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**Research Report**

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## The EU and the Balkans: From Association to Membership?

Marie-Janine Calic

Despite more recent overseas challenges, the Balkans still figure prominently on the EU's foreign policy agenda. But new political priorities, financial constraints, and the implications of enlargement require a thorough reassessment of the Union's approach to the region. The upcoming EU-Western Balkans summit in Salonica in June 2003 offers an opportunity for evaluating strategies and goals, and adjusting instruments to new circumstances. This paper recommends reinforcing complementarity between the EU's main integrative processes for the Western Balkans, in particular the Stabilisation and Association Process (SAP) and the Stability Pact; to give the EU-accession dimension greater weight within the SAP; and to reduce the region's dependency on aid by substituting external assistance with indigenous growth.

Today, the EU is more substantially engaged in the Balkans than ever before. But the changing political environment requires that the EU reconsider its approach:

- ▶ **Balkan fatigue:** The International Community has supplied considerable financial and technical assistance to the region, which amounts to more than EUR 6 billion per year. In light of new foreign political priorities, donors call for a more targeted and efficient use of resources.
- ▶ **EU enlargement** in 2004 will have significant political, economic, and psychological implications for the Balkans. It risks drawing new dividing lines between new members and applicants and deepening divergence between the accession countries and the "left outs" in Southeast Europe. Since Croatia has, in February 2003, officially applied for EU membership, the hitherto unified strategic approach towards the Western Balkans is at stake.
- ▶ **Unfinished business:** Since the early 1990s, the EU has assumed ever greater responsibility in managing crises, peace-building and economic reconstruction in the Balkans. Today, the region is in better shape than it has been for a decade; however, peace is not yet irreversible and self-sustaining. The strategic aim of the EU is to help countries of the region to eventually become members of the Union. But are the strategies and instruments used really appropriate to accomplish this ambitious goal?

## Testing the SAP

The centrepiece of the EU's long-term strategy towards the Western Balkans is the Stabilisation and Association Process (SAP). It is aimed at the five Southeast European countries, which were designated "potential members" of the Union at the Feira European Council in June 2000. These countries are Albania, Bosnia-Herzegovina, Croatia, Serbia-Montenegro and Macedonia. At the Zagreb summit in November 2000, the EU confirmed the goal of the Balkans' gradual integration into Europe and set the seal on the SAP. It is supported by an assistance programme (CARDS).

The core of the SAP is the conclusion of a Stabilisation and Association Agreement (SAA) which commits the SEE countries to a formal association with the EU, over a transition period. The EU signed the first SAA with Macedonia in April 2001 and a further with Croatia in October 2001. Because these agreements have not been ratified by all EU member states, they have not yet come into force. Only the Interim Agreements, covering trade and trade-related measures, concluded parallel with the SAAs have taken effect.

Prospects for the other countries are gloomy: Only Albania has started negotiations early this year, while the remaining countries are still at a much earlier stage of the process. Sarajevo still needs to fulfill the obligations of an agreed "road map" in order to qualify for a feasibility study. In Serbia-Montenegro, a Consultative Task Force (CTF) has been established, but progress has been hampered by unresolved issues such as creating conditions for a common market and monetary system. For Kosovo, which legally forms part of Serbia-Montenegro, a separate set of instruments is being developed.

In view of the long-term nature of the SAP, there are different views regarding its potential merits. Advocates of the process stress its ability to draw the countries of the region closer to the EU by the gradual implementation of a free trade area and of

reforms to achieve the adoption of EU standards. Countries in the region have, by contrast, voiced concerns that the SAAs could turn into an instrument to keep the SEE countries out of the European integration process.

Little attention has been devoted to the particular reform priorities set by the SAP which potentially narrow its impact. The SAP is a long term policy aimed at structural reforms which prepare for Union membership and strengthen capabilities to implement an SAA. The emphasis is thus on harmonising trade policies, improving border management and building administrative capacity. The basic assumption is that by setting the framework for structural change, the resolution of political issues will follow. Yet, urgent problems, such as ethnic conflicts or security threats, do require immediate and targeted action beyond the aims and means of the SAP. In Macedonia, for instance, where SAP conditions were thoroughly reviewed, violent conflict broke out shortly after the country had signed an SAA. The Commission acknowledges in its annual report that the SAP "has not cured the region of many of its pressing political, economic and social problems." In short, the accession process is no panacea ensuring state-building, conflict resolution, and economic growth – the necessary conditions for membership.

## The Development Dilemma

With regard to their EU approximation, Southeast European aspirants face a structural dilemma: The SAAs draw heavily on the Europe Agreements with the candidate countries and the experience of the EU's enlargement process. Again, the EU's priority of harmonising with EU policies may be well-suited for established market economies, but it is less appropriate for the conflict-ridden, institutionally weak and economically less developed countries in the Balkans. They are in need of more immediate policies to bring about transition and sustainable economic growth, not in

laying the foundations for meeting EU standards in the first place.

Because EU enlargement will further widen the gaps in economic performance between the “ins” and the “outs” of the Union, the need for sustainable economic development becomes even more urgent. Experience shows that the prospects for EU membership increase foreign investment, because risks and transaction costs are reduced. While the new members can expect higher financial appropriations if pre-accession funds are redistributed, the Balkans will receive comparatively less aid, unless current aid policy is changed.

Aspirant countries of the region have demanded increased financial assistance and new pre-accession allocations, particularly after 2006, when CARDS ends. But Commission reports show that due to the institutional weaknesses and limited absorptive capacity of the recipients, a large part of available European funding (e.g., through ISPA, PHARE and SAPARD) cannot be spent for concrete projects. For instance, in 1990–2000, Romania absorbed only 54.4%, Bulgaria 60.3%, Macedonia 61.1% and Albania 65.5% of the available funds. Merely pouring new money into the region is, therefore, no remedy.

Nor will increasing external assistance as such help to create conditions for sustainable growth and development. Instead, there is a danger of aggravating aid-dependency. What would be needed prior to the allocation of new funds is an in-depth assessment of the actual *impact* of external assistance. Independent evaluation of Commission programmes have raised many questions here regarding priorities, relevance, efficiency, effectiveness, impact and sustainability of Community action in the region. In particular, the question as to whether or not priorities set by donors are consistent with the most urgent needs in the region often remains unanswered.

A problem common to all SEE countries is high unemployment. Although the lack of job opportunities represents a clear threat to regional stability, development

assistance is still not targeted at this particular problem. Instead, it focuses on macro-economic stabilisation and large-scale infrastructure projects. Out of the more than \$ 5 billion aid for Bosnia-Herzegovina, only \$ 166 million were committed for projects designed to create jobs.

In summary, while continued financial support to the region is certainly crucial to the ongoing transition process, evidence does not suggest more assistance, but a far more efficient and targeted use of resources with a clear focus on development and sustainable growth.

### **Enhancing Regional Co-operation**

Although rapprochement with the EU is conceived as being “both bilateral and regional,” each country is expected to progress at its own pace towards membership (regatta principle). The conditions of transborder co-operation for an SAA remain vague, and only 10% of the CARDS appropriation is dedicated to regional instead of national projects within individual country strategies. There is no doubt, however, that many pressing problems in SEE can be solved only on a co-operative basis.

Sadly, lack of communication and an inherent struggle over respective responsibilities have prevented a clear division of labour with other processes, such as the Stability Pact for Southeastern Europe which seeks to promote regional co-operation. The Commission continues to insist that the Stability Pact should merely re-inforce the SAP, rather than seeing the two processes as complementary and mutually reinforcing instruments.

The Stability Pact has made a critical contribution to formulating common priorities among SEE countries and thus giving life to regional co-operation. Thus, trade regimes have been significantly liberalised and substantial progress has been made in solving refugee issues, fighting organised crime and developing regional infrastructure strategies.

In an attempt to enhance the com-

plementarity between the two processes, the Pact should sharpen its profile and focus primarily on issues which are not sufficiently covered by the SAP, such as transborder co-operation, sustainable development, and regional security. This would, however, require sustained support by the EU, by increasing financial support for regional strategies in the CARDS programme and new instruments to compensate opportunity costs of regional co-operation.

### **From Association to Membership?**

A major shortcoming of the EU's approach towards the region is that the SAP is not integrated into the enlargement process. What should be the next step, once a Western Balkan country has successfully concluded and implemented an SAA? What would be the best way to obtain candidate status and start negotiations on membership? Following Croatia's official application for membership, the Union has to clarify whether or not an additional contractual stage will be required between accession and membership.

In order to provide more substance and credibility to the SAP, it should be given a clearly accession-oriented dimension. This could be achieved by bolstering the SAP with instruments used in the enlargement process, such as twinning, increased participation in Community programmes and improved monitoring mechanisms regarding the implementation of commitments.

The upcoming EU-Western Balkans summit meeting to be held in Salonica on 21 June 2003 (the so-called Zagreb II summit) opens up opportunities to address several of the shortcomings discussed in this paper. Indeed, the Greek EU Presidency already suggested developing the SAP further, establishing an institutionalised political dialogue, the "Balkan European Integration Process," and promoting regional co-operation and related initiatives such as the Stability Pact.

### **Recommendations**

In light of the above agenda, this paper recommends

- ▶ promoting the accession dimension within the SAP by applying instruments from the enlargement process (twinning, monitoring and legal reviews, participation in Community programmes);
- ▶ explicitly linking the SAP with the enlargement process by a road map;
- ▶ enhancing the complementarity between the SAP and the Stability Pact by focusing the Stability Pact on those issues that are not or not sufficiently covered by the SAP, such as regional co-operation, sustainable development, and regional security issues;
- ▶ providing incentives that reward progress in regional co-operation and compensate opportunity costs of such co-operation;
- ▶ implementing strategies that reduce aid dependency in the region by substituting external assistance with indigenous growth.

Countries in the region, on their part, need to demonstrate their commitment to the process of stabilisation, co-operation and reform. Otherwise, eventual EU enlargement in the Balkans will have significant negative political, economic, and psychological implications.

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