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POLITICAL AND ECONOMIC COOPERATION IN WESTERN BALKAN – OPPORTUNITIES AND OBSTACLES

ABSTRACT

The development of regional cooperation is in the best interests of all the western Balkan countries: it is a key factor for establishing political stability, security and economic prosperity. In this article we will try to explain that regional cooperation is therefore a cornerstone of the EU's policy framework for the western Balkans — the stabilization and association process, which offers to the countries of the region the possibility of eventual EU membership. There is a sweeping consensus among regional elites as well as European and American policymakers, analysts and scholars that the cornerstone of any strategy for stabilizing and revitalizing the region must be the prospect of EU membership. Over the last decade, and especially since 2000, all Western Balkan states have made progress in building democratic institutions, addressing severe economic backwardness, promoting regional cooperation and improving inter-ethnic relations.

Introduction

Regional cooperation is a principle of the highest importance for the political stability, the security and economic development of the western Balkan countries. In this paper the term Western Balkans will refer to Albania, Bosnia and Herzegovina,

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Croatia, the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro (including Kosovo, under the auspices of the United Nations, pursuant to UN Security Council Resolution 1244 of 10 June 1999). Many of the challenges facing the western Balkan countries are not only common to them but also have a cross-border dimension, which involves their regional neighbours.

From a geopolitical point of view the whole Balkan region attracts the big powers' influence and competition. At the beginning of the 21st century for the first time in the history, all the countries in the region have common strategic goals: to provide security, political stability and socioeconomic operation was seen as an integral part of the preparation for integration into development to their citizens through a process of becoming members of NATO and the EU.

The general economic and political circumstances may be more favourable for the new Euro-Atlantic security structures. There are activities by Western governments and an array of Western institutions-the EU, the Alliance, and others-to promote democratization and free-market prosperity throughout the region.

This strategic political orientation of the region gave extensive power to NATO and above all to the US, and to the EU and its most influential states to influence the political and socio-economic transformation of the region using, among other mechanisms, conditions for regional co-operation and regional integration. Regional integration at the multilateral level is for the first time offered to the Balkans as a concept, the basic principles of which have been already tested within the EU itself. Regional cooperation in SEE gained momentum after the fall of Tudjman's and Milosevic's regimes. Incorporating requests for regional cooperation as a prerequisite and a tool for European integration and a necessary condition in the Stabilisation and Association Agreement (SAA), the EU became the main international facilitator of regional co-operation in SEE.

Since the enlargement of 1 May 2004, the EU and the western Balkans have become even closer neighbours, and so the situation in the western Balkan countries, their progress on the road to European integration and their present and future relations with the EU really are of immediate concern to the EU itself. When Bulgaria and Romania become EU members, the entire western Balkan region become surrounded by Member States of the European Union.

This had important repercussions for both the countries of the region and the EU in a number of areas, in particular where the free circulation of goods, services and persons are concerned. These challenges have to be addressed in the broader context of south-eastern Europe.

In the last decade SEE countries established a number of multilateral forums dealing with a variety of political, economic, environmental and domestic and regional security issues. Thus a number of regional cooperation initiatives have been

initiated or revived. In general the fields for cooperation in SEE could be classified into four groups:²

- Security related issues and politically oriented projects,
- Initiatives for economic cooperation,
- Cooperation projects and initiatives on a specific technical (thematic) subjects,
- Cooperation initiatives and projects aiming to achieve reconciliation and eventually transformation of the region (SP and RCC), thus preparing it for wider integrations, mainly for association with the EU.

Political Cooperation

The history of Western Balkans is related to the territorial complexity of the area, the expansionary trends of different neighbouring powers, and the related resistance of the native peoples, as well as their efforts to absorb and unite with each other. The different set of reasons — political, economic and security — for which regional cooperation in the Western Balkans is crucial, are closely interlinked: for instance, regional stability and security are needed for economic development, which in turn favours stability and security in the region.

The flourishing of regional organisations was influenced by endogenous and exogenous factors strengthening interdependence and redesigning the role of the state as well as the composition of multilateral arrangements. The Western Balkans has figured in these processes both as an active player, influencing the wider context in which regional cooperation has been developed, but more as a passive recipient of exogenous influences, with increasing efforts to adjust to the chosen external framework of European and Euro Atlantic integration. The most important outcome of the combined developments on the national, regional and European scene seems to be a visible strengthening of autonomous political and economic domestic players as they progress along the European integration path. Growing capacity for European integration develops as growing capacity to deal with internal and regional problems as well.

However, although regional co-operation in different fields like trade, energy, infrastructure, environment, justice and home affairs, education and science, culture, health, cross-border co-operation etc. is steadily progressing, political cooperation, especially at the bilateral level, goes through great oscillations recording in the year

² European Commission, *Regional cooperation in the western Balkans A policy priority for the European Union*, Office for Official Publications of the European Communities, Luxembourg, 2006, p. 3.

2008 a steep deterioration which seemingly brings it back to the low level of almost a decade ago, at least in the bilateral relations of several regional countries.³

We share the view of those who perceive changing institutional constellations and mechanisms as more powerful than the influence of traditional patterns and bad historic experiences including all related stereotypes. As the so-called “Asian mode of production”, the once popular theory that Asia was not able to progress because of its static social and economic structures, the Balkans has been associated with war and its cyclical recurrence, as an obstacle to development. Does growing regional co-operation and in particular growing regional ownership over the process challenge prevailing stereotypes concerning the Balkans?

Or does it simply represent a new cycle of reintegration after disintegration according to predetermined patterns? What are the differences in the overall context and what are its new characteristics in the historical perspective in comparison with other regions?

Economic development in Western Balkan

The last decade, especially the last five years, has been relatively good for WB countries. With the exception of FYR Macedonia, all other countries of WB have witnessed annual growth rates over the last decade in excess of 5 percent, and even FYR Macedonia has seen acceleration in its growth rates since 2003. As a separate entity, Montenegro has witnessed accelerated growth since 2002. UNMIK/Kosovo’s growth is estimated at 3 percent in 2006, which is also up from lower or negative growth in previous years. Growth has accelerated in most countries in the last few years, as recovery from conflicts and disturbances takes root.⁴

For small countries such as those in the Western Balkans, sustainable growth should be export-led, but this process has fallen short of its potential. Small countries gain more than larger ones from trade-induced expansion in market size, which makes the effect of trade on *per capita* income and rate of growth on small countries much larger. In the Balkans, there is little doubt that the key response to the challenges of improving and sustaining growth should involve a sustained increase in exports. Yet, the region has been under trading relative to its potential. Deeper integration in the world economy may help and is typically more easily achieved in the proximity of the country and region. The term “deep integration” goes beyond

³ Coloumbis T. And Ramaj E., Debalcanising the Balkans with the Kantian Theory of Democratic Peace, manuscript, p. 2. See internet page <http://ahiworld.org/pdfs/Debalkanizing.pdf>.

⁴ Sanjay, Kathuria (Editor), *Western Balkan Integration and the EU: An Agenda for Trade and Growth*, Herndon, VA, USA: World Bank Publications, 2008. p. 65.

merchandise trade liberalization, as it also includes government actions to reduce the market-segmenting effect of domestic regulatory policies. Such integration is happening, to different degrees, at the levels of the region, the EU, and the world. Typically, owing to both physical and cultural proximity, such integration usually occurs or starts at a regional level. In SEE, the conclusion of CEFTA 2006 represents a major step forward in this regard.⁵

Sustained economic growth requires substantial rates of investment; fast growing economies invest a large share of the output in order to bring more resources to the production process. Investment is not only a direct booster to output, it also brings new, more productive, technologies and stimulates total factor productivity (TFP) growth. Output growth in Western Balkan in the post-conflict period in the 1990s was mostly driven by TFP. The improvements in TFP that came from the simple reallocation of resources through privatization have been partly exhausted, so TFP-led growth cannot be the single driver of growth in the future.

The role of factor accumulation (capital and labour) will be crucial for accelerated growth. Moreover, increasing the quantity and quality of investment is instrumental for maintaining and accelerating TFP growth. Hence, achieving higher investment rates is an overarching objective and this poses an important challenge for future growth in the Western Balkan economies. It would also allow for a better utilization of labour, solve some of the current social issues and improve the relatively low living standards. Since the start of the transition process, private investment rates in WB, and its pace of growth, have been low. Despite recent notable increases of private investment in some WB economies, growth in others has been slowing. At the same time, the structure of investment is not the most conducive to rapid growth in a global environment. More is spent on construction than on machinery and equipment, and only a quarter of total investment has gone to tradable sectors.

Capital markets at this stage do not seem to be of strong relevance for investment, but as the markets continue to deepen, their role should rise. Most WB economies are significant recipients of remittances, but there is insufficient data to assess whether remittances have an impact on private investment. In addition, the current international financial turmoil could strain the capacity of domestic banks and companies to access foreign savings. Foreign investment has stimulated investment across the region; however, the countries have failed to attract as much FDI as many of the New Member States. As privatization related FDI is now expected to die out, there is no evidence yet of a material shift to Greenfield investment, which could facilitate a move up the value chain, as witnessed in some of the new Member States.

FDI contributes directly to capital formation, but also has positive spill over effects on domestic firms. It is very difficult to ensure sustained rapid growth without

⁵ Ibidem.

also keeping up sufficient rates of public investment. There are large infrastructure deficiencies in the region compared to the EU-10 countries, despite the relative higher investment rates of public investment. Hence, improving the quality of public investment is a key issue for the region. The paths of Croatia and the FYR of Macedonia point out the need to properly plan and implement public infrastructure projects in order to maximize the “crowding-in” effects and to eliminate any negative (crowding-out) effects.⁶

European Union future for WB countries

Only Croatia and FYR Macedonia are candidate countries within WB for EU accession, while the Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo under UN Security Council Resolution 1244, are potential candidates at different stages of the pre-accession process. However, WB countries now need to improve and then sustain their past growth performance, amidst concerns about sustainability and the need to avoid a possible “middle-income trap.” With still-high poverty rates and EU aspirations, WB countries need to accelerate their growth rates and sustain them. However, this is made more difficult because much of the easier part of transition-driven growth has already been achieved. Future increases in total factor productivity may need to depend more and more on within-sector improvements. In addition, much of the trade preferences enjoyed by WB countries has been eroded.

China, through the dynamic of multilateral trade liberalization, looms increasingly large in WB markets for both low-skill as well as skill-intensive products, even as exports from WB are dominated by low-skill and natural-resource-intensive products. Indeed, China’s export performance has led to some pessimism in neighbouring Asian countries about their competitiveness (the middle-income trap). Finally, many WB countries are also witnessing increasingly large current account deficits, which raise concerns about macroeconomic stability. Sustaining and improving growth in Western Balkans countries will require top priority being assigned to improving export performance. There is little doubt that the key response to the challenges of improving and sustaining growth would involve a sustained increase in exports, given small country size and the experience of EU8 countries. Exports also have to increase to keep pace with the likely increase in imports driven by increasing integration with the EU. So far, trade has not played a compelling role in the Western Balkan growth story, and exports, especially merchandise exports, are in fact the weak link in growth.

⁶ Handjiski, Borko, *Investment Matters: The Role and Patterns of Investment in Southeast Europe*, Herndon, VA, USA: World Bank Publications, 2009, p. 36.

Despite recent faster growth in exports, the region has been under trading relative to its potential, and *per capita* exports of both goods and services are much lower than in comparator countries. Exception is Croatia (an EU candidate country) is by far the richest country in the region and has a current GDP per capita approaching \$10,000, more than 70 percent higher than Romania's.⁷

Incentives and Obstacles to Regional Cooperation

From the perspective of regionalist theories, there are a few factors conducive to cooperation in South East Europe common geography and immediate neighbourliness, previous communist experience, shared and regional issues, the current international climate. Yet, in reality, more than elsewhere in post-communist Europe, there are major obstacles to regional cooperation that offset the potential incentives. Trade between Serbia and countries of the region consists primarily of agricultural products, raw materials, electricity, non-ferrous metals, textiles and chemical industry, which is reminiscent of trade of developing countries. The most common forms of cooperation are merchandise export and import, and the higher forms of business cooperation are insignificant. The reason for is that countries in the region have old technological equipment industry, and they compete with each other for export to the EU, and in fact do not have much to offer each other. The lack of economic cohesiveness most evident in trade patterns, disappointing economic performances, the informal sector, as well as delayed democratic transition and ethnic nationalism have been seen as the major obstacles to the process of regional cooperation.

After a decade of an ill-defined policy in SEE, the EU is now more constructively involved with the region; it is more committed regarding the European integration of the countries in the region, better informed on the regional and local specificities and necessities and more focused in its developmental strategy in the Balkans. Yet, one of the main dilemmas facing the EU's policy in the South East European region is linked to the need to coordinate the bilateral with the multilateral approach, the national and the regional policies. The Stabilisation and Association Process, as a bilateral instrument of integration that covers the countries in the Western Balkan region, and the Stability Pact, as a regional multilateral tool for South East Europe, are directed towards two sets of countries that belong to the same region. The diversity in the EU's bilateral relations with the individual countries and the region's heterogeneity present serious challenges to the adoption of a regional strategy.

⁷ Sanjay, Kathuria (Editor), *Western Balkan Integration and the EU: An Agenda for Trade and Growth*, Herndon, VA, USA: World Bank Publications, 2008, p. xxi.

Table 1: Commonalities and divergences in the foreign policies of Western Balkan countries taken together

Positive Commonalities	Negative Commonalities	Divergences
- Goal of EU and NATO integration	- lack of professionalism of diplomatic corps	- institutional coherence (Albania, Montenegro, Croatia, Macedonia) vs. incoherence (BiH)
	- undemocratic nature of foreign policy formulation	- search for Big Brother (Albania, Macedonia) vs. independent vision (Serbia)
	- reactive rather than proactive foreign policy	- Broad consensus and positive view of neighbours among elites (Albania, Macedonia) vs. competing visions (Croatia in the 90s, Serbia)
	bilateral problems	- lack of capacity to implement agreements (Albania, BiH) vs. strong capacities (Croatia, Serbia)

Source: Eno Trimčev, "Foreign Policy, Elites and Regional Identity", *Dialogues, Ownership in Regional Cooperation in the Western Balkans*, Friedrich-Ebert-Stiftung, June 2009, p. 35.

Chances for cooperation beside mentioned are:

- There is a lack of a common understanding of the region; the notion of regionness varies from sector to sector and from country to country
- Regional cooperation is not given sufficient attention in the discourse and practical engagements. There is an interest in economic cooperation, which is acceptable to all countries and most sectors, but how this can be deployed to address other areas in which cooperation could be beneficial is not clear.
- Geographic proximity and the regional nature of issues feature as the two factors. Both of these factors reveal the objective necessity to overcome problems at a regional level but they do not suggest an active desire to associate with neighbours from a positive perspective. The external pressure does not figure prominently as a factor conducive to cooperation.
- Mistrust among neighbours and ethnic antagonisms do not appear to be particularly strong deterrents to better cooperation; instead, the lack of genuine political will and the structural and infrastructural difficulties are identified as the main obstacles to regional cooperation.
- There is a lack of knowledge regarding regional initiatives that influences the perception of their actual impact on the society, which is seen as marginal. The Stability Pact is the most widely known regional initiative and it is transformed to Regional Cooperation Council.

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- Regional cooperation is primarily approached in the context of European integration rather than having a value of its own. The EU approach to regionalisation in this part of Europe has been seen as controversial. European integration and regional cooperation are two processes which are not well connected in the minds of the elites.

In sum, instead of a centripetal dynamic, a centrifugal one dominates and a pull-out effect that impedes regional cooperation; non-South East European regional initiatives seem more attractive to the local elites, who see Balkan regional cooperation as a threat to the goal of European integration.

Conclusion

There are centrifugal, and centripetal forces that on one side forcing cooperation, while on the other side even more separating the Western Balkans countries. These forces which are pulling Western Balkan countries, are first of all major powers, which have often conflicting interests, then there are the Western Balkans country's neighbours that have their own interests to make influence on the region. We must not forget the Western Balkans countries, which have specific competitive position in the race for approaching the European Union and NATO. These states are also competing for the leading role in the political and economic field in this region.

That means that in the Western Balkan region there are various interests and throughout the following years, the authors do not believe that the situation in the Western Balkans will be more clearly. Primarily because the political influence and the balance of power in recent years are constantly changing, despite the predominant influence of America and European Union on the region.

As far as economic perspective is in question many Western Balkan countries are having increasingly large current account deficits, which raise concerns about macroeconomic stability. Sustaining and improving growth in Western Balkans countries will require top priority being assigned to improving export performance. Improving and sustaining long-lasting economic growth have to involve a sustained increase in exports, especially export of high-technology products and services.

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