

The EU Meeting its Internal Challenges: Implications for Stability in the Western Balkans

24th Workshop of the Study Group
“Regional Stability in South East Europe”



Study Group Information



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Foreword

Currently braving its most serious financial crisis to date, the EU's integration projects face grave challenges. Under the current difficult economic conditions, the question needs to be asked whether the EU will be able to maintain its active role in the Common Foreign and Security Policy (CFSP) or become victim of a possible European trend towards re-nationalisation. In this regard, the EU's stabilizing factor in regional peace processes – in particular in the Western Balkans – could be seriously affected by the financial, economic and social troubles inside the EU.

Since 2000, the EU's stabilizing efforts in the scope of the Stabilisation and Association Process for the Western Balkans have helped a lot to diminish the risk of new clashes and to increase regional cooperation. However, still existing problems of unfinished state-building in the Western Balkans, open territorial and ethnic issues, difficult social and economic conditions and the lack of a culture of compromise as well as of political responsibility demand continued initiatives of a credible and consolidated EU. The positive, but less euphoric result of Croatia's referendum on EU membership in January 2012 as well as the declining support for the EU in regional opinion polls indicates a more sober approach taken by South East Europe vis-à-vis EU.

This book comprises contributions from the 24th workshop of the Study Group "Regional Stability in South East Europe" of the PfP Consortium of Defence Academies and Security Studies Institutes, which was convened in Reichenau/Austria, from 3-5 May 2012.

Experts from within and beyond the region dealt with the crucial issue to which extent regional stabilisation in South East Europe is affected by the EU's internal challenges. With regards to the Western Balkans perception, it is important whether a future EU membership remains a common goal, helping this part of South East Europe to overcome antagonism and to foster cooperation. The way the EU is handling its crisis

impacts the “open issues” still to be resolved in the region, e.g. the Belgrade-Prishtina dialogue, Bosnian state-building, interethnic relations in Macedonia. Additionally, the EU’s financial crisis could give further importance to the Balkan policies of other international actors as the US, Russia and Turkey.

The Study Group “Regional Stability in South East Europe” has been assessing the post-war development in the Western Balkan countries and its implications for the region and beyond since 1999. Embedded in the wider academic framework of both the PfP Consortium of Defence Academies and Security Studies Institutes as well as the security-political research in the Austrian Ministry of Defence and Sports, its main focus is to elaborate major conflict areas and propose possible solutions to local authorities and international actors alike.

The editors are pleased to present the valued readers the analyses and recommendations from the Reichenau meeting and would appreciate if this Study Group Information could contribute to generate positive ideas for supporting the still challenging processes of peacebuilding in the Western Balkans.

Ernst M. Felberbauer
Predrag Jureković

Welcome Speech

Johann Pucher

Your Excellencies,
Ladies and Gentlemen,
Dear Friends and Partners within the PfP Consortium,

One year has passed quickly since the last workshop of the Study Group on Regional Stability in South East Europe. It is good to see many familiar faces here again at this event, which is organized by the Austrian Ministry of Defence in cooperation with the PfP Consortium again. I recommend the PfP Consortium for posing once more relevant and pertinent questions.

On the one hand, the role of the EU remains essential for progress in South East Europe. On the other side, is the EU absorbed by its internal challenges increasingly? How much energy is left to cope with challenges in its immediate neighbourhood, being bogged down with its efforts to overcome the financial crisis in some of its Member States? Arab awakening, Syria, Libya, Sahel and Middle East – are they overshadowing still existing, unresolved issues in South East Europe?

Looking from a security perspective the general political processes in South East Europe might generate a feeling of optimism: Croatia being close to EU membership, Serbia now a new EU candidate country and Montenegro being close to the opening of negotiations on membership - these are encouraging signals for regional consolidation.

We take note of improved bilateral relations in the region. Regional cooperation is on track; however there is still room for further deepening.

The EU sponsored dialogue between Belgrade and Priština would have been impossible some years ago. The agreement reached regarding the OSCE role during the elections in North Kosovo is another positive step. In Bosnia and Herzegovina, the forming of a new state government at the beginning of this year has raised hopes for a more constructive policy of decision makers. But there is still work to be done, that will bring this country closer to the EU candidate status.

In the military field the joint contributions of South East European countries to support the Military Police School in Kabul show that the region has made progress also in that respect. The same goes for the participation in different other international operations by South East European countries.

The discussion will show if you will share my general impression: in the last decade or so, more or less a common understanding has been developed among the leading politicians in the region to find solutions on the basis of compromise and to exclude violent means.

Notwithstanding all these positive trends in regional peace-building and European integration, risks for security still remain. I do not want to be alarmist. Let me share some impressions with you:

Ongoing difficulties for the political decision makers in Bosnia and Herzegovina to develop a common vision of state, or to solve the property issue, to agree on the election law, the unresolved relationship between Serbia and Kosovo, the still tense situation in the North of Kosovo that required KFOR to beef up its forces at least temporarily, the ongoing ethnic tensions in Macedonia, or the blockage of Macedonia in its integration process into Euro Atlantic structures, or influence of Islamic cells.

These are issues that remind us that still a demanding job has to be completed. How can Europe be considered a relevant global security political player, if it does not manage its problems properly on its continent?

Austria will remain engaged, for sure. I am sure that Austria will continue to advocate for a further substantial engagement of the EU in the peace and integration processes.

Just some figures about Austria's contributions, in particular in the field of security. They underline that the Western Balkans for the foreseeable future will remain the priority region in regard to peace support operations and other security related activities. In KFOR we are the biggest non NATO contributor, Deputy Commandant, presently including the ORF part - 600. Austria also provides the largest contingent for Althea. The Commander is an Austrian Major-General, Robert Brieger. We initiated together with like-minded countries the deal to maintain the executive mandate of ALTHEA and at the same time to decrease the footprint on the ground.

We have established a dense network of bilateral mil-mil cooperation. Through a lot of bilateral contacts with the representatives of the MoDs from South East European countries we have done our best to build up a cooperative framework. We try to support reform processes by providing our experience. We stand ready to assist also in the future.

Austria highly welcomes the cooperation with South East European countries in international peace missions, as it is the case between Austria and Croatia in the UN peace-keeping mission on the Golan Heights or with Croatia and Macedonia in the EU BG 2012.

A similar spirit related to assistance is present in the Austrian Ministry of the Interior. It has provided substantial support for the initiation as well as implementation of the Police Cooperation Convention for South East Europe.

Beside these two ministries also the contributions of other state agencies have been very constructive and represent a positive example of a whole of government approach. Such ministerial involvement is paralleled by the Austrian economic engagement as direct investor in the region. As said already before, from the Austrian point of view the engagement of the European Union - together with the contributions of NATO and

other international organisation - remains a very important pillar in the process of consolidating stability in the region.

During this conference, you will discuss to what extent EU's internal challenges or its crisis affect or could affect the stabilisation processes in the region.

- To what extent is the EU still a positive role model and important partner for the Western Balkans or has the financial crisis led to a shrinking credibility of its stability projection?
- To which degree is the pull factor of the EU still relevant?
- Is the EU well positioned?
- What about the different perceptions among member states regarding the recognition of Kosovo or maintaining the OHR and the executive mandate of Althea?
- What is still required from EU and partner side?
- Have the post Lisbon structures made a difference?
- Which roles have players from outside Europe?
- Is it so that the US and others do not trust the EU that it could solve a serious crisis in South East Europe?

A lot of questions remain to be answered.

Security challenges, like organized crime, terrorism, environmental security, cyber security and uncontrolled flows of migration affect Austria, but also the countries in South East Europe. All these new or traditional challenges do not stop at our borders. Only by increasing regional and international cooperation we will be able to act or react adequately.

I am – as in the previous years – personally looking forward to interesting lectures and discussions. Over the years, this Study Group has become an important platform of security-political research in the European and PfP dimension for the Western Balkans.

I would like to wish you days full of mutual exchange of interesting debate and dialogue. As Security-Political Director in the Austrian MOD with direct responsibilities for all programmes undertaken by our Minis-

try in the region, I sincerely hope that your deliberations might result in some politically interesting and relevant suggestions or trigger off even initiatives.

I am very happy that this year, again, so many experts, representing various institutions in the region, have convened here in Reichenau. Thanks for accepting our invitation. In closing, it is an honour for me to officially declare the 24th Workshop of the Study Group “Regional Stability in South East Europe” opened.

Opening Address

Heidemaria Gürer

I would like to thank the Austrian Ministry of Defence and Sports as well as the PfP consortium for having organized such a seminar. We appreciate this kind of co-operation and are looking forward also to our new projects in other regions of the world.

I thought you might be interested in an outline of the Austrian foreign policy concerning the Western Balkans. Let me just state that the Western Balkans are the priority of the Austrian foreign policy – if we characterize foreign policy issues and priorities along country/regional lines.

In general we can say that overall, the year 2012 has begun positively – taking into account the overwhelming majority for EU accession in the Croatian referendum, progress in the Belgrade-Prishtina Dialogue as well as the EU candidate status for Serbia (you might have followed the Austrian role in this context) and starting an EU-Kosovo visa dialogue, a political agreement on Government formation in Bosnia and Herzegovina.

It is now extremely important to carry this positive momentum forward by maintaining both a credible European perspective as a genuine offer from the EU side and serious reform steps towards this objective on the side of the Western Balkans countries. EU enlargement has to continue to be for the EU as well as its Western Balkan countries a priority; I think all the EU members are of the unanimous opinion that all the Western Balkan countries will join the EU at one point – only time frames might differ.

Austria sees Croatia which has undergone a multiple and fundamental socio-political transformation as an engine for the other Western Balkans countries on their way towards European integration and will strive

to co-operate with Croatia and Slovenia in this respect. Austria was maybe the most ardent supporter of Croatia's EU membership.

In Bosnia and Herzegovina we welcome the formation of a state-level government and hope that the 2012 budget as well as the Sejdic/Finci ruling can be adopted/implemented as soon as possible in order to fulfil the criteria for the entry into force of the SAA thus enabling the country to put forward an EU application still this year. Just yesterday, the Austrian Vice Chancellor and Minister for European and International Affairs, Mr. Spindelegger, with his Slovenian colleague, paid a visit to Sarajevo to pass on these messages.

During the visit he also made it clear to the government of Bosnia and Herzegovina that secessionist rhetoric and actions undermine the state and are diametrically opposed to the process of making BiH a viable, multi-ethnic and functioning European country. We want Bosnia and Herzegovina to become EU member as a unified state in her to-day's territorial borders. The alternative for BiH to returning on the EU track is to fall behind its neighbours, which we unfortunately can see already to-day.

We also speak out for keeping the function and position of the OHR at the present time, though knowing that overlappings with the EU SR have to be mapped out. Only a functioning BiH can be left without international supervision. We are against any unilateral and sudden changes in this respect. The international community has entered the Bosnian supervision united and it must exit it in the same unified and agreed fashion.

Here I just would like to also point out that Austria twice held the position of the OHR and that Austria has the highest number of EUFOR/ALTHEA troops. Coming to Serbia Austria supported instrumentally (common letter of Vice Chancellor Spindelegger with his French and Italian colleagues) the granting of EU candidate status in February/March this year.

Overall, Serbia has carried out an impressive reform agenda over the last few years, for the benefit of every Serbian citizen, but also for the benefit of Serbia's European integration.

It is now up to Serbia to demonstrate her willingness and readiness to move closer to the European Union. In this context we consider two elements of importance: continuation of the dialogue with Kosovo, an essential tool to build trust between Belgrade and Priština, but also between those two and the EU, including a solution for the name plate issue and respecting the OSCE "facilitation" of the upcoming presidential and parliamentary elections in Northern Kosovo.

We have supported the ISG's communiqué of 24th January in which, inter alia, the ISG (International Steering Group of Kosovo) urges Serbia not to hold local elections in Northern Kosovo. We do not request that Serbia recognises Kosovo as a sovereign and independent state, though the reality and irreversibility of Kosovo's independence is a fact. However, we do request a pragmatic approach in good neighbourly relations. To give some sense of the European perspective also to Kosovo, it is vital that all EU members recognise Kosovo's independence as a sovereign state.

Our inability to speak with one voice as EU takes away our leverage, credibility and operability. At the same time, we need to encourage the Government of Kosovo to outreach more actively to its (Serb) citizens in the North and to give the Serbian population a sustainable perspective for a life under Priština's rule (most promisingly based on the Ahtisaari plan). We support the transition towards an EU-led international presence in Kosovo and warmly welcome the appointment of former Slovenian Foreign Minister Samuel Žbogar as EUSR and Head of the EU Office in Kosovo. Austria participates in KFOR (2nd largest troops), sent her ORF contingent to Kosovo on occasion of the upcoming elections and holds the position of the OSCE HoMS. The last ISG meeting was also held in Vienna so will be the next in July.

Concerning Macedonia Austria supports Macedonia's efforts in making progress towards EU membership. In our view, the name issue, which is

mainly a bilateral issue between Macedonia and Greece, has slowed down these efforts for too long. We therefore believe that, whilst we hope that the name issue will be solved soon, the EU should start accession talks with Macedonia under its provisional name “FYROM” and without further delay.

Macedonia should make the reform process towards European integration the centre of its policy (she already fell behind considerably) and refrain from any further activities which appear to be looking more into the country’s ancient past than its European future. Macedonia should take this opportunity to present herself as a dynamic, young, multi-ethnic and modern European state and society.

For Montenegro we are pleased to see the efforts made by the Government to start accession talks in June 2012. We support the new approach of treating the empirically difficult chapters 23 and 24 (justice, fundamental rights, home affairs) at an early stage so as to ensure that more time and effort can be devoted to these areas most crucial in the accession process.

In the case of Albania we regret that the two year-long parliamentary blockade has slowed down the reform and European integration process. At the same time, we are optimistic that the considerable improvement of the political climate after the return of the opposition to Parliament last autumn will continue. We take note of a constructive co-operation between majority and opposition that recently produced tangible results.

Message of Greeting

Ulrike Lunacek

The integration of the Western Balkans in the European Union is essential for the European Peace Project to be completely successful. I regret very much not to be able to take part in your important workshop because the focus on our internal incoherencies and shortcomings is extremely necessary in order to proceed to this aim of our common European Peace Project.

As European Parliament Rapporteur on Kosovo I have, and unfortunately so, learned over the last couple of years, how the lack of unity inside the European Union weakens not only our political intentions but also the efficiency of millions of Euro being spent by the European Union and its member states in the South Eastern Europe States.

Let me give you an example: The biggest civilian mission, the Rule of Law Mission EULEX in Kosovo has to act “status neutral” because not all EU member states have recognized Kosovo. Five are still missing. And that means for example that judges and prosecutors inside EULEX, coming from several EU and other member states, decide themselves which legal system to apply. Be it the one of old Yugoslavia, be it the one of UNMIK or the modern Kosovo one. This simply hampers our intentions to build up and support Kosovo in building up its own legal and justice system.

Let’s talk about KFOR because this is a PfP Workshop that you are holding here. KFOR has had a very positive role in Kosovo and it is also appreciated very much by the population. Let me give you one really positive example: I welcome very much that there is a Gender adviser now in KFOR. I met her and I think she is really doing a great job and I hope everybody is supporting her in a necessary way.

Let me however in general confirm to you that from this European Parliament the large majority of this house – across party lines, from left to right, centre, everywhere – really believes in this integration of the Western Balkans into Europe. Western Balkan, all of the countries, have to become a part of our common project.

Those of us who come from the European Union, from member countries, all of us need to work against the so called “enlargement fatigue” in our own countries because I am convinced, if we do so with the conviction and the enthusiasm that the common European Project is for all of us. And despite the crisis the European Union is facing at several levels at the moment that if we cooperate on that the European Peace Project will not remain a dream especially for the peoples of the Western Balkans who have had such horrible times ten or twenty years ago.

PART 1:

**THE EU HANDLING ITS CRISIS:
CONSEQUENCES ON THE EU'S BALKAN
POLICY**

Looking back from the Future: Linking the Economic and Financial Crisis of the EU with the European Foreign, Security and Defence Policy

*Franco Algieri*¹

In the future, the results of the European Council of 8-9 December 2011 may be judged as outstanding milestones on the path of the European Union's development. On the one hand, one could potentially argue that the decisions taken at the end of 2011 contributed crucially to the overcoming of the financial crisis as well as to giving the EU a new quality as an active player. On the other hand, it could also have been determined that a EU of different speeds was by no means a new phenomenon but never had been so clearly manifested until then. Moreover, it could be pointed out that due to the general fixation on fiscal and monetary topics, the development of the EU as a foreign security and defence policy actor became a side issue with potentially far-reaching consequences for the Union's role as a global player.

This article strives to identify issues that arise from the fiscal and monetary policy debate as well as from the debate within the Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP).

¹ This article was first published in: AIES Fokus 8/2011: Zukunft der EU entitled: *“Rückblicke aus der Zukunft: vom weiterführenden Zusammenhang der Wirtschafts- und Finanzkrise der EU mit der europäischen Außen-, Sicherheits- und Verteidigungspolitik“*. Translation Judith Ivancsits, MA.

Sign Posts

How the EU sees itself as a player in the field of world affairs and in which way and with what instruments the EU's role could be implemented is basically the result of the Treaty of the European Union and the associated Treaty on the Functioning of the European Union, the European Security Strategy of 2003, as well as the 2008 report on its implementation.

Furthermore, it is based on conceptual elaborations in particular from the Council and the European Commission. In addition, references can be made to the following statements, which all were issued in the light of the European crisis in 2011.

In his speech opening the academic year of the European University Institute in Florence on 11 November 2011, the President of the European Council Herman Van Rompuy spoke of a "moment of truth". Hence, he recognized that despite the financial crisis, the EU could not stop moving forward, even if the pursued path turns out to be uneven. Two days earlier at a *Special Winston Churchill Lecture* at the University of Zurich, he had stressed the current shifts of power, in particular the rise of so-called *emerging powers* as well as the strategic shift of emphasis from the Atlantic to the Asia-Pacific region. Van Rompuy did not forget to mention how important it is for the EU to develop more global shaping power in the light of such power shifts. In reference to the EU's possibilities he argued that trade policy has always been the wisest form of power ("trade is still our smartest form of power").

In the work program of the European Commission of 2012 (COM (2011) 777 final Vol. 1/2), some expressions can be found in Chapter 4 under the heading "More weight to the voice of the EU on the world stage" that are intended to show that the functionality and the coherence of the EU is crucial for its global role. Hence, only a "united EU" provides the "best platform for an effective EU on the world stage." The EU is given "considerable influence if the EU is proceeding in unity". A combination of "trade, development policy, diplomacy, enlargement, neighbourhood policy and crisis management" is thus seen as the "back-

bone of the external action of the Union". Moreover, solidarity – extending across the European borders – is known as one of Europe's basic values.

A strong emphasis of EU action is placed on the neighbouring countries and regions of the Union as well as on Africa. To emphasize where the strength of the EU lies, well-known and regularly repeated arguments are stressed out: the EU is the largest trading area in the world, the EU's inner value system (especially the rule of law, democracy and human rights) will be transferred to the design of its external relations. Furthermore, the largest share of global development aid is coming from the EU and the Union basically considers sustainability essential for the global development and therefore promotes it respectively. For the implementation of measures in the field of external relations, the "multilateral, regional and bilateral relations" are considered to be suitable and effective.

In her speech regarding on CSDP to the European Parliament on 13 December 2011, Catherine Ashton, High Representative of the Union for Foreign Affairs and Security Policy, objected to the suggestions of a CSDP fatigue. She demanded a further operationalization of the so-called comprehensive approach by better connecting conflict prevention, mediation, development issues and conflict resolution activities. Ashton indicated that the CSDP can only be as effective and ambitious as its actors allow it to be, and that furthermore there is a need for a collective political will and collective ambitions for action. This allows for the reverse: the alignment of the CSDP as an intergovernmental project is impedimental for the effectiveness of its policy.

While the default route for the EU as a foreign security and defence policy actor expanded continuously and has become more ambitious in the past, the actual implementation did not correspond dynamically and was often delayed. A lack of simultaneity as well as a not to be scaled down gap between expectations and capabilities have always been characteristic for the EU's profile as an international actor. Again, it remains unclear whether the EU member states are able and willing to agree unequivocally as to how far-reaching the development of the EU as an international actor should be.

Advanced Issues of Financial and Monetary Policy Debates regarding the European Integration Dispute

Issues that may help to determine the EU's future profile result from the fiscal and monetary policy debates and from positions taken in the recent past. The following five subjects can be seen as examples for this purpose.

(1) A Europe of Diverse Speeds

Looking at the way binding financial and monetary policy rules could be evolved within the course of contract modifications two methods, an Intergovernmental Conference as well as a convention have been discussed. The agreement to a contract outside the EU treaty framework that not all 27 Member States have to decide on reinforced the debate about how much a diverse-speed Europe can be solidified at all. Currently, this classic debate on European integration receives renewed attention. The questions that occur in this context are less about whether a multi-speed Europe should be endorsed or rejected, or whether this should be part of the integration process. Of far greater interest is the question whether it will be possible for the groups of states moving in different speed clusters (if it is even desired by them) to come to a harmonization in a medium term. Moreover, will they succeed to include all Member States in the sense of a deeper European integration?

(2) Britain's Special Role

The position of the British government during the negotiations about how to overcome the crisis may be called, depending on your point of view, either as isolating Britain especially by Germany and France or as UK's self-imposed isolation. No matter which of these positions can be agreed on as being true, the new quality of the debate on Britain's role in the European integration process is distinctive. The various considerations for the UK whether to remain in the EU or not show how close integration and disintegration in Europe are connected and how easy the three large Member States can withdraw from one another.

(3) The Franco-German Cooperation

In the wake of the crisis, Germany and France were forced to cooperate to initiate systemic changes despite their different positions. Once again, the importance of the Franco-German cooperation in tackling the stagnation of the integration policy became apparent. Whether this means the return of the *couple franco-allemand*, or whether this is a temporary manifestation related to the specific situation, is to be determined more accurately in the further course of the crisis.

(4) Leadership and Power

During the search for means to overcome the crisis, it has always been obvious that the interests and the position of Germany would be decisive. Although the determination of Germany's role as an economic and political power within the EU provokes very different reactions, the need for leadership in the EU is related coincidentally to Germany. Whether this appeals to the federal government in Berlin and the mood of the German public or not has to be clarified domestically. Viewed from an outsider's perspective, Germany is in a leadership position with all the associated responsibilities. Significantly, the Polish Foreign Minister Radek Sikorski expressed in his speech on European policy on 28 November in Berlin that he fears less German power than German inactivity ("I fear German power less than I am beginning to fear German inactivity").

(5) Solidarity and Trust

Although the importance of solidarity among EU member states in a period of crisis is regularly pointed out, this cannot disguise the fact that because of recent controversial discussions, the mutual trust between European countries is weakening. This loss of confidence is evident not only between Britain on the one and Germany and France on the other hand: the attitude of Germany and France has in some situations led to a deterioration of confidence in other Member States as well (for example, in Greece and Italy).

Relevance of the Topics for the Foreign, Security and Defence Policy of the EU

From the above mentioned topics four compounds can be deduced. They add to the debate on CFSP and CSDP and in a broader context to the localization of the EU as an actor within the context of the new power structures in the 21st Century.

(1) Diverse Speeds

The systemic problems of a multi-speed Europe is best displayed in the coexistence of policy fields with a different integration density which eminently becomes apparent when opposing CFSP and CSDP on the one and other policy fields of the Union on the other hand. According to the before mentioned question whether it will be possible for the groups of states moving in different speed clusters (if it is even desired by them) to come to a harmonization in a medium term and if they will succeed to include all Member States in the sense of a deepener European integration, when looking especially at the CFSP and the CSDP it can be argued that this is probably not likely to happen. Beginning with the Maastricht Treaty and continuing to the Treaty of Lisbon, the distinctions in the form of participation or non-participation of individual Member States in CFSP and CSDP emphasize the existence of different speeds of integration. A new opportunity created through the Lisbon Treaty for flexible grouping in the field of CSDP which opened the path for different speed levels is so far not seriously persecuted by EU Member States.

(2) In Search of Leadership, or the Myth of the *Big Three*

In the discussions accompanying the development of the EU's security and defence policy has been argued again and again that one of the reasons for the lack of success in this area is to be found in the absence of leadership. At the beginning of the security and defence policy integration process, at the end of the 1990s, it was still assumed that the success of this policy is depending on the interaction and the determination of the *Big Three* (Germany, France and Britain). But as it turned out, this formation came apart more and more.

The reasons for this cannot be found just in the indecisiveness of Germany but also, despite recurring bilateral initiatives, in an insufficient compliance of France and Britain especially when defining how far-reaching defence policy in the European context should be. But who if not the *Big Three* will move the CSDP forward? Single noticeable initiatives by other Member States aimed at strengthening the security and defence dimension of the EU, such as those of the Polish EU-Presidency 2011. They often start ambitious and end with the sober realization that feasibility can only be reached with the support of a critical mass of states.

(3) The Difficulty of Dealing with Power

In the framework of the EU, the determination of the understanding of power and how to deal with it is not clear. Does the EU anticipate to being a political player, who consistently exerts its power in terms of her own interests? The foreign policy rhetoric that is found in EU documents and in speeches of political representatives creates the impression that a negative connotation of the term power should be avoided. Along with this comes an unspoken dissociation especially from the security and defence policy of the United States. In order to convey the otherness of European power terms like *Soft Power*, civilian power or normative power are often used in the context of the external action of the EU. The handling of the concept of *Hard Power* is more cautious.

Although, it is the latter form of power that is in fact exercised by the EU for quite some time (for example trade policy as mentioned earlier in the statement by Herman Van Rompuy). What the EU is clearly missing is the appropriate connection as well as the consistent use of power resources from different policy fields (from trade policies to the CSDP). In the future, the thwarting of European power by the EU Member States may possibly be brought into a causal connection to the overall political marginalization of Europe in the international context. According to the above-quoted statement by the Polish Foreign Minister Sikorski on Germany's role as a power player, the question arises if the limited potential of the EU as a global player (regarding power-political action) is

not more dangerous for the future of the Union and its Member States as the full (relating to all policy-fields) ability of power projection.

(4) The Lack of Solidarity and Trust

Already in the times of the European Political Cooperation (EPC) a lack of solidarity and political trust between the European countries repeatedly led to the weakening of coordinated action. Even the creation of the CFSP that came with some contractual modifications could not resolve this weakness. While the Member States of the EU are obligated to show solidarity within the external action, the trust between them seems not to be sufficient enough to act consistently. Trust is not only lacking inside the system among the actors (that is, (a) between the Member States, (b) between the latter and the EU institutions, and (c) between the EU institutions). Moreover, the confidence of third countries in the EU as a capable actor has diminished. Evidence for this can be found for instance in transatlantic relationships as well as in the relationship of the EU with so-called strategic partners such as China.

Looking back from the Future

Currently, direct efforts to deepen the foreign, security and defence policy of the EU by further initiatives and reforms is certainly not a priority of the EU Member States and their respective European policies. Nevertheless, this should not lead to a constriction of European policy debates and, consequently, to the neglect of elementary policy fields. If the EU is only referred to as an important trading power, a severe actor in the field of development policy and as a provider of values for foreign relations, but without simultaneously achieving substantial progress in the field of security and defence policy, the EU's future might be reviewed according to Hans Christian Andersen's fairy tale "The Emperor's New Clothes.": For years, the EU intensively sought to establish ambitious targets for its security and defence policy while praising what at the time was not existent.

No Member State would admit that the goals could not be reached, because then they themselves would have a lot of explaining to do. And as

the voices pointing to the drawback in European security and defence policy were growing louder, many a Member State withdrew, well aware that the project could not be successful, and that the marginalization of the EU as a global actor would take its natural course.

It might be that the future analyses regarding the European integration process detect that the negative developments in fiscal and monetary policy of the EU did indeed lead to a fundamental crisis of the system. However, if this crisis could be overcome by taking the necessary action and by the subsequent deepening of the relevant policies, then an epoch-making step of global reach for the development in Europe would have been made.

PART 2:

**WESTERN BALKAN PERCEPTIONS OF
THE EU CRISIS: IMPLICATIONS FOR
EURO-ATLANTIC POLICIES ON SUPPORTING
THE STABILIZATION PROCESSES**

The EU vis-a-vis Kosovo – a Focus on the EU’s Presence in Kosovo today

Visar Rushiti¹

This article looks at the EU vis-à-vis Kosovo from the latter’s perspective in terms of EU presence/s in Kosovo. For the sake of completeness and clarity, it begins with a few highlights related to the Belgrade/Prishtina or Prishtina/Belgrade dialogue and then moves on to EU presence/s in Kosovo. The last and most important part deals with what might be the future shape of the EU’s presence/s in the ground.

As is general knowledge, the EU did not have a unified position when Kosovo declared independence in February 2008. The Council of the European Union delegated the question on Kosovo’s recognition of independence to the EU member states: “*The Council notes that Member States will decide, in accordance with national practice and international law, on their relations with Kosovo*” while easing the way of recognitions “*Kosovo constitutes a sui generis case which does not call into question the UN Charter and the Helsinki Final Act principles.*”² It is worth putting that this non unique position among EU member countries towards Kosovo has made (and is making) both the EU’s policy towards Kosovo and EU’s presence/s in Kosovo very confusing. There are still

¹ From April to July 2012, Visar Rushiti participated in the European Fund for the Balkans (Bringing the Western Balkans closer to the EU) Fellowship Programme at the Austrian Ministry of the Interior. He attended the 24th Workshop of the PfP Consortium Study Group “Regional Stability in South East Europe” from 03 – 05 May 2012 in Reichenau/Rax. This paper was written during a research stay at the Austrian National Defence Academy from 02 – 06 July 2012 and will be integrated in the upcoming Study Group Information to the workshop.

² Council of the European Union, General Affairs and External Relations, 2008, p. 7. Available at: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/98818.pdf

five³ EU member states which have not recognized Kosovo's independence, while the country is recognized by 91 countries worldwide.

1. Background to the Belgrade/Prishtina or Prishtina/Belgrade Dialogue

Pushed by Serbia, as it is not agreeing with the advisory opinion of the International Court of Justice (ICJ) on Kosovo's declaration of independence, the UN General Assembly started discussions on a draft resolution sponsored by the EU and Serbia calling for further negotiations between Belgrade/Prishtina or Prishtina/Belgrade to be facilitated by the EU. The text of the draft resolution was corrected when it was presented to the Assembly since it contained the condemnation of Kosovo's independence declaration.

This phrase was dropped and the draft resolution acknowledged the ICJ's advisory opinion and welcomed the EU readiness "to facilitate the process of dialogue between the parties"⁴. In this context, it is worth to insert the two last paragraphs of the Resolution adopted by the UN General Assembly: (paragraph 1) "*it acknowledges the content of the advisory opinion of the International Court of Justice in the accordance with International Law of the Unilateral Declaration of Independence in respect of Kosovo, rendered in response to the request of the General Assembly*" (paragraph 2) "*Welcomes the readiness of the European Union to facilitate a process of dialogue between the parties; the process in itself would be a factor for peace, security and stability in the region, and that dialogue would be to promote cooperation, achieve progress on the path to the European Union and the improve the lives of the people.*"⁵

³ EU member states which have not recognized Kosovo: Cyprus, Greece, Romania, Slovakia, and Spain.

⁴ Reuters, 'Serbia backs compromise U.N. Resolution on Kosovo. Available at: <http://www.reuters.com/article/2010/09/09/us-serbia-kosovo-un-idUSTRE6885IJ20100909>

⁵ Resolution adopted by the General Assembly (A/RES/64/298) p.1, 2. Available at: <http://www.unmikonline.org/Documents/GA64298.pdf>

This resolution paved the way for a dialogue on technical and practical issues⁶ facilitated by the European Union between Belgrade/Pristina or Prishtina/Belgrade. In this way, Catherine Ashton, the High Representative of the Union for Foreign Affairs and Security Policy (and Vice-President of the Commission) appointed Mr. Robert Cooper, Director General for External and Political and Military Affairs, as EU facilitator of the dialogue.

As of July 2012, the delegations are led by: Ms. Edita Tahiri, Deputy Prime Minister of Kosovo and Mr. Borko Stefanovic, Political Director of the Ministry of Foreign Affairs in Serbia respectively. As of mid 2012 (although the dialogue has been stopped for some time due to the elections in May in Serbia) six rounds of talks have taken place in Brussels. Although there was some progress related to discussions and agreements reached, the implementation of the agreements remain open.

2. The EU Presence/s in Kosovo

On the eve of Kosovo's declaration of independence, the European Union, specifically the Council, adopted the Joint Action 2008/123/CFSP of 4 February 2008 appointing a European Union Special Representative (EUSR) for Kosovo.⁷ The same day, parallel to this action, the Council adopted Joint Action 2008/124/CFSP on the European Union Rule of Law Mission in Kosovo, EULEX Kosovo.⁸ Despite these, on 21 December 2011, the EU High Representative/EC Vice-President Catherine Ashton appointed Mr. Samuel Zbogar as the head of the EU Office in Kosovo while on 25 January 2012, the Council of the EU appointed the same person to be the European Union Special Representative in Kosovo (double-hatted)⁹.

⁶ Telecommunication, trade, stamp of the customs, energy, cadastral issues, etc.

⁷ Council Joint Action 2008/123/CFSP of 4 February 2008 is available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:042:0088:0091:EN:PDF>

⁸ Council Joint Action 2008/124/CFSP of February 2008 is available at: http://www.eulex-kosovo.eu/en/info/docs/JointActionEULEX_EN.pdf

⁹ Council of the European Union, Council appoints EU Special Representative in Kosovo, 25 January 2012, Brussels.

This double function comes formally under the name: European Union office in Kosovo/European Union Special Representative in Kosovo. As this does not present a clear picture, examining the two components one by one is necessary.

2.1. The European Union Office in Kosovo / European Union Special Representative in Kosovo

While there is a mandate for the European Union Special Representative in Kosovo (EUSR) stipulated in the Council Decision 2012/39/CFSP¹⁰, the same cannot be said for the European Union office in Kosovo. However, it is an office where the European Commission and the Council of the EU interact between one another under the same umbrella in Kosovo. The office is an integral part of the European External Action Service (EEAS) and the European Commission's representation in Prishtina run by one person. To make it more clear, *'The Council envisages that the powers and authorities of the EUSR and the powers and authorities of the Head of the European Union Office in Prishtina shall be vested in the same person'*¹¹. The first EUSR in Kosovo, Mr. Pieter Feith, was appointed in this position in February 2008. He held this double function as the EUSR and International Special Representative (ISR) until it was decided that Mr. Pieter Feith will remain as ISR only.

Before dealing with the mandate of the EUSR in Kosovo, it is worth adding a few words on EUSRs worldwide and their appointment procedure. European Union Special Representatives (EUSRs) are mandated by the Council with qualified majority voting (QMV) pursuant to Article 31 (ex Article 23 TEU) of the Lisbon treaty. Moreover, pursuant to the Lisbon treaty "the Council may, on a proposal from the High Representative of the Union for Common Foreign and Security Policy, appoint a special representative with a mandate in relation to particular policy issues."¹² In more detail, the Council at first calls for candidates from EU

¹⁰ Council Decision 2012/39/CFSP of 25 January 2012 appointing the EUSR in Kosovo Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:023:0005:0008:EN:PDF>

¹¹ Ibid (point 6)

¹² Article 33 (ex Article 18 TEU) of the Treaty of Lisbon

member states which undergo a series of interviews and the High Representative takes part in the selection panel. Following the interviews, the High Representative makes a recommendation about a candidate for EUSR to the Political and Security Committee (PSC) which endorses it and then gets appointed by the Council.¹³ EUSRs are instruments of CFSP and support the work of the High Representative of the Union for the CFSP.

In comparison to the first Council decision 2008/123 CFSP when the first EUSR (Mr. Pieter Feith) was appointed in 2008, the latest decision in which Mr. Zbogar is appointed as the EUSR in Kosovo (2012) contains a promising phrase for Kosovo in terms of EU integration. Among other policy objectives for the EUSR, the one mentioning to support Kosovo's progress towards the Union in accordance with the European perspective of the region and in line with relevant Council conclusions is note worthy. Other main policy objectives which EUSR in Kosovo deals with are: a) advice and support for the political process, b) promotion of overall Union political coordination, c) the providing of local political guidance to the Head of the European Union Rule of Law Mission in Kosovo, and d) the assistance on the implementation of the Belgrade/Prishtina or Prishtina/Belgrade dialogue¹⁴. In difference to the hitherto International Civilian Representative in Kosovo (and EULEX), the EUSR in Kosovo doesn't have any executive authority. Mr. Zbogar's mandate initially runs until June 2013.

2.2. The European Union Rule of Law Mission in Kosovo (EULEX KOSOVO)

The EULEX mission in Kosovo is the largest mission ever launched under the European Security and Defense Policy (ESDP). Its legal basis stems from the Council of the European Union dating back to February 2008 when the Council also issued the decision on the appointment of

¹³ Giovanni, G. 'Pioneering foreign policy: the EU special representatives, available at: <http://www.iss.europa.eu/uploads/media/chai106.pdf> (2007, page 17).

¹⁴ Council Decision 2012/39/CFSP of 25 January 2012 appointing the EUSR in Kosovo, Article 3

the EUSR in Kosovo. As stated previously, in contrast to EUSR, the EULEX mission in Kosovo has certain executive responsibilities. Since it was launched in 2008, its mandate has been extended three times, most recently on 5 June 2012 which extends EULEX's mandate until June 2014¹⁵. Before going into its organization and how it works, it is worth to briefly mention the situation of the mission's deployment.

Following the 'Ahtisaari package' on the Kosovo status settlement, particularly the section on the future international presence in Kosovo, the mandate of UNMIK had to expire within a transition period of 120 days. Article 15.1 of the Ahtisaari package provided: *'at the end of the transition period, UNMIK's mandate shall expire and all legislative and executive authority vested in UNMIK shall be transferred en bloc to the governing authorities of Kosovo, unless otherwise provided for in this Settlement'*¹⁶. However, a legal basis for the replacement of UNMIK and the deployment of EULEX could have been done with a new legal mandate (document) from the UN Security Council. This was not possible due to Russia's opposition (and veto) in the UN Security Council. Therefore it was decided that the mission of EULEX will be based on the Resolution 1244 of the UN Security Council. EULEX, as the EUSR, is neutral with regard to the status of Kosovo.

Without going into details related to EULEX tasks and the mission statement, let me just summarize those of utmost importance: EULEX has to a) monitor, mentor and advise the component Kosovo institutions on all areas related to the wider rule of law (including the customs service) whilst retaining certain executive responsibilities, as well as b) ensure that cases of war crimes, terrorism, organized crime, corruption, inter-ethnic crimes, financial-economic crimes, and other serious crimes are properly investigated, prosecuted, adjudicated and enforced.¹⁷ The EULEX main headquarters are in Prishtina while based on its legal structure there should be regional and local offices across Kosovo. In

¹⁵ For the extension of EULEX mandate, look at: <http://www.eulex-kosovo.eu/en/info/whatisEulex.php>

¹⁶ Ahtisaari package, article 15.1, 2007.

¹⁷ All tasks of EULEX Kosovo can be found at its legal base document available at: http://www.eulex-kosovo.eu/en/info/docs/JointActionEULEX_EN.pdf

this regard it is to mention that EULEX is not present with any offices in the northern part of Kosovo.

The EULEX organization or structure is divided into three components: a) a police component, located to appropriate to the Kosovo Police, including border crossing points, b) a justice component, located to appropriate to the relevant Ministries, the Kosovo judiciary, etc, and c) a customs component, located to appropriate to the Kosovo customs service. The total number of staff is 3200 (1950 international and 1250 local).

Although the most updated data concerning the number of operational personnel per each component is missing, based on an earlier estimation¹⁸, the number of personnel per each component seconded from EU member countries is: a) the police component is divided into three sub-components 1) 450 police officers aimed at mentoring, monitoring, and advising Kosovo authorities both at a central and a local level, 2) 180 police officers aimed to deal with sensitive crimes including war crimes, corruption and financial crimes, and 3) 750 police officers acting as gendarmerie in case of any civil disorder; b) the justice component consists of 250 judges and prosecutors having both mentoring and executive functions, and finally c) the customs component is the smallest and in comparison to police and justice components, it has only advisory capacity to the Kosovo customs.¹⁹ A problem related to the EULEX justice component is the application of the criminal code in judicial proceedings. EULEX judges are free to choose which criminal code they want to apply in court proceedings be it of former Yugoslavia, UNMIK, or Kosovo.

The EULEX mission is under the direction of a Head of Mission directly responsible for Civilian Operation Commander who works under the political control and strategic direction of the Political and Security Committee (PSC) and the overall authority of the High Representative of

¹⁸ Chivvis, Ch. 'EU civilian crisis management, the record so far' Available at: http://www.rand.org/content/dam/rand/pubs/monographs/2010/RAND_MG945.pdf,

¹⁹ Ibid, p. 35.

the Union for the Foreign Affairs and Security Policy.²⁰ Upon the Council's decision on the EULEX mission in Kosovo in February 2008, the former French Commander of KFOR, Yves de Kermabon, was nominated as the Head of Mission. Mr. Kermabon was succeeded by another former KFOR French Commander, Xavier Bout de Marnhac.

3. General Considerations on EUSR and EULEX Future Roles in Kosovo

EUSR and EULEX in Kosovo should not be mixed up with the International Civilian Office (ICO) and International Civilian Representative (ICR). ICR sits in ICO and is under the guidance and authority of the International Steering Group (ISG). It consists of countries which support the full implementation of the Comprehensive Proposal for the Kosovo Status Settlement (Ahtisaari package). Thus, no matter what happens with the ICO and ICR (several recent meetings of ISG have said that by September 2012 the ICO might be closed due to the termination of the supervisory independence for Kosovo), the EUSR and the EULEX will remain as they are.

What might be some general considerations on the EUSR and EULEX roles for the next two years?

EUSR – As one of the main tasks of the EUSR as stated above is to assist with the implementation of the Belgrade/Prishtina or Prishtina/Belgrade dialogue facilitated by the EU, Mr. Zbogar as EUSR in Kosovo needs to focus on this aspect for the next period while acting in Kosovo. There is a number of agreements on technical issues which have been reached in Brussels but their implementation remains open.

Strengthening the support to Kosovo's progress towards the European Union should be one of the top priorities of the EUSR in Kosovo. Like that of other Western Balkan countries, Kosovo's future is in the European Union as endorsed in the Thessaloniki European summit in 2003.

²⁰ Refer to footnote 15.

All efforts being preceded in Kosovo should be in line with this perspective. Due to the fruitful cooperation with Brussels in terms of the dialogue, Kosovo has been given the chance to move within the Stabilization and Association Process (SAP). As a first step, a feasibility study is to be conducted prior to the rest of the process as part of the Stabilization and Association Process.

Mr. Zbogar, along with the Kosovo government, the International Civilian Representative and other stakeholders should talk intensively on how to find the best possible solution to integrate the northern part of Kosovo which de facto is outside Prishtina's authority since 1999.

EULEX – As long as EULEX works according to its mission on strengthening the rule of law area by assisting the Kosovo institutions (judicial authorities, law enforcement agencies as well as customs in Kosovo) no institution will put their existence and work into question. As stated above, the EULEX mission in Kosovo will last (as far as we know) until June 2014 which doesn't mean that its mandate will not be extended further. This will all depend on how much Kosovo institutions will be strengthened to work on their own. The two main parts of EULEX's assistance is divided into two branches: executive and strengthening. All in all, *'the success of the EULEX in Kosovo will depend strongly on the extent to which Kosovo's prospects of EU integration becomes more tangible.'*²¹

One critical point for the EULEX is the northern part of Kosovo. Since its deployment in Kosovo, no major contribution was made to this part of Kosovo. Except that of Kosovo Police, EULEX free movement in the north is very restricted or doesn't exist at all. This is in some cases true even for KFOR. The EULEX is not to put into question its authority in parts of the territory in Kosovo. Neither police and justice components, nor that of customs is present in the north today. Since the law enforcement aspects are in the hand of Kosovo Police and EULEX, both absent

²¹ Dzhic and Kramer, 'Kosovo after Independence – is the EU's EULEX Mission Delivering on its Promises?' July 2009, p. 21. Available at: <http://library.fes.de/pdf-files/id/ipa/06571.pdf>

in the north, smuggling and other crime activities are mainly present there.

Fighting corruption and organized crime is one of the areas where the EULEX is proven to be successful. Some work is already being done in this regard and should be thus increased and strengthened. The EULEX is not to accept any interventions or be biased in its work in Kosovo but it should tackle everybody involved in corruption and crime activities. *'Kosovo suffers from the widespread impression that it is run by a law-less political elite in control of every aspect of society'²²*. In this regard, applying a unique criminal law for all people and by all judges should be regulated immediately. Also, judges' selection process within the EULEX from the EU member states should be taken into account. *'The EU should do what it can to deepen the pool of qualified applicants and encourage states to send the full complement of jurists. Member states should create national structures to facilitate secondment to missions like EULEX and agree to the creation of an EU roster of available judges and prosecutors.'²³*

Recommendations

To the EU:

Keep Kosovo's path towards EU integration on its track. This means the lift of visa liberalization regime in due time and progress on the Stabilization and Association Process (SAP) as was recently done with the feasibility study.

Put pressure on the government in Serbia to withdraw the support for the parallel structures in the north of Kosovo. Reiterate that Serbia's way to EU integration is conditioned by establishing good neighbor relations with Kosovo.

²² International Crisis Group, 'The Rule of Law in Independent Kosovo' 19 May 2010, p.1

²³ Ibid, p.15.

Influence the five EU member states Cyprus, Greece, Romania, Slovakia and Spain to recognize Kosovo as this fact limits Kosovo on the way towards EU integration. Moreover, try to be as unitary and strategically clear towards Kosovo as possible;

Unify the presence in Kosovo as much as possible, and support the EUSR in Kosovo in this regard. Speaking with one voice in Kosovo as well as towards Kosovo will increase EU's reputation towards and in Kosovo.

Support the EUSR and EULEX to be as independent and functional as possible. Avoid in this sense any influence from any of the EU member states or from politicians.

Despite the global financial crisis and the crisis of the Euro zone, stay committed to what has been promised for Kosovo and thus don't reduce funds under Instrument for Pre-accession (IPA).

To the Government of Kosovo:

Work along with the EUSR, the ICR, and relevant Embassies in Prishtina on a strategy on how to integrate the northern part of Kosovo as smoothly and functionally as possible.

Engage with the elected representatives of the Kosovo Serbs in the north of Kosovo to further the integration of that part to the rest of Kosovo. This should be part of the strategy mentioned above. All in all, work more and talk less in this regard.

Continue the dialogue between Belgrade/Prishtina or Prishtina/Belgrade on technical matters like car registration plates, energy, communication, free movement, cadastre and so on. The status issue is closed once and forever for Kosovo with the declaration of independence in February 2008.

Support the EULEX in investigating the high level corruption and organized crime activities in the whole territory of Kosovo. Despite that, Kos-

ovo judicial and law enforcement agencies should do the best on their part.

Put great efforts in reaching the goals or fulfilling conditions which are dependent on government institutions concerning visa liberalization and feasibility study.

Work along with the EULEX and respective institutions to strengthen the rule of law since it is weak and remains the key challenge for Kosovo on its track towards EU integration.

As started, complete the Constitution amendments and electoral reforms and present them to the Parliament for approval. The sooner the better since this would open the way for presidential and parliamentary elections agreed to take place next year. One very crucial point for Kosovo which should be taken very seriously is the holding of correct and supervised elections.

State-building or, - put in a simple way, - institution building is what the government in Kosovo should work on hard. Now, as an independent country, state-building is of crucial importance.

The government in Kosovo should work hard on boosting its economy as not to be ranked among the poorest nations in Europe. The government in Kosovo should work hard on opening new jobs especially for the young – Kosovo has the youngest population in Europe – and so decrease the high unemployment rate.

Conclusions

As supervisory independence for Kosovo is going to end in the near future, the EU presence/s in Kosovo, namely the EU office in Kosovo/European Union Special Representative for Kosovo, and European Union Rule of Law Mission in Kosovo will remain in place at least for the next two to three years. The more unified the EU presence in Kosovo

is, the better it is for both the EU and Kosovo. The EU presence/s in Kosovo is above all of a helping and supporting character.

The further Kosovo progresses, the more readiness and maturity she has to show in terms of building a very democratic society where the full rule of law is in force. The better it performs in these issues, the sooner it will reach EU integration – all this depends on Kosovo's domestic governing structures. Development is a precondition for security. Security in the 21st century is not only about military and police but encompasses a wider range of dimensions from the environment, energy, the economy etc. All in all, Kosovo needs to be transferred from a security consumer to a security provider.

A developed democratic country has a sound and firm basis and is far away from being a failed state – additionally, it may become an international asset through valuable contributions to regional stability.

Kosovo has to take her equal share in projecting stability and peace in the Western Balkans region.

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The Global Economic Crisis and South East Europe: Consequences and Challenges for the Region

*Valbona Zeneli*¹

Introduction

The recent economic crisis has not left anyone unaffected, showing that all countries of the world are part of the global economy; developed or developing, willing or unwilling, smaller or bigger, richer or poorer.

After a decade of macroeconomic stability and economic growth in South East Europe, the boom came to an abrupt in late 2008. The global recession impacted also the countries of South East Europe (SEE); some of those were lightly and others deeply affected by the crisis. It seems that the greater the integration, the more severe the impact of the crisis.

South East Europe is experiencing the negative impacts of the global recession, showed clearly by the deterioration of some important indicators as economic growth and foreign direct investments (FDI). But is it just the global economic crisis to be blamed for the entire problems that have tackled the economies of this region?

This paper will aim first to provide an assessment of the impact of the global crisis in SEE, through the explanation of different spill over factors. The decline of foreign direct investments is among the most important spill overs of the crisis in the region, since FDI has been considered in the last twenty years as the main driving force for development of SEE.

¹ The article reflects the views of the author and is not necessarily the official policy of the U.S. or German governments.

Economic problems in SEE are related mostly to various institutional weaknesses, and the global crisis is an additional explanation for the stagnation of these economies. The main weakness of the economic environment of the countries of South East Europe will be discussed in the third part of the paper.

The last part of will analyze possible ways of tackling the crisis and helping the economic recovery, suggesting that the role of regional economic cooperation is crucial for the economic development of the region.

Impact of Global Economic Crisis in South East Europe

The financial crisis that began to affect western countries in late 2007 caused negative consequences in the South East European region as well. At the beginning of 2008 there was the general feeling that the region had somehow avoided the global crisis. Governments were optimistic, perhaps unwilling to recognize what was happening in the global economy; they all continued to project sustained economic growth. International economists too, had underestimated the severity of the crisis in South East Europe, forecasting high growth rates for 2009 and 2010².

The fact is that GDP growth in SEE slowed, stopped and even turned negative over this period. Taken as a whole, the regional GDP declined 5.4% in 2009³. The worst hit countries were Bulgaria, Romania and Croatia, which were also the most developed in the region. Kosovo, the least integrated country avoided the full impact of the crisis⁴. Albania continued to have economic growth, though it was lower⁵.

² The extent to which the severity of the crisis was underestimated is explained in the paper of Peter Sanfey (2010) "South-eastern Europe: lessons from the global crisis" where he brings examples of forecasts of IMF World Economic Outlook and EBRD forecasts for 2009 published in their Transition Report 2008.

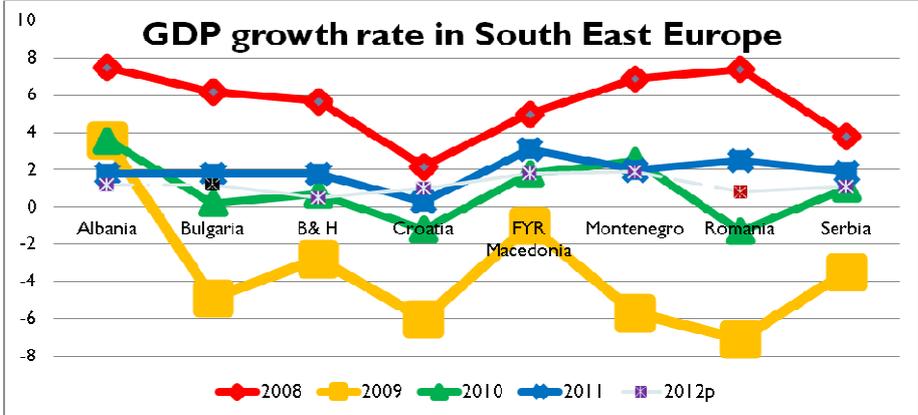
³ EBRD Transition Reports 2011.

⁴ Gashi, P. (2011). The global economic crisis and Kosovo. LSEE.

⁵ Germenji, E. (2011). The global crisis and its propagation in Albania. LSEE

In 2010 the best performing countries of SEE were Kosovo (3.4% GDP growth) and Albania (2.2%); other economies continued to stagnate, as it shows in chart below.

Chart 1: Impact of the Global Crisis on the economic growth of SEE



Source: EBRD

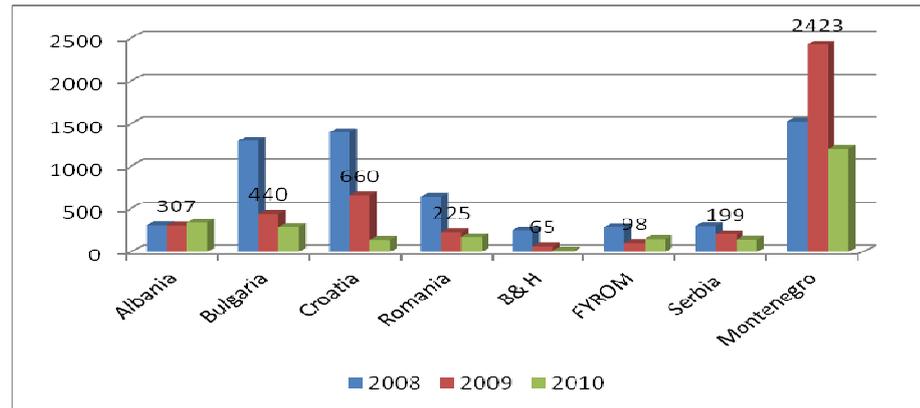
These trends compare favourably with those reported from developed economies of the European Union, Eastern Europe or the Baltic countries, but the very low economic level of development of SEE countries and the catch-up effect of these economies should be taken into consideration in analyzing the situation.

The economies of SEE were only indirectly impacted by the global crisis, since their banking systems were not directly exposed to the financial crisis; no major private banks failed. Although banking institutions are owned by foreign companies, most of their assets are covered from domestic deposits.

The effects of the global crisis reached the SEE in at least four main ways. The main negative spill over effect is the fall FDI; the fall of exports and trade in general; the decline of remittances and the impact of the Greek economic and social crisis.

First, foreign direct investments fell sharply in the region. During the last 20 years the region has experienced a high increase in the inflow of foreign direct investments, but this can be explained by their very low initial level. The worst indicators were noticed in Romania and Bulgaria⁶, where foreign investment fell by 50% in 2009 compared with the same period in 2008⁷ reflecting also the high shares of FDI in finance and real estate (the chart below shows the inflow of FDI per capita in SEE during 2008-2010).

Chart 2: Inflow of FDI per capita in USD into South East Europe (2008-2010)



Source: UNCTAD. Labels show the Inflow of FDI per capita in USD in 2009.

Transition countries have used FDI as one of the main and most stable and sustainable sources for private capital. It does not only bring capital and resources, but also technology and know-how, access to world markets, upgrading of human capital, increase in the total productivity and quality of outputs⁸.

⁶ Both Bulgaria and Romania had experienced an increase in their FDI inflows after their accession into EU in 2007.

⁷ In Bulgaria FDI per capita in 2008 was 1290 \$, in 2009 fell to 592 \$. Source: UNCTAD database.

⁸ Stiglitz, J.E. (2000). Capital market liberalization, economic growth and instability. *World Development*, Vol.28 (6), pp 65-94.

SEE Governments encouraged the inflow of FDI (at the beginning mainly through the privatization process), believing that this would be beneficial not only for growth and development, but also for their faster integration into European Union. Advanced econometric studies⁹ for the period 1992-2009, in the case of South East Europe, point out the importance of FDI in stimulating growth and development in the economies of SEE¹⁰, showed also by statistical data that countries with higher FDI per capita have also higher GDP per capita.

Second, export markets in EU countries (especially Germany, Italy, Greece and Austria) dropped sharply in 2009 with some signs of stabilization in 2010¹¹. Countries which suffered most included: Bosnia and Herzegovina, Macedonia, Romania and Serbia in the steel industry and aluminum; Romania in the car industry; and other countries in their textile industries.

Countries that were hardest hit by the crisis rely heavily on exports as in Bulgaria (exports were 58.22 % of GDP in 2008)¹², while other as Albania or Serbia did not feel a significant impact.¹³ The table below shows the degree of importance of exports in the GDP of SEE countries.

⁹ The study aimed to explore the relationship between foreign direct investment and economic growth in South East Europe. The panel dataset covered 8 countries (Albania, Bulgaria, Romania, Croatia, FRY Macedonia, Bosnia & Herzegovina, Serbia and Montenegro) over the period 1992-2009. GMM (Generalized Method of Moments) panel data system techniques were used for the analysis. Major growth factors are taken in consideration in this analysis as initial income per capita in the host country, human capital, trade, inflation, governments spending, domestic investments, credit to the private sector, remittances, quality of institutions and privatization process (the inflows of FDI were divided into Greenfield and Privatization-related FDI) (Zeneli, 2010b)

¹⁰ Zeneli, V. (2011). "Foreign Direct Investment and Economic growth in South-east European countries". Ph.D. Dissertation.

¹¹ Sanfey, P. (2010). South-eastern Europe: lessons from the global crisis. EBRD Working Paper No.113

¹² UNCTAD, Economist Intelligence Unit

¹³ Sanfey, P and Zeh, S. South East Europe after Economic Crisis: a New Dawn or back to Business as Usual? LSEE, 2011

Table 2: Export as % of GDP in South East Europe in 2008, 2009, 2010

	2007	2008	2009
Albania	28.16	29.41	28.02
Bulgaria	59.47	58.22	47.83
Croatia	42.79	41.91	36.09
Romania	29.3	30.43	31.22
B& H	37.33	36.8	31.8
FYROM	52.36	50.9	43.39
Serbia	29.79	28.99	26.91
Montenegro	29.79	39.6	33.32

Source: UNCTAD statistics, Economist Intelligence Unit

Tourism was also negatively impacted in countries such as Bulgaria, Croatia, Montenegro and Albania.

Third, the decline of remittances from expatriate workers, especially in the cases of Albania, Croatia and Romania¹⁴, which affect not only domestic demand but also the development of small and medium enterprises, where they were one of the main sources of business capital. This impact is reflected in the goods, capital and labour markets.

Fourth, the Greek crisis is likely to severely affect the region in a variety of ways, because of Greek links with the Balkan economies¹⁵. The first negative spill over to the SEE would be a political one. The economic and social instability in Greece is likely going to impact the prospects and timing of EU integration for some countries of SEE, since Greece will less be able to play the role of advocate of the region within EU¹⁶. Other negative impacts would include: the risk of financial contagion, since the Greek banks are heavily involved in the region having a share

¹⁴ CEIC database, Economist Intelligence Unit.

¹⁵ Kekic, L (2011). The Greek crisis- the threat to neighboring Balkan economies. LSEE, 2011

¹⁶ The Greek Government has been touting its “Agenda 2014” for admission of all Western Balkan into EU within the next few years. Kekic L. (2011)

of more than 20% of the market in the financial sector; and negative impacts on trade, foreign direct investments and remittances.

Trade relations with Greece are especially important for Bulgaria, Albania, Macedonia and Montenegro, where exports to Greece are on average 11% of total good exports for these countries¹⁷. Greek companies are involved in neighbouring countries through direct investments in the banking and telecommunication sector (the major mobile phone companies in Bulgaria, Macedonia, Serbia and Albania), being either the first or the second main foreign investor.¹⁸

Donations and economic assistance for development have also been important for the region, the Greek Plan for the Economic Reconstruction of the Balkans (ESOAB)¹⁹ of 500 million Euros being a good example.

The Greek crisis is also a problem because of similarities between Greece and the former communist Balkan countries. Like Greece, widespread corruption, large informal economies, tax avoidance, rapid expansion of consumer credit, very large current-account deficit (in excess of 10% of GDP) are some of the common characteristics in these region.

Is the Global Economic Crisis the Major Cause of Economic Problems in SEE?

It is clear that the region of SEE ultimately was hit by the global crisis. Although non- integration has been fortunate for some countries, it remains one of the main barriers for further economic development.

Economic problems in the region are strongly related to various national institutional and administrative weaknesses. SEE economies suffer a lack of competitiveness. The SEE region offers unique opportunities for

¹⁷ Kekic, L (2011). The Greek crisis- the threat to neighboring Balkan economies. LSEE, 2011.

¹⁸ Economist Intelligence Unit

¹⁹ Greek Plan for the Economic Reconstruction of the Balkans (ESOAB) was part of the Hellenic Aid Action Plan for Coordination and Harmonization (2004).

foreign investors in terms of strategic position, proximity to Western Europe, natural resources, human capital and investments policies. Nevertheless, even before the crisis the annual inflow of FDI remained very low in the global context. Central Eastern European countries have a much higher level of FDI.

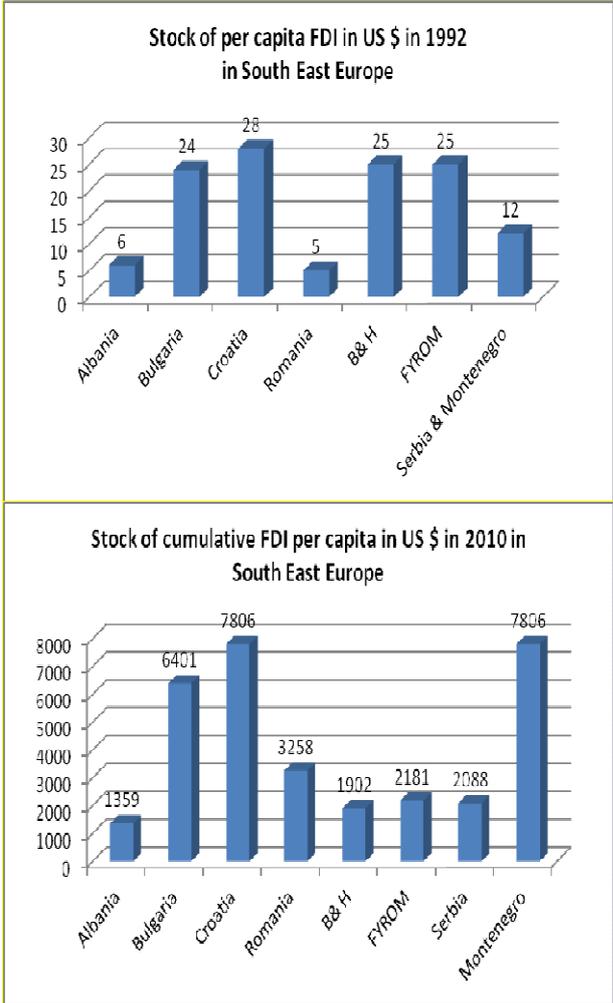
Today there is mere evidence that FDI geographic distribution is strongly influenced by the host country political and institutional quality because it reflects the foreign investors' confidence on the domestic environment²⁰. This is even more important for countries of South East Europe since all of them have experience of instability in the transition process.

Within the region of South-eastern Europe the distribution of foreign investments is uneven, depending on the local environment, although the countries started in 1990s from the very low initial amounts. Based on econometric research, the quality of the institutional reforms is among the main determinants for the attraction of FDI in South East Europe²¹.

²⁰ Dunning, J.H. (2006). Towards a New Paradigm of Development: Implications for the Determinants of International Business Activity. *Transnational Corporations*, 15(1), pp.173-228

²¹ Zeneli, V. (2011a). The determinants for the attraction of FDI in South-east European countries. The role of Institutions. Ph.D. Dissertation.

Chart 3: Stock of FDI per capita in USD into South-eastern Europe in 1992 and 2010: Geographic distribution of FDI is influenced mostly by the host country political and institutional quality.



Source: UNCTAD

Even the benefits of FDI do not accrue automatically and evenly across countries, sectors and local economies. National policies are very impor-

tant for attracting FDI and reaping their full benefits for development²². The linkage between FDI and economic development is very complex. It depends on certain policy conditions and absorptive capacities such as human resources²³, development of financial market²⁴ level of openness to trade²⁵ and quality of institutions²⁶. The quality of reforms and institutions is significantly important for the positive effects of FDI in SEE; countries need to have a threshold, a certain level of development of institutions and good governance, to profit from foreign investments.

One major factor for the decline in foreign investments in South East Europe is the fact that they were mostly market seeking, related to the privatization process, and very rarely export-oriented²⁷. The quality of investments did not stimulate strong industrial development and sustainable growth through spill over effects, due to the absence of serious presence of green- field investments.

Among the main concerns of potentially serious investors have been,- over the last two decades,- the political and institutional instability in the region, underdevelopment of the economies; disintegration, wars and ethnic conflicts in former Yugoslavia, and very high levels of corruption in most of these countries.

The transition process has not yet been completed in most of the countries of the region. Institutional reforms have been superficial, new laws continuously are passed but are not implemented. There is a huge gap

²² Dunning, J.H. (2006). Towards a New Paradigm of Development: Implications for the Determinants of International Business Activity. *Transnational Corporations*, 15(1), pp.173-228.

²³ Borensztein, E et.al (1998). How does Foreign Investment affect growth? *Journal of International Economics*, Vol. 45.

²⁴ Alfaro L. et.al (2004) "FDI and Economic Growth. The role of financial markets". *Harvard Business Review*. Working Paper.

²⁵ Balasubramanyam et al (1999). "Foreign Direct Investment as an engine of growth". *Journal of International Trade and Development*. Vol 8 (1), pp.27-40

²⁶ Zeneli, V. (2011). "Foreign Direct Investment and Economic growth in South-east European countries". Ph.D. Dissertation.

²⁷ Zeneli, V. (2011a). The determinants for the attraction of FDI in South-east European countries. The role of Institutions. Ph.D. Dissertation.

between the formally adopted laws and the institutional ability to enforce them. Most of the countries lack political stability and democratic accountability of decision-making. The poor infrastructure, the thriving informal economy, problems with the property rights administrative barriers, non-transparent privatization processes, and the weak results in fighting corruption continue to discourage foreign investments and trade. Political stability, meeting EU regulatory standards, improving infrastructure, simplifying administrative procedures, improving the education system are among the top priorities ranked from potential foreign investors in the region of SEE.

Foreign investors and international institutions²⁸ also raise concerns about the quality of education and professional training in SEE. This is related not only to inadequate public expenditures but also institutional weaknesses in policy formulation and implementation. The key for growth and innovation in transition countries is the development of cognitive skills, which has to do with the quality of education rather than just numbers of school enrolments²⁹. The lower is the quality of the workforce, the less “qualitative” are investments, and they seek only cheap labour providing only a short term fleeting positive impact. Usually these investments are made in mature and less technological industries where the chances of positive spill overs are limited. The brain drain of the most competent young people is another major concern for the region³⁰.

The involvement of SEE countries in international trade has grown substantially from the '1990s; but still external trade flows remain limited in many of these countries. The degree of openness is low compared to Eastern Europe or Western countries, with Albania having the lowest level and Bulgaria the highest³¹. Intra-regional trade levels are low, very

²⁸ OECD Investment Reform Index, 2006 and EFA Global Monitoring Report (2009) UNESCO.

²⁹ Hanushek, E. and Woessmann, L. “The Economics of International Differences in Educational Achievement”. National Bureau of Economic Research (NBER), Working paper 15494, April 2010

³⁰ EFA Global Monitoring Report (2009) UNESCO.

³¹ International Monetary Fund, 2008

much below potentials, in spite of a new CEFTA agreement among the countries that has substantially lowered tariffs for both imports and exports. The composition of trade remains a problem, it is dominated by commodities; intra-industry trade remains very low. Nevertheless, main problems still are on non-tariff barriers, including lengthy administrative procedures and extensive corruption.

The global crisis is just an additional explanation for the stagnation of SEE economies, because of the lack of investment and much more difficult and expensive access to international finance. Nevertheless, the decreased flow of FDI in the region does not depend entirely on the lack of financial resources, rather than the crisis had on the confidence of foreign business to invest in risky markets.

The Importance of Strengthening Regional Cooperation for the Economic Recovery of South East Europe

The lowest point of recession in South East Europe seems to have been left behind, the region felt less the crisis but will likely suffer more the recovery³². The social impact seems to be long lasting, even after economic growth will recover. The first reaction to the crisis, consciously or not is to close our economies from the global market and become a closed economy. Although lack of integration globally proved to be fortunate in one sense, it is also one of the main barriers for further economic development. On the contrary, the economic crisis has revealed that the regional economic cooperation in South East Europe is important for regional stability, security and development.

Countries of SEE cannot compete alone in the global market place; they don't have the necessary competitive advantage. The region of SEE should offer a unique opportunity for investors both in terms of size of its internal market and as a base for export into Western Europe. With over 50 million people, with growing purchasing power of its consumers, cumulative gross annual income of over \$ 2 billion and geographic

³² World Bank, 2010

proximity to Central and Western Europe, the SEE region should present an attractive destination for market and efficiency seeking serious foreign investors.

Serious regional economic cooperation in South East Europe began in 1999 with the strong involvement of the international community, especially the EU, with the goal of establishing a wider regional reconstruction and development.

One of main initiatives was the Stability Pact for South-Eastern Europe³³, which in 2008 was ultimately replaced by the Regional Cooperation Council, representing a milestone in the regional cooperation in line with the EU goals and objectives.

The EU's Stabilization and Association³⁴ process is another very important initiative, with three significant aims: the stabilization of the countries of SEE and their transition to the market economy; promotion of regional cooperation, and eventual membership to European Union.

Progress has been made in the recent years and with the assistance of EU, SEE has institutionalized to a certain level the economic cooperation on the fields of regional trade, energy, transport and common aviation area. A Significant accomplishment in cooperation is the new CEFTA 2006, which is a regional FTA signed in 2006 and ratified in 2007. This agreement replaced 32 Free Trade Agreements with a single stable regulatory framework. Another area of cooperation is the Transport Community Treaty, -negotiated since 2008 between the EU and the Western Balkans, - which aims to establish an integrated market for transportation infrastructure in the region³⁵. Yet another example is the Agreement on European Common Aviation Area (ECAA)³⁶ which integrates the region into the EU internal aviation market is another one.

³³ <http://www.stabilitypact.org>

³⁴ <http://ec.europa.eu/enlargement>

³⁵ EU Commission,(2009)

³⁶ EU Commission,(2009)

Regional cooperation is important not only for the transition of these countries into European Union, but also for increasing the importance of the region as a whole in the global market. Cooperation is also important, because it offers the possibility of resolving regional issues. The Region confronted many challenges over the past, including relapses, wars, ethnic conflicts and misunderstandings. These events generated political instability and consequently a high risk for investment, hindering the sustainable economic development of the countries.

Strong economic and political cooperation is possible in South East Europe, because the region shares traits of common history, heritage, cultural and social values. These conditions were reinforced by the incentives from the EU to create regional cooperation. Greater cooperation reduces instability and political risks, which are the main concern of foreign investors in the region. Intensified cooperation could assure smoother and faster integration into the EU. Progress should help increase regional competitiveness and achieve sustainable economic and social development.

Conclusion

In times of austerity and shrinking government budgets there are a number of opportunities for regional cooperation: regional trade cooperation, FDI friendly regional policies, cooperation in strengthening the institutions, particularly in the struggle against corruption and organized crime and development of human capital.

Countries can strengthen regional trade cooperation. Intra-regional trade is on a modest level. The structure of regional trade is dominated by commodities while intra- industry trade remains low because of trade constraints, including various tariffs, quotas etc. Recently, governments have had some success in easing administrative procedures to imports and exports, but they still lag behind others and consequently remains a huge potential for further cooperation.

Levels of Intra-regional trade can be increased by eliminating tariff and non-tariff barriers. The countries of SEE should aim to achieve as soon as possible complete trade liberalization and final elimination of tariffs and quotas. Non –tariff barriers are among the main obstacles to fostering regional cooperation and achieving a faster economic recovery.

The CEFTA agreement offers a unique platform for governments to solve problems of non-tariff barriers and to work together to decrease obstacles. Customs and trade regulations should be harmonized and adapted to European standards. This would lower transaction costs and would improve competitive advantages of countries through exploiting economies of scale. All of these would facilitate intra-regional trade and make the region more attractive. They would also help the resolution of issues concerning regional projects, which need a common overall infrastructure.

Countries of the region should also work together on increasing trade with the rest of the world. The main market for export remains the European Union and all countries of SEE should aim to increase their performance in this respect.

South-eastern European countries should continue to focus on policies and reforms that promote institutional development and develop a friendly environment for the attraction and targeting of “qualitative”³⁷ foreign investments. To attract FDI and start a new cycle of development in South East Europe, countries should develop a favourable investment and business climate³⁸.

Consistent political stability³⁹, efficient enforcement of laws, healthy fiscal and monetary policies and strong anti-corruption reforms can contribute to the attraction of quality foreign investment and capture their

³⁷ Qualitative FDI are those foreign investments which bring growth and development in the host country through their positive direct and spillover effects.

³⁸ EBRD, 2010

³⁹ Political stability is referred to good governance, rule of law and counter-corruption.

positive effects on growth and development⁴⁰. More importantly, these policies should be able to direct the inflows of FDI to the sectors that augment domestic investment and lead to sustainable economic growth. There is a need to understand the development benefits of FDI in order to effectively target “desirable”⁴¹ foreign investments.

The existence of the rule of law and efficient and transparent public administration are preconditions for business development and FDI inflows. In this respect countries of the SEE should increase their cooperation in the fight against corruption and organized crime, which are also main concerns of the European Union. Governments should show results and implement the very necessary and expected reforms in the fields of public administration, judiciary, and competition policy. Regional cooperation is crucial for information sharing and exchanges of best practices.

The interaction between research, education and innovation can be a driving force for economic development in SEE. Countries of the region should establish and coordinate their programs to foster a high quality education and training systems to prepare upcoming generations for new challenges. Strengthening education, training, research and innovation policies through reforms, are preconditions for stronger investment in R&D. There is a general need to improve scientific structure in the region, attract experts, and reduce brain drain. Public spending on education in general is very low, reform is needed.

The traditional role of the state is changing; globalization largely compromised its ability to manage the economy and trade, at the same time diminishing its sovereignty. Nevertheless the state remains very impor-

⁴⁰ Zeneli, V. (2011). “Foreign Direct Investment and Economic growth in South-east European countries”. Ph.D. Dissertation.

⁴¹ The new concept of desirability of investments means targeting and focusing on specific industries or firms with the objective to a build a critical mass in new industries, deepen clusters and introduce new skills and technology. Enderwick, P.(2005). Attracting desirable FDI: Theory and Evidence. Transnational corporations, Vol. 14(2). United Nations

tant. It is important for how countries approach the global market for their development and for creating a favourable environment for foreign and domestic investments.

Strong cooperation is important for increasing the competitiveness of the region in these very difficult post-crisis times. The speed of the recovery in South East Europe will depend on how fast lessons from the crisis will be learned, how well new policies will be designed, coordinated, introduced and implemented to cope with the new realities of regional existence.

Keeping the Western Balkans in the EU's Gravitation Field

Andreja Bogdanovski

As of 2013 Croatia will officially abandon the “Western Balkans” reference and will replace it with “the new EU member state”. This notion has a powerful significance and basically confirms that the EU integration strategy for the Western Balkans is working.

By slowly dismantling the Western Balkans (in its conceptual understanding) we witness that the region is slowly heading towards full integration with the EU. However, if it took ten years for only one country to remove the Western Balkans sticker, the question that remains is whether there is maybe a need for a readjustment of the accession processes?

Apparently the keyword of this conference panel is “crisis”. By doing a simple Google search of this term, the results from the last ten years suggest that the EU went through three crises in such a short period of time.

First there was the so called “enlargement crisis” back in 2004 when the EU feared that embracing so many new member states might block its institutions. In 2007 the European newspapers were reporting heavily on the “Constitutional Crisis” and ever since 2008 it is the European financial crisis that keeps the public alert. Thus, what makes the current EU crisis exceptional for the Western Balkans?

Luckily, compared to the other two crises when some EU officials heavily commented that there might not be any further enlargement after the big bang, the current crisis seems to produce more synced response by reaffirming the open door policy for the region.

On the more negative side one first has to consider how the EU crisis affects the EU internally and whether those internal developments produce spill-over effects towards the Western Balkans. The nation-centric discourse prevailing in some EU member states is on the rise while at the same time some of the core EU values, such as the freedom of movement, are constantly under a threat. For those familiar with the Balkans, when some EU leaders declare “multiculturalism as dead” it is only a matter of time that such statements produce counter effects in a region where multiculturalism is in the process of rebuilding after years of war and conflicts.

In such developments the question arises, whether the EU has the capacity to foster its own soft power towards the Western Balkans or simply creates a fertile ground for domestic democratic slide backs? Even after 20 years of heavy EU engagement in the region there are still some security related concerns which might slow down the overall process and harm the region’s prospects:

- The situation in Bosnia and Herzegovina and Kosovo still remains to be considered as tricky while recently Macedonia has joined this club too. Namely, the unresolved name dispute with Greece pushed Macedonia towards populism and ethnocentric politics which ultimately led to creating a fruitful ground for inter-ethnic tensions, resulting in the sporadic inter-ethnic incidents.
- The increasing calls for secession of the Kosovo North and the arrests play between Belgrade and Priština display the fragile security environment in Kosovo.
- While in Bosnia the required reforms for fostering the EU integration processes show at least little progress, it is still not fully in compliance with what the EU is hoping for. To give an example: the Stabilisation and Association Agreement which was concluded in 2008 and has never been put into force.
- Not considered to be a security issue but still relevant for discussion: the political deadlock in Albania regarding the involvement of the opposition parties in the country’s political life still blocks Albania from acquiring EU candidate status, which Tirana was hoping to achieve ever since 2009.

It is evident that not all of the countries from the region move towards Brussels in the same pace and determination. Is it that political leaders from the region cannot deliver in terms of reforms or might it be that the EU is pushing too hard in this early phase of integration and some of the reforms required are simply not possible to be delivered and more “carrots” are required?

With an overwhelming support for EU accession, the Western Balkans clearly stay in EU’s gravitation field. The current crisis though brought a new question on the horizon and that is whether the EU still possesses the strength to act as the gravitation pull?

Without any doubts the economic crisis has undermined the magical role of the EU across the region. With the skyrocketing unemployment rates across the EU and cut backs on spending, is the EU still attractive for the Western Balkans? When the enlargement of 2004 took place the newspapers in the region were overloaded with stories and figures about the benefits and support the new member states will get from the membership. However, with Croatia’s accession that does not seem to be the case.

Still, promising EU membership is what the countries from the region want to hear, making the EU integration process the core security policy in the Western Balkans. Without it the region is left to itself and it might not take long until the shadows from the past revive.

The EU and Albania: Dealing with Repercussions of the EU Crisis on Albania's Aspirations to Membership

Enfrid Islami

While the current economic crisis with which the EU is struggling may very well determine the fate of accession of many of the aspiring Balkan countries, it has not directly affected the situation in Albania. Constant internal political conflict is much more an impediment to Albania's aspirations for membership than any other external factor at current. Popular support for EU membership amongst Albanians is decreasing, according to recent surveys from the Albanian Institute for International Studies (AIIS), it still remains high when compared to other countries in the region. This is a clear indicator of several lacking amidst the public Albanian perception of the EU.

First, it shows a clear lack of information on what EU accession means among the average Albanian. This in turn means that EU's internal struggles and financial woes have little if no effect in what the average Albanian perceives the EU to be. Lack of information about what the EU is and how it works, leads to the inability of citizens in Albania to identify advantages and disadvantages in becoming an EU member. Secondly, EU integration has, at the least for the last 15 years, been the main pillar of every party platform and government program. Many of the reforms implemented and laws approved have often been justified as conditions dictated from Brussels, giving them some sort of legitimacy in the eyes of the public opinion.

Therefore, it is hard to imagine EU accession as missing in the political agenda of the current government, or the one to come. Thus, despite everything that might be going on in Brussels, EU accession will constitute a major focus point of political parties, and government action in the

country. Thirdly, relations between Brussels and Albania have been at a halt for the last few years. With the country failing to receive the candidate country status twice, relations with Brussels have been limited to inflow of recommendations and conditions for the country to fulfil. This means that major EU financial woes will not affect this stagnant relationship.

Toward Integrations: Progress in the Making

In spring 2009 Albania¹ submitted its official application for EU membership to Czech Prime Minister Mirek Topolek, whose country held the EU presidency at the time. Despite several calls from the EU commission to the country to wait until after the June 2009 general elections, Prime Minister Berisha decided it was time to make Albania's European aspirations official. With only a few months before elections were due, the PM's decision seems to have been the beginning of the electoral campaign leading to the general elections. With more than² 90% of public support towards EU integration in 2009, it would not be unwise to suggest that the DP used the official application card as their main winning horse in the upcoming general elections, thus putting more emphasis on the DP's intention to make integration the foundation of their electoral program. Regardless of the reasons though, the bets on Albania's road toward EU accession were finally on.

Although a relatively short period of time has passed since 2009, there have been a lot of developments in the country's road toward EU integration. The first challenge which the government needed to deal with after the submittal of the application, was answering the questionnaire by which the EU could evaluate where Albania stood in relation to its European aspirations.

¹ <http://www.globaltimes.cn/world/Europe/2009-04/428479.html>

² Albanian Institute for International Studies- Perceptions and Reality (2009)

Immediately after receiving the³ questionnaire, the government initiated a highly intensive effort in order to answer the large number of questions in the shortest time possible in order for it not to turn into an obstacle in the country's road toward integration. More than 1200 public administration employees and over 27 foreign experts helped complete the task, and eventually Albania submitted its answers back to the EU on April 14, 2010. However, the EU thought it appropriate to send back a number of extra questions to the government. Again, the government managed to answer all of them in a relatively short time, and the final answers to EU questions were submitted on June 10th, 2010.

In 2009, Albania held its general elections, with the DP securing a second mandate to form the government. The DP had to rely on a controversial coalition with the SMI(Socialist Movement for Integration) headed by Ilir Meta, in order to be able to set up a government in accordance with the constitution. These elections were contested by the SP, which rejected them as rigged and the coalition between the two parties as the "coalition of shame". The SP did not recognize the government coming out of the 2009 general elections, which triggered the beginning of a long lasting political crisis. As a result, the SP boycotted the parliament causing a halt in Albanian parliamentary life.

The opposition asked for the opening of the ballot boxes in a series of protests in Tirana and in several cities around the country. On May 2010 after the political situation was close to its peak, the SP decided to resort to a hunger strike in front of the prime ministry, in order to support the cause of ballot boxes opening which had turned into the running slogan of the political behaviour of the opposition after the 2009 general elections.

Only a few months before the awaited EU progress report was due, the DP and its allies considered this an act of irresponsible politics aimed at obstructing the country's road to the European Union.

³ <http://old.balkaninsight.com/en/main/news/24458/?tpl=297> (Albania receives EU Questionnaire)

On November 2010, the EU released its annual progress report on Albania's performance in its road toward accession. The opinion of the commission stated that a further improvement of the political criteria was needed. Consequently, the commission did not think Albania was ready to obtain the official candidate status. The European commission also approved 12 key priorities which would serve as the foundations of Albanians progress towards EU accession. The commission urged the government to devote its efforts towards a reinforcement of parliamentary dialogue with other parties in order to adopt pending laws which required qualified majority to be approved, appointment of the Ombudsman, electoral, judicial, and administrative reform adoption, the implementation of an effective strategy against corruption, organized crime, human rights implementation and a final, satisfactory solution to the property ownership issue.

Expectations: Are we there yet?

Despite the heated political debate, the Ministry of Integration adopted an Action Plan which was meant to address all 12 recommendation found in the 2010 Commission opinion on Albania's integration process. However, the relative short time till the next commission progress report which was expected in autumn of the same year, made it almost impossible for Albania to expect a positive answer on its bid to obtaining a green light for the candidate country status. On November 12, 2011, unfortunately these expectations were met, and the EU once again urged the Albanian government to reach an overall political consensus, which was considered to be a necessary tool in order to better implement the previous recommendations, whose addressing, according to the EU Progress Report, had not been satisfactory up to that time.

Eventually, after a two year heated political climate, the two major political actors, the SP and DP reached an agreement which was meant to be the cornerstone of the future progress of the country on matters related to EU integration. The agreement was reached on November 14th, and though fragile as it may be, it has so far resulted in the addressing of many of the recommendations put forward by the EU in 2010.

Consequently, after the opposition proposed Mr. Igli Totozani for the position of the Ombudsman, he was approved by a qualified majority in the parliament and currently resides on this office. At the same time, several laws requiring a qualified majority in the parliament (3/5) have been passed such as, the air, naval, road and railway codes. Meanwhile, a Law commission was put up by the parliament, which was to address the issue of the Administrative Court, a specific requirement by the EU. The commission has been working ever since to reach a mutual agreement on the composition of this court and its jurisdiction. So far there has been great development in the works of this commission with only a few technical details left to decide until a final draft is proposed to the parliament for approval.

The issue of electoral reform has also been addressed by the two parties, with an ad-hoc commission currently working to find the better solutions possible for this matter. In a roundtable with civil society in the end of March, the two co-chairs of the commission said that they had been able to address a considerable number of OSCE-ODIHR recommendations resulting from the last elections, and that the needed amendments to the electoral code were being introduced. They showed confidence that the electoral reform would be finished in time in order to enter the 2013 elections with a more suitable electoral code. The two parties are also currently working on a reform of the parliamentary code for which a mutual agreement has to be reached following complaints from the SP for unilateral undemocratic changes to the latter, as well as on adopting new rules in the penal code.

The 3rd stabilization and Association committee held its meeting on March 20th, 2012, and it emphasized the fact that the positive political climate which was created by the agreement between the two parties has contributed in a more appropriate environment for addressing many of the recommendations which the EU has submitted to the Albanian government. Recent developments have resonated within the EU and positive feedback on these developments has already reached the country. With some of the recommendations still needing work in order to be fully adopted, such as the property ownership, and the appointment of constitutional court and high court judges, the expectations for the 2012

Progress report are high. It should come to no surprise, that if the current positive dialogue continues between the two most important actors in Albanian politics, which have the greatest responsibility for implementing the reforms needed and approving laws in the parliament, continues, the country will at last get back on track towards Brussels.

Regional Context: Last, but Hopefully not the Least

Although a relatively short period of time has passed since 2009, there have been a lot of developments in the countries road towards EU integration. The internal political climate has been a constant tug of war contest which has managed to annex most of the real necessities of the Albanian society, such as better courts, better education, healthcare, job market etc, while engaging in unproductive discussions over who gets what and when on matters of power. Not that such a behaviour is a peculiarity for the Albanian political class of the post communist era, and today, just as years ago, the costs of such an attitude are there for the citizens to pay. In view of the so much proclaimed “integration cause”, this attitude has been even more devastating. With Montenegro receiving the green light for the next stage of accession in 2011, with the Former Yugoslav Republic of Macedonia having been a candidate country since 2005, and with Serbia obtaining the green light for candidate status on March 2nd, 2012, Albania, together with BiH was surprisingly left behind by almost every country in the region, despite the fact that it was almost the first to start the negotiations process with the EU on the matter of accession.

If one attempts to go into a deeper analysis of the individual cases of the above mentioned countries and their road towards accession, one would find it hard to understand how a country which is soon to be celebrating its 100th anniversary such as Albania has failed to accomplish its 20 years old dream of being part of the EU family so far, leaving its citizens with what probably could be considered as a slight feeling of inferiority toward their neighbours. Surely, the other countries of the region must be much better considering that they are ahead in the process. Or are they?

Montenegro, with a population of approximately 660.000, declared its independence from Serbia in 2006, and only slightly after initiated negotiations for EU accession, was still able to fulfil requirements and to introduce the required reforms in both its economic and social dimensions better and quicker than Albania. For this level of long term planning the Montenegrin government was rewarded in 2011 with the candidate country status.

The example of Serbia is even more astonishing. A country which has been home to ethnic conflicts on a mass scale after the dissolution of former Yugoslavia, and has been responsible for three wars in the last 20 years, was still able to accomplish what needed in order to be able to proceed with its European aspirations.

Macedonia, much similar to Serbia in the terms of ethnic conflict levels, while having to deal with matters of state identity (name dispute with Greece), ethnic coexistence (Albanian-Macedonian relations), has achieved its candidate country status in early 2005, and its next steps toward accession have only been halted by a singular case of diplomacy. The case of Kosovo is perhaps too clear to be even taken into account. The country still has to build a sustainable democracy and strong institutions before it can aspire to be part of something as important as the EU.

By all means, it seems as if Albania will be among the last countries in the region ready to take the next step towards EU accession. But the question of how Albania managed to slip at the bottom of such a list, apart from astonishment, remains a mystery to most. Therefore, the fact that Albanians are currently showing a certain feeling of inferiority towards their neighbours should not come to a surprise.

Collateral Damage: Repercussions of the Greek Crisis on Albania's Aspirations for EU Membership

The current EU crisis might not have a direct effect on the Albania's aspirations to European integration. However, the country may still have to face repercussions of the current situation in some of the member

states, both in the political and social level. The situation in Greece for instance, which is Albania's neighbour and one of its major trading partners as well as an EU member, may very well dictate Albania's future in the short to medium term in matters of integration.

The fragmentation of voters support in the latest general elections in Greece prevented any party for obtaining the necessary majority needed to form a government, which could help the country move forward on its efforts to recover and abide to the austerity measures agreed to with the EU, in return for financial help. This means that the Greek financial chaos and its spill over effects will continue to threaten not only Greek people themselves, but many of its trade partners in the region. With more than ⁴ 600,000 of its nationals currently residing in Greece, one of the countries who is going to be mostly affected is Albania.

Consequences of the Greek hard financial times for Albania range from the drastic fall of remittances of Albanian immigrants headed towards the country, return of a considerable number of immigrants to Albania, the closing down of the several Greek companies currently operating in the country, dangers related to the private banking sector, and even the possibility of deprecation of Albanian's assets in Greece if the old drachma is brought back. However, the aftershock of Greece's financial earthquake in Albania will not only be felt on the economic level. While diplomatic relations between the two countries have been stalling for the last three years even without the crisis, a toughened attitude from the upcoming government towards Albanian immigrants in Greece may represent one more reason for this relationship to go awry. Keeping in mind that a unanimous decision is needed in the EU on whether Albania should obtain the candidacy status these autumn, diplomatic repercussions of the long lasting financial crisis in Athens may represent a definite deal breaker.

The latest trends show an increasing number of Albanians heading back towards their homeland in search for better opportunities and possibly a

⁴ <http://www.revistamapo.com/lexo.php?id=2296> (Kriza Greke dhe viktimat Shqiptare-Ervin Qafmolla)

job. However, the return of even the smallest fraction of the almost 600,000 Albanian immigrants would turn into a burden for the Albanian economy, because of the lack of an efficient immigrant return strategy from the Albanian government, as well as the lack of functioning reintegrating mechanisms. With unemployment floating at almost double of what is officially declared (⁵government evaluates unemployment at about 14%), the prospect of having people coming back from Greece in search for a job would actually worsen the already chaotic job market in Albania. Some would also argue that immigrants who might come back may also introduce the market to new kinds of services, as well as a fresh inflow of capital, but the effects that the latter might have on the Albanian economy remain to be evaluated.

The drastic fall of remittances also needs to be taken into account while we analyze the effects that the crisis next door would have on the Albanian economy. As Andi Balla underlines in his article “Worrying about the Crisis next door”⁶, “*Migrant worker remittances have hit a new record low. Partial 2011 data indicate a dive of as high as 42 percent for the year's first three quarters compared to the same period in 2010. By comparison, remittances dropped by 12 percent from 2009 to 2010. And the weight of remittances is huge in the Albanian economy. They accounted for 10.7 percent of the GDP in 2009 and 13.5 percent in 2007*”.

The current financial situation and the effect they are having on the Greek banking sector are easily transferable to Albania as well. With Greek banks, holding about 35% of the banking sector in the country, the possibility to see Greek Bank branches in Albania run into some sort of difficulties are anything but remote. In spite of the fact that national laws protect deposits in these branches, while at the same time prohibiting them to move these reserves out of the country. The reduced capital inflow from their mother Banks would make it harder for Albanians citizens and business to acquire loans from these smaller banks at home. These banks may also consider it appropriate to set back on financing

⁵ <http://www.instat.gov.al/>

⁶ http://www.huffingtonpost.com/andi-balla/worrying-about-the-crisis_b_1242482.html

until the situation in Greece is more stable, and until what might happen in the near future becomes a bit more clear. The set back would clearly be a disadvantage for the financing of private enterprises in Albania, thus slowing down economic development for the country in the short term future. As Shkelqim Cani says in one of his articles on the effect the crisis would have in the banking sector in Albania, ⁷*“The first thing we will be able to notice is a period of step back from Greek banks(maybe even Italian) on crediting the economy, mostly because of their inability to attract funds from their parent banks in their respective countries”*

Experts seem to agree on the idea that on matters of financial interests, Albania has much more to lose than to gain when it comes to dealing with the Greek crisis. As Jens Bastion states⁸, *“The political and central bank authorities in Tirana should not underestimate the twin Greek economic and sovereign debt crises. Their potential implications medium-term are considerable. Some spill over effects are already manifesting themselves in Albania. In a word, despite a remarkable economic success story during the past years, Albanian policy makers would make a grave mistake by judging that they are immune to developments in Greece.”*

While trade with Greece accounts for more than⁹ 11% of total imports in Albania, and around 5,5 % of total Albanian exports, it is only a matter of time until the aftershock of the financial earthquake in Athens, has an effect on the economic growth of the country. Unfortunately, recent data from Bank of Albania shows that has already started to happen.

The latest political developments have mounted fears of the radicalization of Greece’s approach towards immigrants in the country. Analysts and politicians around Europe are suggesting that the combination of economic insecurity and political discontent that has followed the finan-

⁷ <http://respublica.al/author/shkelqim-cani> (Accessed, 22.05.2012)

⁸ *A Crisis At The Gates That Should Not To Be Underestimated* (paper presented at the Albanian Institute for International Studies (AIIS) seminar series, *Debating Economy in Times of Crisis*, in Tirana on July 21, 201)

⁹ <http://instat.gov.al/>

cial crisis in Greece has proved to be a fertile land for an increase in extremism, which is even further proved by the rise of the Golden Dawn party in the latest elections. Despite the fact that the latest results from the ¹⁰ general elections are a show of citizens resentment towards the two big parties for their involvement in the implementation of tough austerity measures, rather than clear support of the radical political parties, the concern over the effect that parties like the Golden Dawn might have on Greece's attitude toward immigrants is real. A weaker Greek state would find it hard to be able to manage the rise of nationalism within its borders, and could eventually turn into a menace for stability and peace in the region. As consequence, one the countries which would be affected more from this phenomenon would be neighbouring Albania and possibly Macedonia. For a long time Greece has been considered by the EU as playing an important actor in the overseeing of the integration process of the region. A weaker Greek state will in this perspective be more of a security consumer, rather than a security provider.

The uptight relationship between Greece and Albania may also constitute a threat to the relationship between Tirana and Brussels. With Albania hoping to receive the green light from Brussels on obtaining the candidate country status this fall, the prospect of the unanimous decision of the EU member appears less likely with an unhappy Greece. As such, the composition of the next government in Athens, and more importantly its planned attitude towards Albanian immigrants residing in Greece, may very well define not only internal political and social changes in Albania, but most likely they will also influence its foreign policy priorities.

Looking at the bigger picture it also interesting to note what repercussions the Greek crisis may have in the region's aspirations to EU integration. While Brussels currently struggles to deal with its internal financial problems, with Spain, Italy, Portugal and Greece as its biggest challenges, European leaders might not feel so enthusiastic about enlargement any longer. The postponement of the process of integration for the

¹⁰ <http://www.guardian.co.uk/news/datablog/interactive/2012/may/06/greece-elections-results-map> (Greece Election Results mapped)

region would mean a slow down in the implementation of much needed reforms in these countries, as well as a possible dissolution of the internal political cohesion which was mainly a result of having EU integration as a common goal.

In these terms, the already fragile political situation in Albania may not be flexible enough to accept the postponement of the EU goal for an unspecified amount of time. EU integration is the carrot leading the Albanian political elite to overcome their party interests in the name of a well defined objective after the agreement between the two political parties last November. Ruling that out as a possibility in the relative short future as a result of EU's scepticism over the ability of the region to provide for financial stability would be nothing short of a blow to the internal policy making process in Albania.

Rejection Implications: Back to the Future?

Although havoc is not imminent in the current state of affairs in Albanian politics, it must be said that the dialogue between the two major political parties is extremely fragile. It seems as any reason could be the one sending the two sides back to their previous trenches, let alone the issue of EU integration. In the aftermath of the submittal of the official application in 2009, and particularly after the general elections in June on the same year, the relationship between the two political parties deteriorated, reaching its peak in ¹¹ January 21st, 2011.

The general trends seems to be that after every refusal from the EU to grant the candidate country status to Albania, the political climate spirals back out of control with sides putting blame on each other as to who lacks more in willingness and responsibility on the integration topic. Each time the progress report is provided by the Commission, political actors engage in a one-sided reading of the paper which sets the parties even more apart from each other, in complete disregard for national in-

¹¹ <http://www.bbc.co.uk/news/world-europe-12253481> (Three killed as Albanian protesters clash with police)

terest. Furthermore, with the level of fragility that the current agreement between the two parties has, another rejection in autumn could also risk sending sides back to the previous state of constant conflict.

Obviously, this kind of polarized environment is no productive soil for much needed reforms introduction and implementation. As a result, current reforms that have been under way after last's year agreement might be slowed down or even halted, while replaced by unproductive political quarrel. Not only will reforms be slowed down, but if Albania fails yet again to achieve the candidate country status in autumn, the rise in the political tension could lead the Albanian public to face a highly unfriendly environment in view of the general elections in 2013.

Therefore, the best message that the EU could provide sides, in order to further stimulate changes in the country, might be to allow it to take the next step toward integration, instead of risking to break the rope by pulling it too tight.

PART 3:

**IS THE EU INFLUENCE WEAKENING
IN THE REGION? IMPLICATIONS FOR
EU-US RELATIONS AS WELL AS FOR
RUSSIAN AND TURKISH POLICIES IN
SOUTH EAST EUROPE**

U.S. Engagement in South East Europe: With and Without the European Union

Matthew Rhodes¹

I. Introduction

Two decades after Yugoslavia's collapse, South East Europe remains an active if diminished focus of American engagement. Since taking office in January 2009, the Obama administration has continued the trend toward a supporting U.S. role in EU-led consolidation and integration of the region. Within this framework, the United States' main task is to encourage, facilitate, and reinforce European Union efforts.

However, incomplete confidence in the EU as well as in areas of independent interest inhibit full reliance on this approach. Newly intense internal EU problems, growing Chinese and Russian economic presence, and lingering ethnonational tensions leave the European Union not quite "the only game in town."² American policymakers' balancing act now is to preclude a renewed security vacuum in the region while ensuring that their separate initiatives complement, or at least do not undermine, "track 1" EU work. This could however change if present challenges intensify.

II. Transatlantic Context

In assessing the broader state of transatlantic relations within which U.S.-EU interaction in the Balkans takes place, it's important to avoid

¹ The views expressed in this paper are solely those of the author and do not represent the official policy of the George C. Marshall Center or the U.S. Department of Defense.

² Jacques Rupnik, "The Balkans as a European Question," in *The Western Balkans and the EU: 'The Hour of Europe,'* Chaillot Paper #126, June 2011, p.20.

the extremes of complacency and alarmism. For all the usual reasons – cultural and societal links, mutual trade and investment, common values, and unparalleled institutional ties – as a whole Europe remains America’s most important international partner. However, U.S. policy circles increasingly view transatlantic cooperation as inadequate to the scale of global challenges and tending to grow weaker over time.

The Obama team had originally hoped its arrival would reverse those latter negative trends. The annual Pew Centre Global Attitudes Project found public confidence in the American President in countries such as France and Germany rising from under 15% in President Bush’s last year in office to over 90% in President Obama’s first.³ However, while Obama’s ratings have held up better in Europe than at home, they have mostly failed to translate into greater tangible support from European governments for his administration’s international priorities.

The first example is the world economy. *New York Times* journalist Thomas Friedman dubbed the global financial crisis “Obama’s 9/11.” However, on this highest priority issue, much of European policy has been diametrically opposed to the new administration. In spring 2009, Prime Minister Mirek Topolánek of the Czech Republic, which also held the EU’s rotating presidency, condemned Obama’s call for coordinated fiscal stimulus as a “road to hell.” German Chancellor Angela Merkel has been less colourful in her public language but equally insistent on austerity. As the downturn began with the collapse of the U.S. mortgage market, many Europeans have discounted American advice on a crisis “made in the USA.” From Washington’s perspective, this resistance has deepened problems within the Eurozone that now threaten global recovery as well as Obama’s re-election prospects.

The second example is NATO, the paramount transatlantic link. Here the financial crisis has exacerbated long-standing tensions over burden-sharing. In February 2011 NATO Secretary General (and former Danish Prime Minister) Anders Fogh Rasmussen reported European members had collectively cut their defence budgets by \$45 billion over the preced-

³ Pew Global Attitudes Project; <http://www.pewglobal.org>.

ing two years, reducing their total to roughly one-third the U.S. level. A few months later outgoing U.S. Secretary of Defence Robert Gates warned such trends were politically unsustainable and would lead to a “dim if not dismal future” for the Alliance.⁴

In terms of active operations, the Article V ISAF mission in Afghanistan remains the Alliance’s top priority. In Obama’s first two years in office, U.S. forces there tripled to 100,000. Europeans responded with roughly 8000 more troops, accompanied by concurrent withdrawals and persistent caveats restricting their employment. During Operation Unified Protector over Libya in spring and summer 2011 only eight other Allies carried out airstrikes. The U.S. ambassador and top military commander in NATO could fairly declare the operation a “victory,” both in protecting Libyan civilians (and facilitating Muammar Qadhafi’s ouster from power) and in offering a useful model for European leadership (with enabling U.S. support as needed) in future missions.⁵ However, potential “smart defense” efficiencies notwithstanding, this approach’s prospects still hinge on uncertain increases in Allied defence investments.

That leaves a third area, EU-Europe’s ability to assure stability for itself and its immediate neighbourhood, as the continents’ core remaining role in America’s strategic calculus. Indeed, its performance of this function is a key assumption behind the much-discussed U.S. “pivot” toward Asia in late 2011. In particular regard to South East Europe, the Union’s comprehensive accession process and high popularity have given it a clear comparative advantage in post-conflict civil development. Accordingly, even more so than the preceding Bush administration, Obama’s has preferred “leading from behind” within the region.

Still, greater American activism occurs in three partly overlapping situations: where EU capabilities, unity, or will are in doubt; where the U.S. enjoys special trust or credibility within the countries involved; and

⁴ Robert Gates, “The Security and Defense Agenda (Future of NATO),” speech June 10, 2011; <http://www.defense.gov/speeches/speech.aspx?speechid=1581>.

⁵ Amb. Ivo Daalder and Adm. James Stavridis, “NATO’s Victory in Libya: The Right Way to Run an Intervention.” *Foreign Affairs*, Mar/Apr. 2012.

where the U.S. identifies specific interests not shared by the EU as a whole. As discussed elsewhere in this volume, the Union's present economic gloom may increase such cases by diminishing its soft power appeal and further setting back enlargement horizons beyond Croatia's entry in mid-2013.

III. Policy Moves (and Non-Moves)

Before surveying the Obama administration's initiatives in the region, it's worth noting two courses of actions it might have pursued but did not. The first would have been to fill any gap created by the EU's problems with accelerated enlargement by NATO. Although the two newest allies, Albania and Croatia, completed their accession shortly after Obama took office, this presidential term will be the first since the early 1990s in which no new invitations for NATO membership will be issued. To be sure, remaining potential candidates have been less clearly interested, prepared, and/or supported for membership than their predecessors,⁶ and the administration backed the important preliminary steps of extending Membership Action Plan (MAP) status to Montenegro in December 2009 and conditionally to Bosnia-Herzegovina (pending resolution of defence property issues) in April 2010. However, it also held back from big-push diplomacy to unblock membership for Macedonia, which was pre-approved to join the Alliance in 2008 pending resolution of its name dispute with Greece.⁷

A second potential action not taken was appointment of a special American envoy to the region. Senior members of Congress as well as leading Washington think-tanks have argued strongly for this measure. Nonetheless, the administration accepted European counterparts' view that such a figure would only introduce confusion and complicate their work

⁶ See Ronald Asmus, "Europe's Eastern Promise: Rethinking NATO and EU Enlargement," *Foreign Affairs*, Jan./Feb. 2008.

⁷ Some disappointed Macedonians have also recalled President Obama's previous co-sponsorship of a 2007 Senate resolution critical of "FYROM" on related historical issues and felt by-passed in visits by the most senior officials to the region.

without accomplishing anything the United States couldn't achieve as well through standard channels. In lieu of an envoy, the administration has supplemented working-level contacts with the region with visits by top officials such as Vice-President Joe Biden (Bosnia-Herzegovina, Serbia, and Kosovo in May 2009, Romania October 2009, and Moldova March 2011) and Secretary of State Hillary Clinton (Bosnia-Herzegovina, Serbia, and Kosovo in October 2010 and Bulgaria in February 2012).

In the meantime, the administration has engaged the region more directly on other defence, economic, and political issues.

A. Defense

Since the mid-1990s South East European states have made often modest but disproportionately sizeable commitments to NATO and U.S.-led military operations within the Balkans themselves as well as in Afghanistan and Iraq. These deployments have provided opportunities to demonstrate their value as new or aspiring allies and allow their militaries to gain operational experience, training, and modernization support.

As noted, the ISAF mission in Afghanistan has been the Obama administration's clear priority. Here the region has collectively contributed up to 3500 troops, with Romania providing roughly half and all of the countries but Kosovo, Moldova, and Serbia present in some form. Countries including Albania, Bulgaria, Croatia, and Macedonia, and Romania have deployed elite special forces to the southern and eastern portions of Afghanistan where fighting has been most intense. Bosnia-Herzegovina, which itself still hosts international peacekeepers, has sent multiple rotations of several dozen camp guards. Croatia is running an Afghan military police training centre in Kabul with other members of the U.S.-Adriatic Charter (Albania, Bosnia-Herzegovina, Macedonia, and Montenegro) and Slovenia.

South East European countries have also been involved in other missions. Bulgaria and Romania each contributed a frigate for naval embargo enforcement and Albania offered use of its seaports during

NATO's Libya operation. In Kosovo, those three countries and Slovenia provide nearly 400 KFOR troops.

On a more routine level, under Obama the U.S. Defence Department has continued a range of joint training and other programs to promote defence reform and partner capacity building. Illustrative examples include the State Partnership Program under which countries' militaries are paired with the National Guard of an American federal state (the Serbia-Ohio tandem being among the most active), a U.S. brigadier general's command of NATO Headquarters Sarajevo, development of the new Kosovo Security Force, and since 2010 an annual, multi-month Black Sea Rotational Force of U.S. Marine reservists training with multiple regional partners in Bulgaria and Romania. The United States has also sponsored cooperative regional frameworks including the previously mentioned U.S.-Adriatic Charter (whose meetings have sometimes also included Serbia or, recently, Kosovo as observers and which recently agreed to work toward regional air defence) and the broader South East Europe Defence Ministerial (which includes all of the region but Kosovo as well as Greece, Italy, Turkey, Ukraine and the United States as well as Georgia and Moldova as observers).

A newer development under Obama has been the "Balkanization" of European missile defence. The Bush administration planned a system composed of advanced X-band radar in the Czech Republic and ten long-range missile interceptors in Poland to be in place by 2013. In September 2009 President Obama replaced this concept with an alternative "phased, adaptive approach" centred in and around South East Europe. By late 2011, Aegis-equipped U.S. naval ships had deployed to the eastern Mediterranean, an X-band radar had begun operating in Turkey, and Romania had signed an agreement to host the first 24 short- and medium-range land-based interceptors (and approximately 150 U.S. military personnel) at its Deveselu air base from 2015. Only in the final phases (foreseen in 2018-2020) would another 24 more advanced interceptors be stationed in Poland.

B. Economics

The United States and South East Europe rank relatively low among each other's trade and investment partners, but economics also shape current relations. Annual U.S. aid to the region, including security assistance as well as development and good governance programs, remains about a quarter million dollars but faces cuts with reductions in the State Department budget since 2011. Since 2009, the Obama administration has also backed tens of billions of dollars in International Monetary Fund stand-by agreement loans to Bosnia-Herzegovina, Kosovo, Romania, and Serbia, as well as other forms of IMF support for Macedonia (and Moldova).

Outside aid, the administration has devoted particular attention to expanding links in energy. While its recent predecessors emphasized support for transit projects such as the Nabucco gas and AMBO (Albania-Macedonia-Bulgaria) oil pipelines, the Obama team has focused more on promoting flexible network interconnectors and new production in the region. In addition to opening commercial opportunities for American firms, aims include promoting regional growth, strengthening supply security and diversity (especially in light of past Russian gas shut-offs), and avoiding the "Gazpromization" of the regional industry also in terms of no transparent business practice.

Several countries have begun constructing bi-directional natural gas interconnectors. Croatia built one with Hungary in 2011. Bulgaria will complete one with Romania in 2012 and is working on others with Greece, Serbia, and Turkey.

U.S. policy has also addressed various types of energy on the production side. For example, among renewables it has encouraged expanding hydroelectric production in Albania, Bosnia-Herzegovina, and Montenegro. With nuclear power, support has been given for Westinghouse's maintenance work and bid to build two new reactors at Kozloduy, Bulgaria. In November 2011 U.S. Ambassador Mark Gitenstein visited Romania's Cernavoda nuclear power station with executives from several American firms to discuss possible projects there. Regarding conven-

tional fossil fuels, Exxon-Mobil and OMV announced a potentially huge new gas find off Romania's Black Sea coast in March 2012, and the smaller U.S. company Direct Petroleum Transatlantic has been exploring the onshore Deventsi field in northern Bulgaria.

However, the administration's highest profile efforts have involved unconventional shale gas. Over the last half-decade, the rapid rise in domestic production of this resource has made the United States the world's top gas producer overall and lowered prices to half the typical charges in Europe. One potential avenue then would be to include South East Europe in U.S. gas exports through the planned construction of a LNG (liquefied natural gas) terminal in Krk, Croatia and/or expansion of one in Revithoussa, Greece.⁸

Another would be public-private U.S. involvement in development of shale gas deposits within the region itself. Measures to advance this prospect included establishment of the State Department's Unconventional Gas Technical Engagement Program in April 2010, an intelligence briefing to European energy experts in Vienna in June 2010,⁹ and a report on global reserves by the U.S. Energy Information Administration in April 2011 that identified prospective shale gas basins across the northern and eastern parts of the region. More directly, the administration responded to Bulgaria's January 2012 suspension of further shale gas exploration (including under permits held by Chevron) due to public environmental concerns with criticism of the "profoundly negative" decision from the U.S. ambassador¹⁰ and calls for reconsideration in visits by Secretary of State Clinton and Special Envoy for Eurasian Energy Richard Morningstar the following month. Ambassador Morningstar

⁸ See Paolo Natali, "The U.S. Natural Gas Revolution: Will Europe Be Ready in Time?", *Transatlantic Academy Paper*, May 2012; <http://www.transatlanticacademy.org/publications/us-natural-gas-revolution-will-europe-be-ready-time>.

⁹ Frank Umbach and Maximilian Kuhn, "Unconventional Gas Resources: A Transatlantic Shale Alliance," in David Koranyi (ed.), *Transatlantic Energy Futures*, (SAIS Center for Transatlantic Relations, 2011) p.210.

¹⁰ Ambassador James Warlick, "Op-Ed on Shale Gas," Jan. 27, 2012; http://bulgaria.usembassy.gov/amb_speech01272012.html.

returned to Bulgaria as well as Romania after similar developments there in May 2012.

C. Politics

U.S. political engagement with South East Europe has focused on democracy support. Some of this has involved encouraging regional officials and NGOs to use their own recent transition experience to assist less consolidated neighbours as well as new and non-democracies elsewhere in the world. For instance, in recent years Serbia's Centre for Applied Non-Violent Action and Strategies (CANVAS) has shared lessons of the 1990s resistance to Milosevic with activists from Egypt to Burma.¹¹ President Obama made further support for political changes in the Middle East and North Africa a particular focus of his summit with eighteen counterparts from the broader Central Europe region in Warsaw in April 2011.¹² Secretary Clinton later singled out the Bulgarian Foreign Ministry's "Sofia Forum" conferences with Middle Eastern officials and activists in May and December 2011 for praise during her visit in the country. Kosovo's government also hosted three leaders of the Syrian opposition for discussions on moving from resistance to governance in spring 2012.¹³

Other efforts have targeted democratic state-building within the region itself. The "Governing Justly and Democratically" portion of U.S. aid promotes goals such as government transparency, NGO capacity, independent media, and minority rights. One newer initiative concerning the

¹¹ Tina Rosenberg, "Revolution U: What Egypt Learned from the Students who Overthrew Milosevic," *ForeignPolicy.com*, Feb. 16, 2011; http://www.foreignpolicy.com/articles/2011/02/16/revolution_u.

¹² The event was attended by the presidents of Albania, Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Italy, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Slovakia, Slovenia, and Ukraine. Romania and Serbia boycotted the meeting due to the presence of Kosovo.

¹³ Seyward Darby, "The Pristina-Damascus Connection," *Transitions Online*, June 18, 2012; <http://www.tol.org/client/article/23215-the-pristina-damascus-connection.html>.

latter was a U.S.-sponsored conference in Tirana in June 2012 on issues facing regional gay and lesbian communities.¹⁴

Meanwhile, administration officials have become more directly involved with individual countries, especially “hard cases” farthest from EU accession. For example, the visits by Vice President Biden and Secretary of State Clinton to Bosnia-Herzegovina, Kosovo, and Serbia in May 2009 and October 2010, respectively, called for further progress toward effective democracy and ethnic reconciliation.

Further regarding Bosnia-Herzegovina, in fall 2009 Deputy Secretary of State James Steinberg teamed with Swedish Foreign Minister Carl Bildt in an unsuccessful attempt at a breakthrough on constitutional reform in repeated rounds of talks with major party leaders at the Camp Butmir military base outside Sarajevo. In contrast to some EU counterparts, the administration has opposed relaxation of the “5+2” conditions set out in 2008 for closure of the Office of the High Representative. At the same time, it reportedly urged the EU to consider other candidates than the current holder of that office, Austrian diplomat Valentin Inzko, who was seen as insufficiently forceful.

In Kosovo, which remains both strongly pro-American and unrecognized by five EU members, the Obama administration has followed up its predecessor’s diplomatic role in the state’s 2008 declaration of independence with continuing involvement in its further political development. For example, after Kosovo’s Supreme Court ruled two successive Presidents’ position in office to be unconstitutional in late 2010 and early 2011, the American ambassador Christopher Dell mediated an agreement that combined selection of the nonpartisan Deputy Police Director Atifete Jahjaga for the post with a shift to direct presidential elections in the future. As with the OHR in Bosnia-Herzegovina, an American diplomat has served as deputy head of the International Civilian Office (which will close in September 2012). The United States also

¹⁴ Besar Likmeta, “Tirana Hosts First US Govt Sponsored LGBT Event,” *Balkan Insight* June 13, 2012; <http://www.balkaninsight.com/en/article/tirana-hosts-first-us-govt-sponsored-lgbt-event>.

participates as a contributing nation in the EU's EULEX rule of law mission in the country.

Meanwhile in Albania, the administration has also counselled compromise and electoral reform after opposition allegations of fraud in the July 2009 elections triggered a prolonged parliamentary boycott. When related demonstrations led to four deaths in January 2011, U.S. officials both condemned protestors' confrontational tactics and pointedly supported investigations into the security forces' use of firearms that the government attacked as political motivated; the American ambassador Alexander Arvizu held at least two joint press conferences with the prosecutor general, and the U.S. Federal Bureau of Investigation provided technical evidentiary assistance. Ambassador Arvizu also appeared with EU and OSCE colleagues at the televised counting of the final ballots in the equally contested mayoral election in Tirana in May 2011.

IV. Conclusions

Overall, the United States and European Union are engaged in complementary efforts toward consistent goals in South East Europe. Both sides accept, and desire, the centrality of European integration for the region in principle, even if "more Europe" does not always mean "less United States."¹⁵ Friction over policy details, priorities, and personalities remains (and could increase over matters such as energy), but it pales in comparison to differences over intervention in the 1990s or contending pressures on the region regarding such issues as Iraq and the International Criminal Court during the last decade.

The past three-and-a-half years of the Obama administration have thus been a period of relatively calm cooperation in the Balkans. This could

¹⁵ U.S. Deputy Assistant Secretary of State for Europe (and Eurasia) Philip Reeker, remarks at the Sofia Forum for the Balkans, June 9, 2012; <http://sofiaforum.org/home/philip-reeker-more-europe-does-not-have-to-mean-less-us/>.

however change regardless of whether Obama or his Republican challenger Mitt Romney occupies the White House from 2013. Plausibly negative (if not most likely) near-term scenarios regarding EU cohesion and/or regional political conditions could disrupt the current equilibrium and revive pressure for a more prominent U.S. role. Such developments would raise hard questions for another pillar of transatlantic relations if the U.S. resumed primary external leadership and even more so in the event its own fiscal imbalances and competing commitments prevented it from doing so.

Russian Policies in South East Europe

Nikolay Petrov

Russia's foreign policy in the region is pretty active. Partly it's due to the history of Russia's relations with Balkan countries, partly it's due to the fact that the Balkans keep being a kind of a nervous centre of Europe and Russia, as Dr. Michael Schmunk has rightly pointed at the May 2012 workshop in Reichenau, is interested perhaps not so much in the region as such, but in the region which can be seen as Europe's underbelly, as the lever.

Although the withdrawal of Russian peacekeepers from the Balkans in 2003 put an end to three centuries long active Russia's participation in European affairs¹, the impression that Russia is coming out of the region, exercising here neither hard nor soft power would be wrong. It would also be wrong to say that Russia is not interested in the region: it's interested in the region as a polygon (one should mention the Kosovo case) as well as in the region as a gateway to Europe.

One should also not underestimate the growing presence of Russian citizens as house lords and land owners in Bulgaria, Montenegro and other countries, as well as Russian tourists coming here to spend their vacations. According to rough estimates by NewsBG 110 thousand of Russian citizens own apartments at the Bulgarian Black Sea coast costing 5 billion Euros in total. Table 1 shows that countries like Turkey, Greece, Bulgaria, Croatia, Montenegro are among the most popular vacation destination for millions of Russians every year.

¹ As Dmitri Trenin put it "since then Moscow has consigned the Balkans to the 'Western (NATO/EU) sphere of influence'". Dmitri Trenin, *Post-Imperium: a Eurasian Story*. Carnegie Endowment for International Peace, 2011.

Table 1: Russian tourists in South-East Europe by countries, 2011-2012

Country	Number of tourists in 2012		Dynamics in comparison to 2011	
	May	June	May	June
1.Turkey	499,300	613,154	-5	0
4.Greece	84,205	114,474	+3	+18
5.Bulgaria	16,585	113,389	+16	+37
13.Croatia	8,037	39,876	+7	+14
14.Montenegro	9,804	34,577	+19	+16

Source: <http://www.kommersant.ru/doc-rss/2011197>

However, this doesn't mean that the Balkan countries are on the radar of ordinary Russians. According to the recent poll on attitude to foreign countries conducted by the Levada Center in May 2012, Bulgaria was mentioned among the five most friendly countries by seven percent of respondents (ranked 11th from the top) while Romania was named as one of the five less friendly countries by one percent of respondents (ranked 20th)².

Features of contemporary Russia's foreign policy

Contemporary Russian foreign policy is deeply rooted in the Cold War era and bipolar world model. It can be characterized by a black and white vision, Russocentrism which tends to describe everything by either

² <http://www.levada.ru/14-06-2012/otnoshenie-rossiyan-k-drugim-stranam>

anti-Russian or pro-Russian intentions, a win-lose game approach, a conspirological view of world politics.

One should add two important points: (1) the elite in Russia is infected by the same prejudices as ordinary citizens rather than exploiting them in order to manipulate the public opinion; (2) there is much more elite consensus and popular support regarding foreign policy than in any other sphere, being it domestic politics or economy.

Russian foreign policy can be characterized by following features:

- *Pragmatism, perhaps excessive; utilitarianism.* Nobody is eager to pay for something without getting immediate economic or political gains, to invest in the future, to increase the soft-power or for imperial ambitions.
- *Reactive character*, which is clearly seen in almost all Russian foreign policy demarches including with regard to the region, like say the Kosovo case. Proactive politics need much more resources and better understanding of national interests which Russia lacks.
- *Tactical rather than strategic view* and lack of serious research and analytical background. It's Yevgeny Primakov, a kind of Russian Ahmet Davutoglu, well known for his 1999 loop in the middle of the Atlantic on route to the US as the NATO air strikes in Serbia were about to begin, who is trying now to restore the role of the Academy of Sciences research institutions as providing the base for decision making in FP.
- *Management from numerous centres*, including not only from the presidential administration and from the Government, but from big companies like Gazprom and Lukoil headquarters. In many cases it's not that easy to define if Gazprom serves Russian FP interests, or Russia's FP serves Gazprom business interests. With regard to the Balkans the role of Russian Orthodox Church and of the patriarch Kirill who is very active in foreign policy issues, should be mentioned as well.
- *Business-orientation* (strategic projects have business background like the South Stream aimed to provide direct Gazprom' access to South European markets);

- *Bilateralism*, like in the 19th century. It's easier to exercise and reflects the neglect of smaller states who are not considered to be 'equal partners'.

Recent changes in Russian foreign policy

One could say that recent political changes in Russia are connected with Putin's 'coming back' after the March presidential elections should not result in any serious changes in its foreign policy. Roughly speaking, it was Putin, who was making major FP decisions at a time of Medvedev's presidency and it is him who will make these decisions now.

Although in reality nothing has changed and the major decision-makers in foreign policy are the same: the trio of Sergey Lavrov, Sergey Prihodko, Yury Ushakov, acting in accordance to three keys rule, the rhetoric from the Russian side and the perception abroad are different. First, there is no way to play good and bad cop like at a time of the Putin-Medvedev tandem. Moreover, Putin's mask of a bad cop has grown together with his face – as he became weaker he can't change his rhetoric not to be taken as demonstrating his weakness. Second, recent political changes in Russia, although being not about real power shifts, are pretty negatively taken by the public opinion at the West, which in turn creates a negative background for Russian foreign policy.

The economic crisis is seen by foreign policy-makers as opportunity. It made Russia relatively wealthier than its neighbours and other players including the European Union and the United States. Who are less capable to restrain Russia and to play an active role in Russia's neighbourhood and what she considers to be the zone of her interests.

Putin's declining legitimacy and the need to focus more on domestic politics lets him less time and less room for manoeuvres in foreign policy. It's not that easy to make balanced and strategic FP decisions in conditions of the political crises which is still in place and will intensify with the coming 2016 parliamentary and 2018 presidential elections.

Russia's foreign policy regional foci

If there are certain foci in Russian foreign policy, the Balkans are not one of them for sure. Neither is it connected with any of recent large scale projects except for the South Stream, where it does look as a problem more than a solution.

Recent years witnessed a turn in Russia's FP to the East – to Asia Pacific, and to the North – to the Arctic. More attention is given to Russia's closest neighbours and integrationist projects like the Eurasian or the Customs unions. The European vector in Russian FP is weakening.

The Balkans as Europe's backyard which with the diminishing role of Europe in Russia's FP are becoming Russia's double backyard.

Although Russia is an important trade partner for some Balkan countries, none of them except for 'the big neighbour' Turkey plays a significant role in Russia's foreign trade due to the relatively small size of their economies. After the 2008 economic crises came, the volume of Russian export has shrunk further while import has increased a little (Table 2).

Table 2: Russia's foreign trade with some countries of South East Europe (millions USD in current prices)

Federal statistic service data on a base of customs statistics

	2008	2009	2010	2011
Export				
Total for far abroad countries	397925	254856	336959	503133
Bulgaria	4892	2190	3414	3460
Greece	4306	2338	2855	4685
Romania	4166	1559	2025	1827
Serbia				4197*
Turkey	27655	16377	20367	25429
Import				
Total for far abroad countries	230494	145530	197439	298454
Bulgaria	640	425	540	690
Greece	439	342	423	586
Romania	1019	876	1347	1727
Serbia				1718*
Turkey	6146	3216	4879	6374

* Serbia in January – October, 2011 (according to the Republican statistical committee of Serbia)

Region's position vis-à-vis Russia

If Russia enjoys soft power anywhere in the world it's in the Balkans here this power is the biggest of all. It's due to historical connections, the Orthodox Church 'faith brotherhood' and good memories about Russia.

Russia herself, Russian companies and Russians – both as tourists and as homebuyers play a significant role in Serbian, Bulgarian and Montenegrin economies. At a time of economic crises Russia's connections with the region at ordinary citizens' level strengthened even more.

Marc Leonard and Nick Popescu in 2007 offered the classification of the EU countries vis-à-vis Russia.

They have identified five distinct policy approaches to Russia shared by old and new EU members alike: **‘Trojan Horses’** (Cyprus and Greece) who often defend Russian interests in the EU system, and are willing to veto common EU positions; **‘Strategic Partners’** (France, Germany, Italy and Spain) who enjoy a ‘special relationship’ with Russia which occasionally undermines common EU policies; **‘Friendly Pragmatists’** (Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Portugal, Slovakia and Slovenia) who maintain a close relationship with Russia and tend to put their business interests above political goals; **‘Frosty Pragmatists’** (Czech Republic, Denmark, Estonia, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom) who also focus on business interests but are less afraid than others to speak out against Russian behaviour on human rights or other issues; and **‘New Cold Warriors’** (Lithuania and Poland) who have an overtly hostile relationship with Moscow and are willing to use the veto to block EU negotiations with Russia³.

Since 2007 there were some shifts caused partly by changes in Russia’s FP, partly by changes from the other side. It looks like they have resulted in the disappearance of the category **‘New Cold Warriors’** and some other moves like the one of Bulgaria from **‘Friendly Pragmatists’** to **‘Frosty Pragmatists’**. If to add some non EU countries including EU prospective members the picture will be more complete. Turkey will be a Strategic Partner, Serbia and Montenegro **‘Friendly Pragmatists’**.

One should also add that the position countries of the region occupy vis-à-vis Russia is unstable due to their internal political dynamics, with recent political changes in Bulgaria and Serbia being good examples.

Russia’s position vis-à-vis the region

In Russia the Balkans are seen as a near-to medium-term priority for the European Union, with Croatia being on the doorstep of membership,

³ Mark Leonard, Nicu Popescu, A Power Audit of EU-Russia Relations European Council on Foreign Relations, November 2007.

Serbia and Kosovo being next in line; followed by the rest of the region: Albania, Macedonia, and Montenegro. Turkey will probably not be allowed in, at least not in the foreseeable future. Macedonia, Montenegro, Bosnia and Herzegovina which got MAP are candidates to NATO members. The Balkan route remains one of the major three for drug trafficking from Afghanistan, Albania and human trafficking.

Serbia looks as the preferred Russian partner in the region with 17 meetings between Russian and Serbian highest leadership taking place since 2000, including 4 visits of Russian presidents to Serbia (the last one of Premier Vladimir Putin took place on March 23, 2011) and 7 visits of Serbian leaders to Russia with the last one being Tomislav Nikolic on September 11, 2012.

Energy Cold war at the Balkans

Experts started to speak about the Cold War between the US and Russia at the Balkans five years ago. It culminated on January 19, 2012 when Bulgarian leadership was forced to forbid technology of hydraulic fracturing needed in search for shale gas due to mass protests. According to some journalists they were somehow inspired by Gazprom in order to push out Chevron and to keep a Bulgarian dependence from Russian gas. There are plans to extract shale gas in Romania, where exploration is going on, and in Serbia, where NIS is controlled by Gazpromneft'. Russian business, especially on the hydrocarbons and energy sector is very active in the region.

Bulgaria – Bourgas-Alexandroupolis project, Belena atomic power station, South Stream. LUKOIL-Bulgaria.

Serbia – developing into gas distribution hub for Gazprom with one of the biggest storage facilities in Europe, active play against the government (Russian ambassador Alexander Konuzin, 2008-2012), Gazpromneft - NIS.

Montenegro – aluminum plant Kombinat Aluminijuma Podgorica (KAP). Rusal's En+ is looking now for buyer to sell its 29.3 per cent stake.

Turkey is also important element of the puzzle. It pretends to play a hub role for oil and gas flows to Southern Europe.

A win-lose approach used by both sides in competition in the sphere of energy has its limitations and prevents the region to get all possible gains out of its unique geographical position.

Integration projects

Last years Russia became very active in promoting integration projects of different kind.

The East-European Union as a counterweight to EU– Russia is not attractive; if becoming attractive it will be a different Russia

Customs Union, Eurasian Union. There still is the Union State with Belorussia and one should remind Serbia as proclaimed its member in 1999.

Turkey demonstrates interest to the Shanghai Organization of Cooperation work and perhaps will get soon the status of a ‘partner for dialogue’.
Nouriel Roubini: ‘Russia is sick rather than BRIC.’

Conclusions

In spite of the lack of pronounced Russian politics with regard to the region, Russia’s presence is here both in terms of business and in terms of Russians coming and staying – for permanent living and for vacations. This means that there is the base for widening contacts and an increasing of the role the Balkan region plays in Russian foreign policy. It illustrates also the transformation of what was considered to be ‘the Balkan front’ in Russia’s confrontation with the West into Russia’s southern gateway to Europe. As Russian-Turkish strategic alliance doesn’t look probable at least in near future, Russia should look for allies or preferred partners in the region.

New Turkish Foreign Policy and the Balkans: Soft Power

Niliifer Narli¹

Turkey's Foreign Policy since 1989

Since the end of the Cold War, the subsequent opportunities as well as the growing economic capabilities substantially changed Turkey's foreign policy. Today, the main drivers shaping Turkey's foreign policy are domestic political issues and the approach to convergence with EU and US policies.

We should not forget that the Turkish Justice and Development Party (AKP) has taken on a attitude to foreign and security policy: The AKP government pushed for Turkey's full EU membership and executed far-reaching reforms to improve its economic and democratic performance from 2002 to 2005, following EU policy.

After 2005, Turkey–EU relations stagnated. The public is loosing more and more of its enthusiasm to join the EU and the political leadership is accelerating a more multi-dimensional foreign policy.

A New Foreign Policy

Currently, Turkey is dealing with identity issues. Located at one of the important centres of geo-cultural basins, the AKP government desires to harmonize Turkey's multiple identities: Turkishness, Muslimness and European identities.

¹ This article is based on Prof. Narli's presentation given at the 24th PfPC Workshop in Reichenau/Austria on 4 May 2012, the summary was done by Judith Ivancsits, Austrian National Defence Academy.

These issues are naturally also affecting Turkey's foreign policy which is institutionally anchored in the "West" (NATO, EU, US) rather than being more assertive and having an independent role in its neighbourhood, namely the Middle East, the Balkan and the Caucasus.

By now, being a player in a multi-polar world, Turkey is forging new relations with the South and the East, improving relations with Islamic countries as well as reaching out to non-Islamic governments. Thus, a harmonisation of domestic and foreign policies with the EU is being pursued.

The conventional focus of Turkey's strategic culture shifted from a military security agenda to a more civilian one: from a Hobbesian strategic culture to a Kantian strategic culture. The former is based on a conservative realist approach, "zero-sum balance of material power approach to international relations, self-help and mistrust", as Graeme Herd, explained. This change is underlined by a decreased military interference in the formation of foreign policy over the last five years. Furthermore, soft power means – economic cooperation, cultural projects, NGOs, the presentation of Turkish lifestyle and tourism – are rather used than hard power.

The underlying trend is to adopt a 'zero problem' policy with the neighbours as well as to dissolve regional conflicts and consolidate regional alliances. Turkey's attempt to resolve conflicts in the Balkans, Caucasus and Middle East are an example for the change in the conventional strategic culture.

A "Two-pronged strategy"

In January 2011 Alic, Alic and Moran observed that given the stagnation in the EU-Turkey relations, Turkey is developing a two-pronged strategy: focusing attention on its eastern neighbours (notably Syria, Iran and Russia), while at the same time seeking to enhance its prospects for EU

membership by intensifying its influence in the Balkan countries, which are growing closer to Europe².

Turkish Activism in the Western Balkans

With the start of Turkish Chairmanship-in-Office of the South-East European Cooperation Process (SEECP) in 2009, Turkey's increased activism in the Western Balkans brought two divergent views:

1. Turkey is stabilising and contributing to regional cooperation.
2. A dispute of Neo-Ottomanism: Is Turkey aspiring to restore the power and influence it had over the region at the time of the Ottoman period? With Ankara's recent Bosnia and Herzegovina initiative, the question is coming up frequently.

As for Bosnia and Herzegovina, Turkey has expected to become one of the mediators in the Butmir negotiations, headed by the EU and the US, with the aim to contribute to the finding of a solution for the constitutional problems in the country.

This consideration influences Turkey's policy towards Bosnia which is carried out at three levels:

1. On the local level the aim is to reinforce the dialogue between the people involved in the development of a constitution for Bosnia and Herzegovina.
2. On the regional Level the Turkish Foreign Minister Ahmet Davutoğlu is trying to encourage Bosnia and Herzegovina as well as its neighbours Serbia and Croatia to work more closely together.

² Cf.: <http://www.isaintel.com/2011/01/11/assessing-turkey%E2%80%99s-foreign-policy-strategy-and-missed-opportunities-in-the-west/>

3. On the international level, Turkey is lobbying for Bosnia and Herzegovina to preserve its territorial integrity and multiethnic character. Furthermore, Turkey is campaigning for the acceleration of Bosnia and Herzegovina's Euro-Atlantic integration.

As for the dispute of Neo-Ottomanism, Ankara has often indicated to having no intentions other than to contribute to the consolidation of peace and stability in the Western Balkans. Ankara also underlines the need for a multi-faced foreign policy

Activity in the region (2011-2012)

In recent years, mutual high level visits between Turkey and Serbia were intensified. Another indication of the proactive and comprehensive foreign policy approach conducted by the Turkish Foreign Minister Ahmet Davutoğlu was the three-nation tour to Kosovo, Bosnia and Herzegovina, and Romania in early September 2011. This year, Mr Davutoğlu visited Sarajevo on May 4 where the International League of Humanists honoured him with the "21st Century Leader Award". In addition to this the Third International Investment Conference, "Sarajevo Business Forum 2012" was held in Sarajevo from 16 to 18 May 2012.

Turkish Investment Policy in the Balkans

The official Website of the Ministry of Economy states:

"The Balkans which could be seen as a bridge for Turkey to extending into the European inland is a literally strategic region for Turkey. Turkey has close historical, cultural, religious and linguistic ties with this region. Thus, Turkey gives great importance to advance its economic relations with these countries. Turkey's zero problem policy with neighbours also shows its impacts on this area.

In parallel with Turkey's good political relations with Balkan countries, economic relations also advancing with these

countries year by year. Turkey's free trade agreements with the regional countries, the privatization processes in the region, investment incentives, trade possibilities with third countries and easy access to qualified labour force make the Balkans attractive for Turkish businessmen."

Turkish direct investments in the Balkans "*which was just 30 million dollars in 2002 increased to 189 million dollars in 2011. Turkey's total investments abroad in 2011 was 1.8 billion dollars.*" Seven percent of the total investments was made in the Balkans. "*The Turkish investments in the Balkans usually prefer the communications, banking, construction, mining and retail sectors.*"³

Public Perception on Current Turkish International Relations

The majority of the people are happy to see that Turkey is becoming a regional actor that can pursue its own rights and interests in defining its own position within the international community.

A recent public opinion poll shows that 43% of Turkish citizens surveyed view the United States as the biggest threat to the country followed by Israel (23.7%). Greece came only to 2.3%, with Iran at 3%, Iraq at 2.1% and Russia at 1.7%.

Developments related to the Arab Spring, particularly the increasing civil strife in Syria, began in the late 2011, and the international community's concerns about Iran having nuclear weapons create challenges both for the EU and Turkey. These global alterations could lead to changes in the public perception of threats. Nevertheless, Turkey favours maintaining soft power skills and keeps adopting the Kantian strategic culture in sustaining stability in the Balkans.

³ Cf.: <http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions®ion=9>

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PART 4:

POLICY RECOMMENDATIONS

Policy Recommendations

Predrag Jureković

Situation Analysis

EU's Crisis and its Stabilisation Policy towards the Western Balkans

So far, EU's financial crisis and internal crisis management has not caused tremendous effects for the Common Foreign and Security Policy (CFSP) in general as well as for the Union's stabilisation policy in South East Europe. The internal challenges of the EU do not heavily influence ongoing missions and operations in the Western Balkans, which are conducted in the scope of the EU's Common Defence and Security Policy (CSDP). Also EU's most important stabilisation tool for the region – the Stabilization and Association Process (SAP) – aimed at leading to future full membership of all Western Balkan countries has not been contested to date. EU funds dedicated to the SAP are fully operational.

Quite the contrary, Croatia's planned accession to the EU in July 2013 is seen by leading political representatives of the EU as proof for the generally right and successful course in its support for stabilizing the former conflict areas. Furthermore, Croatia's positive example gives credibility to the integration perspective as far as the other Western Balkan candidates and aspirants are concerned.

On the other hand, EU's concentration on internal problem management has unsheathed some of the weak sides of CFSP and advocated a more distant stance of the EU towards problems for consolidating peace and stability in the Western Balkans. A clear strategic vision how the EU should be positioned in this multi-polar world as well as a clear guiding theme for its CFSP seems to be lacking at present. The rise of financial and social problems, which is accompanied by an increasing nationalism

in certain EU member countries, among a part of affected EU citizens has evoked also a crisis of confidence in EU institutions. How the EU will deal with the material but also psychological aspects of its crisis will certainly impact its soft power exercised abroad.

Although further enlargement as a long term strategy is not put into question, a fast integration of the Western Balkan states presently is not regarded a top priority by the EU itself. Brussels directs stronger demands to decision makers in the Western Balkans to show more local ownership concerning the open issues in the processes of peace- and state-building as well as in the others processes, which are relevant to secure high level stability in the region. In some cases, for instance in the case of Bosnia and Herzegovina these demands conflict with nationalistic policies which still prevail on the ground.

Western Balkan Perceptions of the EU Crisis

With the exception of Albania, which has lost remittances from its immigrants in Greece, at present the crisis of the Euro zone is not endangering the economies of the Western Balkan countries additionally. However, this positive message has to be put into the perspective of their general worse economic performance compared to the EU member states, in particular regarding their higher level of unemployment and uneven trade relations. Surely, a long lasting Euro crisis would harm the Western Balkan economies, due to the EU member states being the most important trading partners and investors.

The stabilization and integration policy of the EU in the region is still highly accepted by political decision makers there and regarded as being without real alternative. However, the role of the EU in supporting the consolidation of this part of South East Europe by the affected people is perceived less euphoric and with more realism as in the passed years. This is shown by declining support for EU membership in surveys done through the region (although supportive positions being still high) and in the less important role issues of “Europeanization” play in election campaigns.

Developments in the Single Countries

Croatia's positive development in the last two decades from a newly independent state, created under war conditions, to a member of NATO and an upcoming member of the EU can be used as a positive role model. It has generally demonstrated the functionality of EU's policy of conditionality towards the Western Balkans. Expectations are high that Croatia will utilize its membership in the EU for giving new push to regional consolidation. However, the country's own economic performance could be challenged after July 2013 when the then EU member will have to leave the Central European Free Trade Agreement (CEFTA). This economic cooperation framework presently covers South East European non-EU-members and has been aiming to achieve a free trade market of 30 Mio people.

In Bosnia and Herzegovina the long awaited formation of a central government in the beginning of this year raised hopes for a more constructive policy of national decision makers in order to achieve a generally more functional state administration, which would meet the EU criteria in the association and integration process, further, NATO's conditions for opening the MAP process as well as finally the conditions for the closure of the Office of the High Representative (OHR). Notwithstanding the improvement of the political climate through meetings taking place continuously between the political leaders from the main parties of the two state entities in regard to the open issues less progress has been achieved so far.

Obstructive and – as far as the entity Republika Srpska is concerned – secessionist policies still seem to dominate upon constructive attitudes in Bosnia and Herzegovina. International support is further needed for consolidating this country. The rather technical than political approach of the EU towards Bosnia and Herzegovina and the circumstance that the presence of OHR has been called into question by some of the influential western powers, weaken the international role. Apart from its internal challenges Bosnia and Herzegovina has to come to terms with its neighbours Croatia and Serbia. While border issues have to be solved in its relations with Croatia, Belgrade's attitude towards a functional Bos-

nian state remains unclear. From a Sarajevo perspective cooperative and reconciling signals sent by the former Serbian president Boris Tadić during his term have been undermined by a rather strong support from Belgrade for the quasi state-building measures in the entity Republika Srpska.

The “technical dialogue” between Belgrade and Prishtina/Priština has been continued under the umbrella of EU mediation. In most parts of the negotiated fields concrete implemented results are still missing. Some negotiated points are not defined clearly and therefore create opportunities for different interpretations and new disputes (see for instance the agreement on representation of Kosovo in regional organisations). The population on both sides has not been informed sufficiently about the nature and aims of the dialogue. For that reason the necessary societal support for the dialogue in Serbia and Kosovo is still lacking.

Northern Kosovo remains an “open wound” in the Belgrade-Prishtina relations and a tough nut to crack for the international presence in Kosovo. This particular security problem can not be solved only with the means of the technical dialogue. For relaxing this issue a different, more political negotiating format is needed between Serbian and Kosovar officials, which should also include Serb representatives from Northern Kosovo.

The conditionality policies that the EU has exercised towards Belgrade and Prishtina/Priština certainly have helped to open a dialogue in this frozen conflict situation. However, Kosovo’s uneven position in EU integration processes compared to Serbia, the latter being a candidate country while Kosovo is still at the starting point of a visa dialogue and of negotiations on the Stabilisation and Association Agreement, in a medium term could weaken this tool. Beside the question what should be the right incentives for achieving cooperative behaviour in the open regional issues connected to Kosovo, the support for internal reform processes in Kosovo should not be neglected.

Representatives from NGOs in Kosovo point to the problem of ongoing massive corruption in the political field. The announced restructuring of

the EU Rule of Law Mission (EULEX) could be an opportunity for the international side to critically analyse the previous strategy for addressing this issue. There are apprehensions that not all parts of the obligations from the Ahtisaari package connected to the protection of non-Albanians will be fully implemented due to the expire of the International Civilian Office.

Unfortunately the perennial stagnation of the FYR Macedonia in regard to its integration into EU and NATO has worsened inter-ethnic relations in this country. Since February violent incidents with inter-ethnic connotations have increased significantly. The deep financial, social and political crisis in Greece on the one hand and the policy of the present Macedonian government aimed at strengthening antique Macedonian identity-building on the other hand prevent a solution for the name dispute. Without solving this crucial question FYR Macedonia remains blocked in its integration processes.

Among the Western Balkan countries Albania suffers most from the Greek/EU crisis. Apart from the economic and social challenges which appear as a consequence of diminished remittances, political stability is challenged by the polarized relations between the ruling Democratic Party and the oppositional Socialist Party. Albania's present stagnation in its aspirations towards EU membership has increased the level of social frustration.

The Role of the US, Russia and Turkey

For the US the Trans-Atlantic relations remain its most important strategic relationship. There is still a high degree of overlapping with European partners in regard to strategic goals and democratic values. The EU financial crisis has not changed this. As far as the tools for managing the financial crisis are concerned different approaches exist: The US would prefer a joint US-EU approach for stimulating global economy, while leading EU countries are in favour of austerity measures and fiscal discipline.

The US is concerned about decreasing defence budgets of European NATO members and the consequences for European contributions to Peace Support Operations. Stability projection in South East Europe is a shared goal of the US and the EU. The leading political role of the EU in the Western Balkans is accepted by the US, but there are strong doubts that EU is resolute and coherent enough to do the job alone. Therefore a substantial US presence – in particular in Bosnia-Herzegovina and Kosovo – is still seen as necessary a “safety net”. The US government – unlike some influential EU members – is against a premature termination of the OHR’s mandate not before Bosnia and Herzegovina has really become a functional state. Additionally, ongoing measures of reshaping the EU led peace operation EUFOR Althea has called forth scepticism in Washington. There are doubts that EUFOR would not be able to react properly in crisis situations.

Russia’s policy towards the Western Balkan countries in the era of Putin has been primarily influenced by pragmatism and business orientation. With the exception of some “emotional ties” that Russia has traditionally cultivated with Serbia and further the competition with the US in the energy sector in this part of Europe is not of particular geo-strategic interest for Moscow. The ongoing processes of integrating the Western Balkan countries into EU and NATO are not perceived as a danger for Russian strategic interests. From a Moscow perspective, the role of EU in the multi-polar world has however lost ground, due to EU’s financial crisis.

During the last ten years of the government of the moderate Muslim party AKP Turkey has developed a pro-active regional policy towards South East Europe. Similar to the EU soft power has been used to support regional cooperation. Turkish investments have been increased significantly in the previous years. The interests of the EU and Turkey regarding the process of consolidation in the Western Balkans are highly overlapping. At present there is no big conflict of interest. Turkey has become an important contributor to EUFOR Althea and other peace missions in the region. Although constructive Turkish foreign policy activities are also directed towards countries in the region with mainly non-Muslim population there are fears among some “Christian” politicians

and non-Muslims that “Neo-Ottomanism” could lead to the dominance of Islam.

Summary of Recommendations

Regarding the EU Crisis and CFSP

Despite the current financial problems EU institutions are strong enough to cope with the challenges. Negative discourses, which focus on “catastrophic scenarios” should therefore be avoided, due to the negative influence they could have for EU’s internal coherence and its ability to exercise a credible CFSP.

A broad strategic discussion in the EU could be helpful to develop a “leitmotif” for the CFSP and to define its priorities. There is a necessity to define precisely the role of the EU in this multi-polar world.

The financial crisis should not hide the fact that the EU is more than a framework of economic cooperation. “European values” as the foundation of the EU’s soft power projection should be emphasized again, in particular in pro-active campaigns in the South East European candidate and aspirant countries.

Missions conducted in the scope of CFSP should follow a preventive and long term approach. There should be a clear distinction between urgent and less important agendas.

Regarding EU and its General Policy towards the Western Balkans

The process of regional consolidation still needs international support. For that reason it is necessary that the Western Balkans remain a priority region for the CFSP. A close cooperation between the EU and other important international stakeholders that share similar stability goals in the region, in particular the US and Turkey might stand to reason.

Croatia's upcoming accession as a new member of EU would provide a good opportunity to strongly reemphasize the Unions general commitment to the enlargement process. Through launching pro-active campaigns the pro-European political decision makers in the Western Balkans could counter "EU fatigue" among their populations.

The financial problems of some EU countries should not call into question the financial foundation of EU's peace operations and of EU funds dedicated to the consolidation process in South East Europe. Nevertheless, money coming from these funds should remain conditioned by delivering concrete results in the reform processes.

It can be expected that the process of negotiating membership with the EU for most of the Western Balkan countries will be a long term perspective. In order to avoid "EU fatigue" in these countries the application process should be "shortened" for their populations by including mid-term results and incentives that "can be seen" in the integration process. They would bridge the waiting time till full membership will be achieved.

Furthermore, the ongoing – and in most cases faster – enlargement of NATO in South East Europe is a substantial complementary development of high relevance for achieving cooperative security in the region.

Together with other international stakeholders the EU has interfered in regional political processes. So much constructive ownership of decision makers in the region would be desired in the various processes of consolidation, the political reality on the ground has shown that nationalistic forces still have a strong say and are able to obstruct. A more sophisticated concept of ownership would therefore be necessary. "As much local ownership as possible, as much international intervention as necessary" could be its guiding principle.

The national decision makers in the Western Balkans should be expected to make the necessary domestic compromises in order to achieve progress in EU and NATO integration processes. In cases of non-constructiveness and nationalistic revival the EU and the other interna-

tional stakeholders that are engaged in the peace processes should have tools to sanction obstructive politicians. In these particular cases an intensified dialogue with relevant civil society groups is of great importance to counteract negative political trends.

Regarding Single Countries

Croatia's experiences related to the implementation of EU standards could be very useful for the other candidate countries in the region. A positive impetus to regional cooperation would be achieved, if Croatia would stick further to its official policy not to merge open bilateral issues with its support for the EU membership aspirations of its neighbours. Croatia itself needs economic support from the EU in order to avoid trade losses when it will have to withdraw from the regional trade organisation CEFTA.

The political dialogue in Bosnia and Herzegovina has not delivered enough satisfying results yet. As long as this situation will not change basically, the international "safety net" provided by the OHR and EUFOR should be kept.

The insecure situation in North Kosovo and the shared aspirations of Belgrade and Prishtina/Priština to integrate their countries into the EU would demand a new platform for their dialogue. It should be less technical, but broader and more political and should lead to a contract situation that would be the real starting point for a normalisation of relations between Serbs and Albanians. The EU would again accompany this dialogue.

Kosovo should be given more concrete and for the population visible political and economic incentives to implement EU standards. These incentives should be connected to credible steps of Kosovar authorities to conduct anti corruption measures. The planned restructuring of EULEX is a chance to coordinate better law enforcement activities of the international side.

The International Communities Office should take care that all core agendas of the Ahtisaari package, which are related to the protection of non-Albanians will be completed.

There is a need to raise awareness that ethnical tensions in FYR Macedonia are increasing. Further international activities are necessary to end the name dispute between FYR Macedonia and Greece in order to enable the FYR Macedonia to become a NATO member and to start negotiations on membership with the EU. Till such a compromise will be found FYR Macedonia should be enabled to proceed in the integration processes by using the name "FYROM".

The EU should recognize the progress that Albania has achieved in its reform processes. On the other hand, the full normalization of political relations between the two big political parties must remain a core condition for the country on its way to the candidate status.

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