "As regards the **economic criteria**, Serbia made only limited further progress towards establishing a functioning market economy. Further efforts will be needed to enable Serbia to cope in the medium-term with the competitive pressures and market forces within the EU. Structural reforms need to be accelerated."²¹⁶

²¹⁴ ICTY. "Prosecutor Brammertz's Address before the Security Council". Press release from 18 June 2010. Available at <http://www.icty.org/sid/10423>.

²¹⁵ European Commission. *Conclusions on Serbia: extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2009-2010"*, COM(2009)533 final, pp. 1-2. Brussels, 14 October 2009. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_serbia_en.pdf.

²¹⁶ Ibid., p. 4.

The European Commission noted progress in Serbia's meeting of the European standards as part of the Stabilisation and Association Process. It said that

Serbia has made progress in aligning its legislation and policies to **European Standards** and has started to implement the Interim Agreement according to the provisions and schedules established in that agreement. Customs duties were lowered with effect from 30 January 2009, and relevant measures were taken in the areas of competition, state aid and transit traffic. Furthermore, Serbia has adopted important legislation in a number of areas including agriculture, environment, employment, competition, public procurement and justice, freedom and security. Administrative capacity has been improved in key areas for the implementation of the Stabilisation and Association Agreement. However, Serbia needs to make further efforts to ensure effective implementation and enforcement of EU-related legislation.²¹⁷

Perspectives

Serbia's European prospects will remain good if it continues with the intense legislative work, puts more effort in reform and keeps cooperating with the ICTY in the localisation and capture of the two remaining war crimes suspects, Ratko Mladic and Goran Hadzic. Indeed, in his first visit to Belgrade after taking office in December 2009 and his first visit after his home Belgium took over the EU's rotating presidency, in July 2010 the President of the European Council confirmed the European perspective of Serbia and the entire Western Balkans.²¹⁸

In a recent policy brief, the pan-European think tank European Council for Foreign Relations (ECFR) makes a good account of what should be done in the Western Balkans and Serbia in particular in order not to lose the momentum of their EU integration efforts. It notes that the Council has not yet accepted Serbia's application for candidate status and forwarded it to the Commission because some member states insist on further reports by ICTY's Serge Brammertz on the country's full cooperation with the court. "The Commission should nevertheless give Serbia a questionnaire as soon as possible. The questionnaire process, which takes up to six months to complete, constitutes a capacity-building exercise in itself. It forces the country to assess where it really stands on a range of issues, from the quality of its statistics (a crucial issue in the wake of the Greek economic crisis) to the functioning of its judiciary."²¹⁹

²¹⁷ Ibid., p. 4.

²¹⁸ Barlovac, Bojana. "Van Rompuy: Serbia Has Clear European Perspective". *Balkan Insight*, 5 July 2010. Available at <http://www.balkaninsight.com/en/main/news/29238/>.

²¹⁹ Grabbe, Heather, Gerald Knaus & Daniel Korski. "Beyond Wait-and-see: The Way forward for EU Balkan Policy", p. 3. European Council on Foreign Relations, May 2010. Available at http://www.ecfr.eu/content/entry/beyond_wait-and-see_the_way_forward_for_eu_balkan_policy.

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THE WESTERN BALKANS: BETWEEN THE ECONOMIC CRISIS AND THE EUROPEAN PERSPECTIVE

CONCLUSION

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In order to be successfully integrated into mainstream Europe, the Western Balkans need to complete at least four major aspects of transition. **First**, the countries from the region need to complete the process of post-communist transition, related to the establishment and consolidation of functional democratic institutions, capable of catering services to the community of citizens and of generating stability, security and prosperity for their nations.

Second, the societies of the Western Balkans need to finalize the process of post-conflict recovery, which is a key condition for the rebuilding of efficient national institutions reflecting the will of an integrated civil national community. This is a complex task involving inter-communal reconciliation, strengthening of reformist civil forces and successful nation-building in all cases of newly emerging national communities.

Third, the countries of the region need to mobilize their human and institutional potential in order to successfully complete the process of societal, economic and political modernization. All countries on the Balkans harbor uneasy amalgams of traditional and modern society which keep clashing, in a series of painful memories throughout the contemporary history of the region. Modernization is a painful process by definition, because it involves dynamic shifts in the value systems and life-styles of a society. It becomes even more painful as a consequence of controversial social and political developments, shifting the emphasis from modern development to tradition and vice versa. A final success of the modernization of the region is indispensable in order to provide stable chances for development and peaceful resolution of traditional conflicts shaking the Balkan region for more than a century. Balkanization is – in effect – a long-term crisis of modernization. Most vices that plague the successful development of all Balkan countries relate to unfinished modernization: large scale organized crime, founded on the clan structures of traditional society; high-level corruption, stemming from civil society weakness and models of patrimonial functioning of the state; and intense use of religion and identity as a means to national consolidation and “greatness”. Successful modernization presumes a hegemony of democratic and reformist elites in politics and society.

Fourth, the Western Balkan nations need to merge into the mainstream of the post-national European architecture, aimed at uniting different national communities under the values of interdependency and plurality of identities.

It is obvious for any unprejudiced observer that the Balkan region could not successfully cope with all four challenges of transition without strategic assistance from the European Union. To all possible questions of the type – “Why should the EU care for everybody’s transition success”, we need to forward an obvious answer: integrating the Balkans is the cheaper and

more beneficial strategic option; the other is paying the price of the maintenance of a large “ghetto” of poverty, instability, inter-communal conflict and expanding organized crime with all consequences that follow for Europe proper. If Europe has no other option, it is necessary to focus on the reasonable way to follow – short track integration and accession for the region.

Having said that, we have to admit the enormous challenge of the task stemming from the heterogeneity of approaches that have to be applied to the diverse Balkan environment. **Flexibility** and **comprehensiveness** should be the principles underlying the EU’s strategy for the region’s accession. It won’t be simply accession - it will be a developmental program for integration – economic, institutional and educational. Supporting reformist elites with all possible instruments is crucial in light of the unresolved national disputes and of a possible temptation by rising authoritarian alternatives for successful development (Russia, China, etc.) The following general recommendations might be formulated as part of a roadmap to serve Western Balkan accession to the EU.

1. Benefits of membership should be available *during* the accession period. European markets access, cohesion and structural funds of the EU, adapted to the needs of the candidate countries of the region, should be made accessible even before membership.
2. Education, culture, fellowships and experts exchange – those are only a few of the areas in which reformist civil, political and expert communities could be supported in fulfilling their duties for communal and institutional transformation on the road to accession.
3. The EU very fond of funding governments and official institutions. The successful transformation of Balkan societies, however, largely depends upon supporting media and public opinion institutions, civil society infrastructure and communal activities networks which exercise pressure and work to reform national institutions, congested with corruption, irresponsibility and oligarchic control.
4. EU membership means – among other things – direct access to the EU’s institutions and decision-making. The Western Balkan governments should be granted observer status, involving consultative vote, in decision-making in Brussels – in particular on issues relevant for the region.
5. The membership of the EU should be pursued as a process. When a country becomes a member, you just wake up on day 1 of membership and nothing has changed overnight. Things have either improved during the accession, or they will have to change after the first official day of membership has passed. It is very important for the citizens of the Balkan countries to know that they are effective members of the EU – as citizens and as communities. “Full membership” is an administrative abstraction. Membership should step in every day in many different ways. The accession process should be adequately guaranteed within a “carrot and stick” approach, yet it should be clearly visible as a process, not as a final goal.
6. Official membership will be granted to different countries at different times. The weaker countries will move more slowly, and there is a clear danger of their marginalization in the process. Flexibility must be applied so that with every successful accession, the rest are given a new set of stimuli to continue – both ‘carrot’ and a ‘stick’.
7. The strategy of sustaining protectorates should be changed. Protectorates in the Western Balkans are generously funded to guarantee their compliance to the imposed political

framework by the international community. Yet compliance is insufficient, and sometimes it is not even necessary. If we need an organic society of BiH we need to stimulate it as a process, and not simply keep a minimalist status of enforced tolerance.

8. The EU should develop much more invasive instruments of influencing and enforcing institutional transformation in the candidate countries of the Balkan region, provided the grim experiences of previous accessions like those of Romania and Bulgaria. The internal affairs – law and order, judiciary, organized crime and corruption control – should be made accessible for direct EU intervention and transformation as a part of the sharing of sovereignty in the process of accession.

9. The idea of a United Europe is embodied in the principles of free movement of people, capital, goods, services, ideas, knowledge and technologies. That is why the Western Balkans primarily need investment in the following areas: 1) the modernization of infrastructure networks for the advancement of road and general communication connections among the countries in the region and between them and Europe, and 2) energy. The strength of the oligarchic powers, the backwardness of the Balkan mentality, the general intractability for change and opening to a great extent are caused by the modern serfdom and the settled way of life of Western Balkan citizens. This, on its part, is a consequence of the lack of a modern and fast road and communication infrastructure. The disrupted railway connections among the countries of the region over the last 20 years (because of wars or bankrupt state railway companies) deprived the citizens and trade from the relatively cheap and easy transport connection to and from Europe. The newest initiative by Croatia, Slovenia and Serbia for the rehabilitation of the railway network should not only be supported by the EU but also expanded to include the rest of the Balkan countries.

10. Visa-free travel should be immediately granted to all Western Balkan countries. Currently, Bosnian, Albanian and Kosovo citizens cannot travel in the EU without previously going through the burdensome and slow procedure of visa application (visas for Serbs, Montenegrins and Macedonians were abolished in December 2009). The European Commission has proposed the removal of the visa requirements for Bosnians and Albanians from the autumn of 2010. The Council should embrace that proposal and move to abolish visas for Kosovo citizens, too.

The EU needs a comprehensive strategy of integrating the Western Balkans into the European mainstream. Despite all the positive impact of EU programs and policies on the Balkan countries, indecisiveness, controversial messages and red tape clumsiness tend to weaken the attraction of Europe as undisputed model for societal and political development among Balkan elites and societies. The European path had no alternative until the early 2000s, which is not the case today. The relative success of Putin's Russia to stabilize the economy and impose law and order, the economic miracles of still authoritarian China and – last but not least – the powerful revival of Turkey next door: all those examples of success open a space of pragmatic calculations and opportunistic political games of a number of Balkan political leaders and communal elites. In the Western Balkans, Europe thus operates within an environment of competition with alternative international factors and models of development. This makes it more difficult for the EU member states to assist transformation and facilitate the integration of the Western Balkans into the bloc. The success of the Western Balkans' EU accession is needed as a part of the overall success of Europe to establish itself as a viable and powerful global factor in the world of today and tomorrow.