

EU enlargement to the Western Balkans



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From EU Enlargement Fatigue to Ambiguity

By Matteo Bonomi

Foundation for European Progressive Studies (FEPS)

Avenue des Arts 46, 1000 Brussels, Belgium
+32 2 234 69 00
info@fepe-europe.eu
www.fepe-europe.eu
@FEPS_Europe



Friedrich-Ebert-Stiftung Italy Office (FES Italy)

Piazza Capranica 95, 00186 Roma, Italy
+39 06 82 09 77 90
Info(at)fes-italia.org
www.italia.fes.de
@FES_Italia



Fondation Jean-Jaurès

12 Cité Malesherbes, 75009 Paris, France
+33 (0)1 40 23 24 00
<https://jean-jaures.org>
contact@jean-jaures.org
@j_jaures



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Abstract: Despite the EU enlargement policy framework and its declared goals, the present EU-Western Balkan political and socio-economic relations do not promise a swift convergence and lasting transformation of the region. On the contrary, the current economic and political set-up in the Western Balkans favours the empowerment of ‘charismatic strong men’ unchecked by democratic mechanisms. Such a model increasingly resembles the Chinese and Russian model of political capitalism. The devastating consequences of Covid-19 outbreak have exacerbated this reality, further highlighting the shortcomings of EU policy toward the region and these countries’ economic and political divergence from EU standards. Against this backdrop, EU enlargement framework urgently needs to be supplemented with a more progressive political agenda, to navigate through these doomy and gloomy days. The Western Balkans should be included in the EU common response to the pandemic on a number of issues, among which: health and economic recovery plans; the defense of the rule of law and democratic governance; as well as foreign policy matters.

Keywords: EU foreign policy | Western Balkans | EU enlargement

About the author: Matteo Bonomi is a Research Fellow at the Istituto Affari Internazionali (IAI).

Introduction

The outbreak of the Covid-19 pandemic in early 2020 and the ensuing lockdowns are having unprecedented human, social and economic impacts. The pandemic's implications will undoubtedly be devastating for the whole world, including for the EU member states and their Balkan neighbours. The global economy has been suffering a symmetrical shock, with a simultaneous decline of supply and demand, hence its effects will be stronger than even those of the financial and economic crisis of 2008-2009. In this context, the fight against the virus and the subsequent economic and social crises are most likely to remain such a high priority on the EU agenda for years to come that little space will be left for any other items, including the European Union's enlargement process. This means that, once again, as it happened for the Juncker Commission, no enlargement will take place under the current term, questioning whether, what once was the EU's most successful foreign policy – enlargement – has not become obsolete.

In fact, the pandemic has come on top of a series of multiple crises (financial, geopolitical, refugees, Brexit), which coupled with long-term political upheavals in the EU (such as populism, right-wing extremism, the weakening of the rule of law in some member states) were already contributing to cement resistance towards enlargement in any near future. As a result, the EU appears to have lost much of its ability to shape strategic developments in the Western Balkans. At the same time, the status quo in the Western Balkans is growing firmer, as there is apparently little political will (and incentives) to implement the necessary, yet demanding, reforms of the EU accession process.

Against such a background, the new European Commission's simple reiteration of a 'European prospective' for the Western Balkans risks no longer being enough, if not even counterproductive, since it could contribute to further bolster regressive forces on the ground in the candidate countries and in the potential candidate ones. The present structure of the EU-Western Balkan political and socio-economic relations does not promise a swift convergence and lasting transformation of the region. The current political set-up in the Western Balkans favours the 'charismatic strong man' unchecked by democratic mechanisms, a model that increasingly resembles the Chinese and Russian model of political capitalism (Milanović 2019), based on a predatory state, so-called state capture and high-level corruption.

Whereas it is certainly fundamental to maintain open the institutional prospective of future membership as general framework for EU-Western Balkan cooperation, this should be urgently supplemented with more a progressive political agenda to navigate through these doomy and gloomy days. After two decades of sobering results in the process of Europeanisation of the region, it is clearly not enough to simply renew political will and commitment. Political will should go hand in hand with an EU enlargement strategy that has a strong developmental component, that could, therefore, be realistically expected to have a significant impact on deteriorating structural problems that have indeed for many years impeded a faster process of socio-economic convergence of the Western Balkans towards Western standards.

Failing economic and political convergence in the Balkans

Since the launch of the EU Stabilisation and Association Process (SAP) in 1999, following the rich experience of Central and Eastern European and the Baltic states in the 1990s, the Western Balkan countries have largely privatised and liberalised their economies, along with partially aligning their national legislations with the EU *acquis* and gradually integrating into the EU single market. The aim of economic, political and institutional reforms, that accompanied market opening and trade re-orientation in the Western Balkans, was to create functioning market economies and consolidated democracies. This should have helped Western Balkan countries to economically and politically converge with the EU and replicate the success of the other ten former socialist countries that joined the European Union (EU) between 2004 and 2007.

However, the application of the same model to the war-torn Western Balkans proved to be considerably less successful than in Central and Eastern Europe in both its economic and political dimension (BiEPAG 2017; Milanović 2014). 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 (Keil and Arkan 2015). Today, twenty years after the launch of the SAP for the Balkans, not only has the EU enlargement policy failed to deliver satisfactory results, but it has arguably become an obstacle for a swift transformation of the region (Bonomi, Hackaj and Reljić 2020). Of all the countries that were included in the EU SAP, only Croatia has become an EU member state in 2013.

The sobering results of the model of EU enlargement in the Western Balkans can be epitomised in its economic (but also political) dimension, by looking at data on their pre-transition GDP recovery (authors calculations based on EBRD and IMF data, see Bonomi 2020). In this respect, it is stunning to note how two countries in the region, Serbia and Bosnia and Herzegovina, have still not reached their 1989 real GDP level, standing respectively at 85 and 98 per cent of their pre-transition 1989 real GDP. Montenegro and North Macedonia did a little better, overcoming their 1989 real GDP in 2008 and 2016 respectively, and arriving to around 114 and 130 per cent in 2019. Only Albania has followed a radically different path, since it has more than doubled its real GDP in less than thirty years. This can be explained by Albania's worse economic conditions in 1990 – a much lower level of economic development than in the other Western Balkan countries – and a more stable political environment (avoidance of military conflicts).

The limits of the transition blueprint offered to the Western Balkans were evident already in the early 2000s. Since the beginning of the transition to a market economy and multiparty democracy, the countries in the region have achieved remarkable growth rates only during a very short period between 2001-2008. Nevertheless, even that phase of strong growth in the region, on average over 5 per cent, has proved to be largely unsustainable, as shown by the tough adjustments required in the post-2008 period (Becker et al. 2010). The rapid market opening and economic integration with the EU, which began in the early 2000s and which brought some foreign – mainly EU – capital into the region, have primarily fostered domestic consumption while having only a limited impact on the restructuring and modernisation of

the real sector of the Western Balkan economies. In fact, these reforms led to insufficient job creation, continuous deindustrialisation, the widening of trade and current account deficits, and rising public and private debts (Bonomi and Reljić 2017).

Moreover, the unsustainability of the growth model applied in the Western Balkans became fully evident after the global financial and economic crisis of 2008, that quickly spilled over from the EU to the Western Balkans, causing profound economic and social stress. 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 in external debt (Bartlett and Uvalić 2013). At the same time, these austerity policies have been accompanied by democratic decline and a new form of nationalism and authoritarianism, which have spread further in the meantime.

Since the 2008 financial and economic crisis, the process of economic convergence of Western Balkans countries towards the EU27 has been proceeding extremely slowly or has even stopped. Over the past decade, the income gap between most Western Balkan countries and the new EU member states has even increased.

The Western Balkans remain among the poorest regions in Europe, with GDP per capita in 2018 between 30 and 40 per cent of EU27 average GDP per capita (in Purchasing Power Standards - PPS), but excluding Kosovo (due to unavailability of data) that is even less developed; only Montenegro, a small and increasingly indebted country, has reached 48 per cent of the EU27 average GDP per capita. For comparison, the other former socialist countries that are member states of the EU - Lithuania, Estonia, Slovenia and Czech Republic – today account between 81 and 91 per cent of EU27 average GDP per capita; Hungary, Poland and Slovakia, between 71 and 74 per cent; Croatia, Romania and Latvia between 63 and 69 per cent; while only Bulgaria remains close to the Western Balkans at 51 per cent of EU27 average GDP per capita (data from Eurostat).

Particularly worrisome are the unsatisfactory developments in Bosnia and Herzegovina and Serbia, two countries that are of utmost political importance for regional stability. The lack of fundamental progress regarding key political issues and slow economic development in these two countries, that together account for more than half of Western Balkan populations, means that the larger part of the region's population has lived in societies that have not seen any substantial improvements in living standards for over a decade.

All in all, almost two decades of EU-Western Balkan economic integration (through increasing trade, FDI, finance, adoption of legislation based on the *acquis communautaire*) have led to strong multiple links with the EU economy, but increasing integration has also amplified the dependence of the region on the EU. This reorientation has also rendered the Balkan economies much more vulnerable to external shocks coming from the EU, but without any amortisation mechanisms, something that is particularly important today in light of the current Covid-19 crisis.

The prolonged economic regression of the Western Balkans, marked by the deterioration of many socio-economic indicators, is among the main causes of the failures of the domestic

governance reforms and the EU policies in the region. Poverty and income inequality are the defining characteristics of the social fabric of the Western Balkans. 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 among the few privileged by wealth, find themselves at the mercy of the incumbent rulers for access to decent employment, education, medical services and other public goods. While the existence of a middle class with a stable income and no dependency on external powers is not a guarantee for democracy and rule of law, it certainly does represent a necessary precondition.

Challenges of EU enlargement to the Western Balkans

The outbreak of the Covid-19 pandemic has put to test the solidarity among Europeans and, for good or bad, it could also be a turning point in the relations between the EU and enlargement countries in the Western Balkans. On the one hand, today's crisis has undoubtedly strengthened even more the need for a common agenda between the EU and the Western Balkans, and the urgency to include the latter into the EU common response to the pandemic. On the other, what remains peculiar of the Western Balkans is that, due to their lack of formal EU membership, their participation in common responses is not automatic but requires specific political engagement – something that was well illustrated by EU's initial hesitation at the beginning of the pandemic, when the Western Balkans were included in EU's export ban for medical equipment.

Aside from finding common responses to the immediate health emergency, it will be crucial to include the Balkans into the EU economic recovery plan, green and digital transitions, infrastructure investments, and so on. Today it is almost unthinkable for the Western Balkans, as it is for EU member states, to act alone and successfully in all these fields. Moreover, the pandemic is likely to further exacerbate structural problems of the Western Balkan economies, which were there well before 2020. Many structural problems have not been addressed adequately, posing serious challenges and impediments for post-pandemic recovery and growth.

Not all the Western Balkan countries will be affected in the same way, as there are different degrees of vulnerabilities and channels of transmission of the current crisis. Countries highly dependent on services' exports, such as Albania, Kosovo and Montenegro, are probably more vulnerable to immediate shocks, in light of substantial losses in tourism during the summer season. Countries relying more on merchandise exports, such as Bosnia and Herzegovina, North Macedonia and Serbia, are likely to experience a strong decline in demand for some durable goods, so the effect could last longer, depending to a large extent on the path of recovery in core EU countries such as Germany and Italy.

All Western Balkan countries will experience strong effects of the pandemic on their labour markets, particularly considering specific long-term features: a high share of informal, temporary and self-employment, together with very weak social safety nets. Therefore, most countries are likely to assist a further worsening of labour market indicators, which could additionally contribute to already accumulated social and political tensions.

Finally, the intensity and length of the recession within the EU will be a major driver of the current and future economic crises and gradual recovery in the Western Balkans. This region is strongly dependent on the EU through multiple linkages – trade, investment, finance, banking, migrants’ remittances. The substantial drop in external trade, foreign direct investment and financial flows during the pandemic will pose serious challenges to the Western Balkan governments regarding the financing of their trade and current account deficits in the future.

In the absence of a major intervening factor – hopefully, from the EU, as the Western Balkans’ major ally – it is likely that we could assist something that we have already seen after the global financial and economic crisis: an initial soaring of public budget deficits to sustain supply and demand and an increase in foreign indebtedness, before turning to tough austerity policies, cutting internal consumption and increasing competition to attract external investments of EU firms through a race to the bottom in regulatory standards and non-transparent investment deals with third countries.

In this regard, while the ‘Zagreb Declaration’ adopted on 6 May 2020 was a good start – mobilising a package of over 3.3 billion euros to support the immediate responses of the Western Balkans in tackling the pandemic and the post-pandemic economic recovery (European Commission 2020b) – the ‘Economic and Investment Plan for the Western Balkans’ presented by the European Commission on 6 October (European Commission 2020c) is somewhat less encouraging. The Commissions’ economic investment plan for the Balkans, which was strongly wanted and announced in many occasions by the new EU Commissioner for Neighbourhood and Enlargement Olivér Várhelyi, originates in the context of the difficult negotiations and adoption of the Multiannual financial framework (MFF) for 2021-2027 and Next Generation EU. While the preparations for the new cycle of EU pre-accession assistance (IPA III) suggest only minor cuts in comparison to Commission’s May 2018 proposal, the MFF clearly fails to adapt to the post pandemic reality in the Balkans. As is the case for almost all other voices within the “Heading 6 - Neighbourhood and the World” of the EU multi-annual budget, EU recovery plans and internal cohesion among the 27 member states seems to have been prioritised at the expenses of longer-term goals and ambitions (Käppeli and Gavas 2020).

In addition to the health, social and economic emergency, the challenges within the EU and the Western Balkans overlap regarding another important issue: European democratic values. The national responses to the pandemic have certainly put into an even starker light the path toward authoritarianism of some Western Balkan countries. In this regard, that the Covid-19 crisis came in parallel with Freedom House’s downgrading of both Serbia and Montenegro – from ‘semi-consolidated democracies’ to ‘hybrid regimes’, to join the regional group – is not without some symbolism. It signals the culmination of a period of over ten years in which the 2000s wave of democratisation in the Western Balkans has been completely exhausted and to a great extent reversed, thus substantiating a major risk of the consolidation of undemocratic regimes.

Against this background, the so-called ‘new enlargement methodology’ (European Commission 2020a), that offered some hope on frontloading fundamentals in the enlargement negotiations, appears already as having simply been instrumental for

overcoming the French veto and opening accession negotiation with Albania and North Macedonia.

Despite some positive aspects (see Bonomi, Merja, Töglhofer and Reljić 2020), the methodology itself cannot revolutionise the EU enlargement process. At the end – and this is to state the evident – whatever the methodology, no amendment to the process can replace the political will on both sides, to reform on the one hand, and to enlarge on the other. In this regard, what unfortunately appears more and more the elephant in the room, is the different sensitivities among the member states on the issue of the rule of law, which certainly affects ongoing reforms in the Western Balkans, together with the credibility of the offer of EU membership, that needs unanimity among the member states.

These challenges to consolidate democracy have, in fact, characterised all of Central and Eastern Europe since the global economic and financial crisis. Evidently, the Balkans' vicissitudes are intimately interlinked with the fight for the defence of the rule of law and (liberal) democratic values within the EU as the DNA of the EU integration project, making the Balkan countries one of the frontlines of the 'rule of law battle'.

To reverse these trends, the EU should have the political will to put together the rule of law, and economic and human development, as top priorities that go hand in hand. In fact, there cannot be rule of law without economic development, but neither can there be economic development – in the Balkan context – without the rule of law. Therefore, there are no shortcuts: democratic political culture should be frontloaded and defended, while in EU-Western Balkans relations, linkages to the reform process should always be present, despite immediate frictions this could bring with local leadership.

Lastly, engaging with the Balkans corresponds to the fundamental need of reaffirming European unity and cohesion in front of external actors and within an (increasingly) challenging global environment. Defending the survival and further development of democratic culture and decent economic conditions in the Western Balkans is not only a moral duty of the EU, it is also in its own fundamental political and economic interest: contributing to the ongoing process of EU consolidation and reorganisation within an increasingly challenging global environment.

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