

# Avoiding the Trap of Another Paper Exercise: Why the Western Balkans Need a Human Development-centred EU Enlargement Model

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## ABSTRACT

The European Commission intends to publish a new methodology for the EU enlargement in the Western Balkans in early 2020. While the hope is that the new document will re-establish EU consensus on enlargement and revive its exhausted policy toward the Western Balkan region, there are already clear signs that it will all end up as another paper-pushing exercise. Without tackling the root causes of the current situation, notably the enduring socio-economic entropy and political backsliding in the Western Balkans, this new move will only diminish the leverage of the EU. What is needed is a human development-centred EU enlargement model for the Western Balkans.

*European Union | Western Balkans | EU enlargement | Foreign trade | FDI | Migration*



keywords

## Avoiding the Trap of Another Paper Exercise: Why the Western Balkans Need a Human Development-centred EU Enlargement Model

by Matteo Bonomi, Ardian Hackaj and Dušan Reljić\*

### 1. EU enlargement in the Western Balkans: Brain-dead *aussi*?

The European Commission intends to publish a new strategy for the EU enlargement in the Western Balkans in early 2020. This is a reaction to the French veto on opening accession negotiations with Albania and North Macedonia at the October 2019 European Council and the “non-paper” which ensued soon afterwards from Paris.<sup>1</sup> This document outlined the French thinking about a new enlargement methodology, namely that it should be radically reorganised into seven phases with the possibility left open that everything can be reversed if candidate countries fail to comply with the conditionality.

Both the veto and the “non-paper” drew much criticism from other EU member states and sent shock waves across the Western Balkans. To many people, French President Emanuel Macron’s almost concurrent verdict on NATO (“brain-dead”) appeared also applicable to the state of the EU’s enlargement policy. The 2003 Thessaloniki promise of membership to the Western Balkan countries seemed irreparably broken.

With the new methodology, the Commission hopes to revive the enlargement policy and counter divisive trends within the EU by building a renewed consensus on the way forward. The new strategy paper will have to navigate a narrow passage between those who, like France, have demanded a radical overhaul of the enlargement policy,

<sup>1</sup> David M. Herszenhorn and Rym Momtaz, “France Outlines Proposal to Overhaul EU Accession Process”, in *Politico*, 17 November 2019, <https://www.politico.eu/article/france-outlines-proposal-to-overhaul-eu-accession-process>.

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and the position of several other member states that advocate a firmer and faster EU commitment to bringing the Western Balkan states into the EU.<sup>2</sup>

Moreover, the new “enlargement methodology” will come only two years after the 2018 European Commission’s enlargement strategy.<sup>3</sup> The 2018 document was designed as a tentative re-engagement with the Western Balkans, but two years later turned out to be a rather damp squib.<sup>4</sup> Notwithstanding its good intentions and its pointing at the necessity to resolve the “state capture”<sup>5</sup> by political elites in the Western Balkans, the strategy failed to provide adequate measures and resources that could tackle the increasingly worrying political, economic and social trends in the Balkans.

In addition, the cacophony among EU member states on the future of the European integration project had direct effects on the Commission’s effort to recreate momentum for the enlargement agenda. The EU’s credibility in the Western Balkans diminished further as it became fully evident that individual member states tend to overtly pursue their own political goals, instead of adhering to the publicly touted joint approach to enlargement issues.

Against this backdrop, the survival of the EU enlargement policy itself is at stake. More than on new methodological aspects, the debates have focused on the aims and scope of the EU enlargement policy. Is full membership still the end goal, or are there other possible scenarios? Would special or privileged partnership(s) work as a substitute for enlargement? Can intermediate steps give the EU transformative power in the region?<sup>6</sup>

EU officials are warning that the new methodology will not be “revolutionary”. Rather, the document will introduce “evolutionary” steps to improve the existing framework. They hope this will prove sufficient in overcoming the stalemate within the European Council, cause minimum rupture in existing enlargement mechanisms, and – optimistically – address the mounting challenges on the ground.

<sup>2</sup> The counter-proposal to the French non-paper was laid out in a three-page document backed by Austria, the Czech Republic, Estonia, Italy, Latvia, Lithuania, Malta, Poland and Slovenia. See Jacopo Barigazzi, “9 EU Countries Push Back on French Enlargement Revamp”, in *Politico*, 13 December 2019, <https://www.politico.eu/article/eu-enlargement-reform-pushback>.

<sup>3</sup> European Commission, *A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans* (COM/2018/65), 6 February 2018, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0065>.

<sup>4</sup> Matteo Bonomi, “Off Track. The EU’s Re-engagement with the Western Balkans”, in *IAI Papers*, No. 19|08 (April 2019), <https://www.iai.it/en/node/10181>.

<sup>5</sup> Political scientists have defined “state capture” “as a situation in which decisions are made to appease specific interests, often through illicit private payments to public officials, rather than to suit the national interest aggregated and mediated through a democratic process” (Anne Mette Kjaer, “State capture”, in *Encyclopaedia Britannica*, 2014, <https://www.britannica.com/topic/state-capture>).

<sup>6</sup> Barbara Lippert, “Die EU und ihre Nachbarschaftsbeziehungen: etablierte Assoziierungsmodelle und neue Grundformen”, in *Integration*, Vol. 42, No. 2 (2019), p. 83-96, <https://doi.org/10.5771/0720-5120-2019-2-83>.

To cut a long story short, this resembles a classic paper-pushing exercise. Without tackling the root causes of the current situation – socio-economic entropy and political backsliding –, this new move only diminishes the leverage of the EU in the Western Balkans. Worse, it lends credence to critics of the EU who argue that the genuine purpose of such documents is, ultimately, to slow down further accession by increasing the complexity of the process.

Meanwhile, the capacity of the Western Balkan states to converge socio-economically and politically with the EU is weakening further, while the political situation continues to backslide.

### 2. Killing the Western Balkans softly with EU love

Today, almost twenty years after the launch of the EU Stabilisation and Association Process (SAP) for the Balkans, not only has the EU enlargement policy failed to deliver satisfactory results, it has arguably become an obstacle for a swift transformation of the region.

The success of EU enlargement policy towards the former socialist countries in Central Eastern Europe took place in a unique moment of history, following the fall of the Berlin wall, with no serious adverse political models or other non-Western influential actors in play.

By contrast, the application of the same model to the war-torn Western Balkans proved to be considerably less successful in both its economic and its political dimension.<sup>7</sup> The overlapping of the EU accession agenda with the challenging process of nation- and state-building has generated conflicting dynamics in the Western Balkans, where increasing economic, institutional and political integration with the EU has gone hand in hand with prolonged socio-economic regression and backsliding of democratic standards.<sup>8</sup>

In effect, the current structure of linkages between EU core countries and the Western Balkans appears to fit the interest of the former, while wearing out the latter. Huge

<sup>7</sup> For a criticism of the neoliberal approach in the Western Balkans based on the recommendations of the “Washington consensus” that were earlier implemented in Central and Eastern Europe, see Milica Uvalić, “Transition in Southeast Europe: Understanding Economic Development and Institutional Change”, in Gérald Roland (ed.), *Economies in Transition. The Long-Run View*, Basingstoke, Palgrave Macmillan, 2012, p. 364-399; Milica Uvalić and Vladimir Cvijanović, “Towards a Sustainable Economic Growth and Development in the Western Balkans”, in *SOE - Dialog Südosteuropa*, March 2018, <https://library.fes.de/pdf-files/bueros/kroatien/14688.pdf>.

<sup>8</sup> Soeren Keil and Zeynep Arkan (eds), *The EU and Member State Building. European Foreign Policy in the Western Balkans*, London/New York, Routledge, 2015; Solveig Richter and Natasha Wunsch, “Money, Power, Glory: The Linkages Between EU Conditionality and State Capture in the Western Balkans”, in *Journal of European Public Policy*, Vol. 27, No. 1 (2020), p. 41-62, <https://doi.org/10.1080/13501763.2019.1578815>; Balkans in Europe Policy Advisory Group (BiEPAG), *The Crisis of Democracy in the Western Balkans. Authoritarianism and EU Stabilitocracy*, Policy paper, March 2017, <http://www.biepag.eu/wpcontent/uploads/2017/03/BIEPAG-The-Crisis-of-Democracy-in-the-Western-Balkans.-Authoritarianism-and-EU-Stabilitocracy-web.pdf>.

trade and current account deficits are damaging the macro-economic performance and development potential of the Western Balkans, while mass outward migration to the EU is draining the Western Balkan region of its human capital.

The limits of the transition blueprint offered to the Western Balkans were evident already in the early 2000s. At the time, the launch of the EU SAP and the Stability Pact for Southeast Europe was followed by rapid market opening, fast trade liberalisation and increasing re-orientation of trade flows towards the EU. In a relatively short time, this process delivered strong economic, financial and banking integration of the Western Balkans with the EU.

The Western Balkans' economic performance initially did improve. The strong growth experienced between 2001 and 2008 – over 5 per cent as a regional average – was primarily based on the inflow of foreign capital (mainly EU and other donors' assistance, foreign direct investments (FDI), bank loans and remittances). However, this process of increased Western Balkans–EU integration did not lead to much needed deeper restructuring and modernisation of large segments of Western Balkan economies, hiding a clear trend of deterioration of the production capacity of the region.

Institutions that governments tried to put in place to regulate the markets and safeguard competition were inefficient, often leaving free rein to capitalist tycoons to exercise quasi-monopolistic power and extract rent from privatised former socialist enterprises. At the same time, foreign investors focussed on the non-tradable sectors (banking, telecommunications, retail trade, real estate), contributing to deindustrialisation, insufficient job creation and the widening of trade deficits. Agriculture was neglected throughout the region, despite being a comparative advantage for most Western Balkan countries.

The unsustainability of the growth model applied in the Western Balkans became fully evident after the global financial and economic crisis of 2008. The sharp fall in foreign capital inflows and reduced demand for Western Balkan exports led to multiple recessions, bringing about an initial soaring of public deficits, inexorably followed by tough austerity policies under EU and International Monetary Fund (IMF) conditionality, and a rapid rise of external debt.<sup>9</sup>

All in all, almost two decades of EU–Western Balkan economic integration (through trade, FDI, finance, adoption of legislation based on the *acquis communautaire*) have led to strong multiple links with the EU economy, but has also amplified the dependence of the region on the EU. While joining the region and the EU “at the hip”, this reorientation has also rendered the Balkan economies vulnerable to external shocks coming from the EU, but without any amortisation mechanisms.

<sup>9</sup> Will Bartlett and Milica Uvalić (eds), *The Social Consequences of the Global Economic Crisis in South East Europe*, LSEE Research on South Eastern Europe, June 2013, <http://www.lse.ac.uk/LSEE-Research-on-South-Eastern-Europe/Assets/Documents/Publications/Research-Network-on-Social-Cohesion/Social-Consequences-Final.pdf>.

**Box 1 | Western Balkans FDI inflows, trade and current account balances**

The limited economic restructuring of the Western Balkans has translated into difficulties in increasing competitiveness on world markets, leading to persistently high trade and current account deficits. With the EU alone, the Western Balkan countries have accumulated a trade deficit in goods of almost 100 billion euro between 2008 and 2018.<sup>1</sup> These deficits have for years been covered by the inflow of capital from abroad (foreign direct investments, bank loans, remittances, donor assistance). External resources usually function not only to secure a country's immediate financing needs, but also favour long-term productivity gains and therefore the ability to cover current account deficits in the future. Nevertheless, such expectations have been fulfilled in the Western Balkans only to a limited extent. Foreign direct investments have mainly targeted non-tradable sectors, as mentioned earlier, while even those investments directed towards the industrial sector have usually had little or no positive impact on value-added manufacturing, employment and exports (as shown for the 2002–12 period by Estrin and Uvalić<sup>2</sup>).

Whereas by now the current account deficits of all Western Balkan countries have more than halved, these adjustments in the aftermath of the 2008 global economic crisis came primarily at the expense of a massive reduction of domestic consumption and sharp increases in public and private debt. Despite the return of foreign investors in recent years, as of 2017 none of the countries had regained FDI, in per cent of GDP, at pre-crisis levels. The external position of the Western Balkans remains extremely fragile, since the region continues to strongly depend on the volatile mood of foreign investors. Moreover, the impact of the recent new investment cycle on the real sector, external competitiveness and long-term productivity of the Western Balkan economies already appears to be weak. Recent studies have shown that although some new FDI in recent years (often heavily subsidised by local governments) has created some new jobs and increased exports in most Western Balkan countries, it has not led to improvement – but rather regression<sup>3</sup> – of labour productivity, with limited technology spill-overs to the local economy. The import intensity of FDI-based production in the Western Balkans remains extremely high, testifying to extremely limited connections between foreign investors and local suppliers.<sup>4</sup>

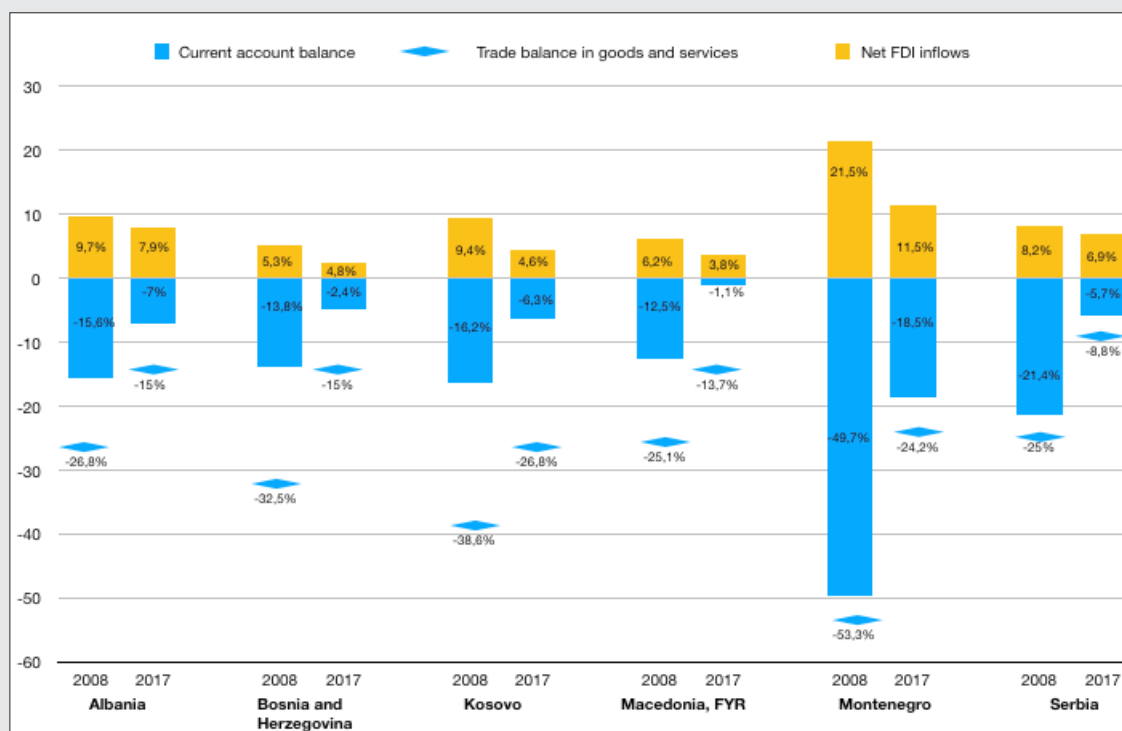
<sup>1</sup> European Commission Directorate-General for Trade, *Trade in Goods with Western Balkans* 6, 3 June 2019, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_western-balkans-6\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf).

<sup>2</sup> Saul Estrin and Milica Uvalić, "Foreign Direct Investment in the Western Balkans: What Role Has It Played During Transition?", in *Comparative Economic Studies*, Vol. 58, No. 3 (September 2016), p. 455-483.

<sup>3</sup> As shown for Serbia by a recent report of the World Bank: World Bank, *Serbia's New Growth Strategy. Forging a New Future*, December 2019, <http://www.worldbank.org/serbia-cem>.

<sup>4</sup> Will Bartlett, Besnik Krasniqi and Jasmina Ahmetbašić, "Attracting FDI to the Western Balkans: Special Economic Zones and Smart Specialisation Strategies", in *Croatian Economic Survey*, Vol. 21, No. 2 (December 2019), p. 5-35, <https://doi.org/10.15179/ces.21.2.1>.

**Figure 1** | Net FDI inflows, trade and current account balances (in % of GDP), 2008 and 2017



Source: Matteo Bonomi's elaboration based on World Bank data.

The prolonged economic regression of the Western Balkans, marked by the deterioration of many socio-economic indicators, is the root cause of the failures of the domestic governance reforms and the EU policy in the region. Poverty and income inequality are the defining characteristics of the social fabric of the Western Balkans.<sup>10</sup> A middle class exists only nominally, while most people live under the threat of poverty. In the "captured states" of the Western Balkans, those who are not already privileged by wealth find themselves at the mercy of the incumbent rulers for access to decent employment, education or medical services and other public goods. While the existence of a middle class with a stable income and no dependency on the powers that be is not a guarantee for democracy and rule of law, it certainly is a necessary precondition.<sup>11</sup>

<sup>10</sup> See Eurostat socio-economic indicators: *Enlargement Countries - Statistics on Living Conditions*, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement\\_countries\\_-\\_statistics\\_on\\_living\\_conditions](https://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_statistics_on_living_conditions).

<sup>11</sup> For a critical analysis of the democratic performance of the middle-classes see: David Motadel, "The Myth of Middle-Classes Liberalism", in *The New York Times*, 23 January 2020, p. 14, <https://nyti.ms/2tF7FwB>.

The present structure of the EU–Western Balkan socio-economic relations does not enable a swift convergence and lasting transformation of the region. The current political set-up favours the “charismatic strong man” unchecked by democratic mechanisms. This development model shows signs of a local replica of the Chinese and Russian model of political capitalism, based on the predatory state, state capture and high-level corruption.<sup>12</sup>

### 3. A human development-centred EU enlargement model for the Western Balkans vs. continued entropy

According to recent estimates by the European Bank for Reconstruction and Development (EBRD), it could take as much as two hundred years for the Western Balkan region to converge with the EU average GDP per capita.<sup>13</sup> This clearly means that in the present “marriage” with the EU, these countries have not been able to set in place a process of faster convergence with the Western world. Moreover, the region is experiencing a sharp and unprecedented process of environmental deterioration, suffering from rising temperatures, deforestation and record levels of air pollution.<sup>14</sup>

On top of that, the structural change with the greatest negative impact in the region is driven by demographic developments. Emigration and depopulation are anticipated to accelerate. The brain-drain has already resulted in loss of precious human capital, reduction of growth potential and public and private debt sustainability.

The exodus has had strong political and psychological consequences, as the dissatisfied and disenfranchised leave their countries instead of remaining economically and politically active in their communities and thereby positively influencing and possibly changing the system from the inside. Especially young people in the Western Balkans experience daily the feeling that they live in failed societies.<sup>15</sup>

<sup>12</sup> C.f. Branko Milanović, *Capitalism, Alone. The Future of the System That Rules the World*, Cambridge/London, The Belknap Press of Harvard University Press, 2019, p. 207-211.

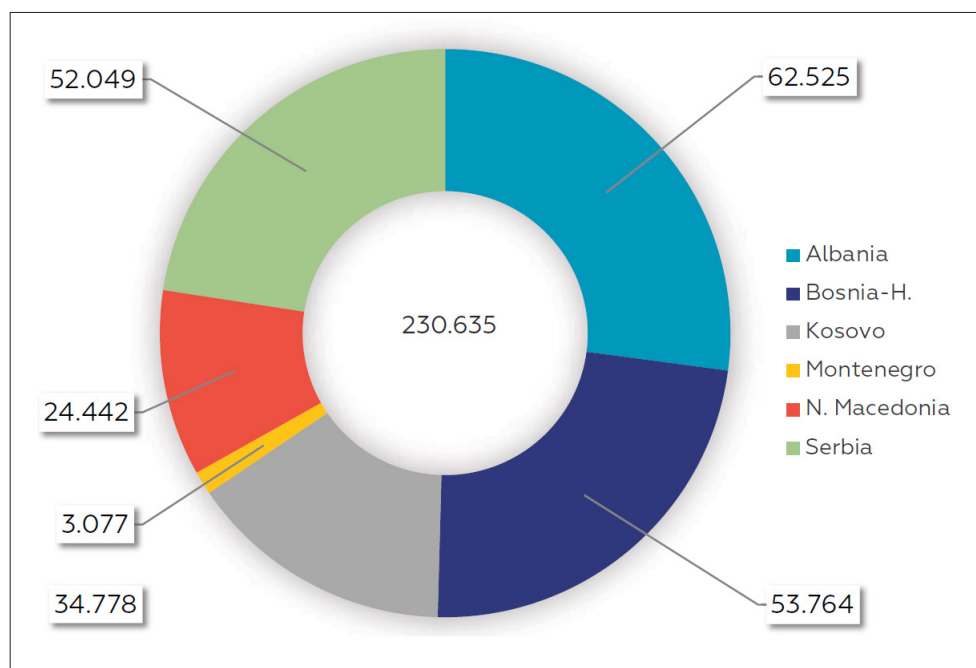
<sup>13</sup> Peter Sanfey and Jakov Milatović, *The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy*, London, European Bank for Reconstruction and Development (EBRD), February 2018, p. 5, <https://www.ebrd.com/publications/country-diagnostics/western-balkans>.

<sup>14</sup> Ana Vuković and Mirjam Vujadinović Mandić, *Study on Climate Change in the Western Balkans Region*, Sarajevo, Regional Cooperation Council, June 2018, <https://www.rcc.int/pubs/62>.

<sup>15</sup> European Bank for Reconstruction and Development (EBRD), *Life in Transition III. A Decade of Measuring Transition*, December 2016, <https://www.ebrd.com/publications/life-in-transition-iii>.



**Figure 2** | Every two minutes one citizen from the Western Balkans migrates legally to the EU (first permits of residence in the EU in 2018)



Source: Theresia Töglhofer, "No Time to Lose for the EU Overcoming the Accession Stalemate in the Western Balkans", in *DGAP Policy Briefs*, No. 8 (December 2019), p. 3, <https://dgap.org/en/node/33272>.

It is the long-since proclaimed will of the EU member states to act "geopolitically" and increase their own security by incorporating the Western Balkans. However, this will not happen without reversing the current trend of increasing political-economic divergence of the Western Balkans and the EU. The EU's core values – the upholding of human rights, democracy and the rule of law – cannot exist in a siphoned-off space. This negative trend has to be reversed, so that the preconditions for further development of human capital in the Western Balkans are again created.

It goes without much explanation that no new EU methodology of enlargement in the Western Balkans can substitute for lack of political will. What is necessary is a clear political mandate that would represent the fundament for updating and renewing a workable EU enlargement policy. The core of this needs to be a model centred on the development and investment in human capital, so that the Western Balkan citizens can (re)gain economic and political autonomy vis-à-vis the "state capturers".

The new approach to enlargement in the Western Balkans ought to be able to secure the geopolitical anchoring of the region to the EU by linking this political, economic and social space structurally with that of the EU. At the same time, it is essential that it also provide the convergence mechanism needed to boost growth in the Western Balkans.

This new human development-centred EU enlargement model for the Western Balkans would have to be based on the following premises:

- It would have to include, among its core actions, concrete measures that have the potential to double the current annual GDP growth in the region, to 6–8 per cent. This is the only way to restore prosperity in the region and stabilise its societies. Also, only if the level of annual investment rises to about 25 per cent of GDP can there be sustainable convergence with the EU.<sup>16</sup>
- Boosting growth in non-EU Southeast Europe and reducing inequality cannot happen without major support from abroad, primarily in the form of zero-priced capital. For that purpose, the EU should open its structural funds and/or provide other resources in the form of grants to the Western Balkans. Access to EU funds – perhaps again through a revamped European Agency for Development and Reconstruction – would be a just compensation for the huge deficits in trade and other forms of long-term cash outflow from the Western Balkans to the EU. It would also partly compensate the loss of human capital in the Western Balkans through migration of its citizens to the EU.
- The Western Balkan Connectivity Agenda should be upgraded into a fully-fledged multi-dimensional connectivity programme that includes energy, transport, digital and other value chains, people-to-people and the whole spectre of institutional linkages. The goal would be to deepen and strengthen the integration of the Western Balkan production structure into EU value chains, and the inclusion of local institutions into the larger European institutional framework. This will geo-economically and geo-politically shape the space and improve the quality of governance in the Western Balkans.
- Consequently, the Western Balkan countries should have a permanent seat in the EU policy planning and implementation structures, initially with no voting rights. The newly announced EU industrial policy can be a good platform to start such a scheme.
- Representatives of the Western Balkans – from the government, academia and the civil society – should participate, not as onlookers but on eye level, in the forthcoming Conference on the future of Europe.
- The Western Balkan citizens are the best allies of the EU in the region because theirs is the true interest in fast “Europeanisation” – since this ought to bring social improvement and prosperity for all. The external agents of democratisation and the strengthening of the rule of law – the EU being the most potent of these actors in the Western Balkans – have only a limited capacity to persuade the present rulers to implement radical reforms. The incumbent rulers in the “captured states” cannot have a genuine interest in change, because any substantial move from the

<sup>16</sup> World Bank, *Serbia's New Growth Strategy. Forging a New Future*, cit.

status quo would mean their political suicide. The most effective way, therefore, for the EU objectives to be attained is to provide substantial financial assistance to the region as a key condition for accelerating economic growth and overall development.<sup>17</sup> This would also ensure an improvement in citizens' well-being and thus liberate them to take the future into their own hands. Ultimately, it would prove that the EU, in the Western Balkans, means what it says.

*Updated 29 January 2020*

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<sup>17</sup> In order to give citizens a tangible sign that the international community is ready to partner with them, it is important to invent new schemes that would offer citizens the possibility to directly take part and contribute to international projects. This could be done, in line with an Italian proposal, through bonds issued to citizens by local government municipalities that would be protected by an international guarantee, where the mobilised resources would serve to finance local projects important for raising socio-economic wellbeing of the local population, supplementing existing external funding of various international organisations.

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