Dynamics of Regionalism in the Post-Cold War Era: The Case of Southeastern Europe

Daphne Papahadjopoulos

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European Institute, The London School of Economics and Political Science

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ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

To my uncle Demetrios Papahadjopoulos
Who would have been so pleased

Abstract

The thesis seeks to understand why in the post-Cold War era regionalism in Southeastern Europe has been largely ineffective. First, it examines the theoretical preconditions for the emergence of the phenomenon. It finds that two separate levels of analysis exist for explaining its sources, namely the international - divided between rationalist and reflectivist schools - and the domestic. Rationalist schools of thought are arranged along a continuum between those focusing on sources of regionalism external (systemic) and internal to regions. Subsequently, the research project provides a historical perspective of cooperation in Southeastern Europe. It finds that in the nineteenth and twentieth centuries, regional schemes did not succeed because of the fragmentory role of external factors - namely the intervention in descending order of the Great Powers, Germany and the Superpowers - as well as Balkan nationalisms.

The thesis argues that in the post-Cold War era regional cooperation initiatives, such as the SEECP, the Royaumont Proces, SECI and the SPSEE, have also been ineffective due to external and domestic reasons. On the one hand, while promoting regional cooperation initiatives in Southeastern Europe, the EU has at the same time pursued differentiated integration and bilateral policies with Balkan states which further contribute to the region's heterogeneity and generate centrifugal dynamics. On the other hand, intra-national prerequisites for the emergence of regionalism are absent. These include the retarded state and nation-building process of Yugoslav successor states and entities as well as domestic economic conditions related to the delayed transition in the 1990s.

The methodology of the study places the thesis within the literature of International Relations. Systemic theories and domestic political and economic reasons are used to explain the failure of regional cooperation in Southeastern Europe. The research project introduces the concept of 'stateness' - generally referred to in the democratisation literature as state and nation-building or 'third transition'- to the domestic explanations for the lack of regionalism as well as a neo-liberal aspect to the traditional state-centric external approach to regional cooperation.

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List of Abbreviations

AA - Association Agreement
AII - Adriatic Ionian Initiative
AP – Accession Partnership
APEC - Asia Pacific Economic Cooperation
AREA - Agenda for Regional Action for Refugees and Displaced Persons
ASEAN - Association for South East Asian Nations
ATP – Autonomous Trade Preference
BAC - Business Advisory Council
BALT - Balkan Arms Limitation Talks
BEAC - Barents Euro-Arctic Council
BiH - Bosnia-Herzegovina
BSEC - Black Sea Economic Cooperation
CACM - Central American Common Market
CAM-K – Customs Assistance Mission (Kosovo)
CAP - Common Agricultural Policy
CARDS - Community Assistance for Reconstruction, Development and Stabilisation
CARICOM - Carribean Community
CBSS - Council of Baltic Sea States
CCD - Conference of the Committee on Disarmament
CEECs - Central and East European Countries
CEFTA - Central European Free Trade Agreement
CEI - Central European Initiative
CET - Common External Tariff
CFE - Convetional Forces Europe
CFSP - Common Foreign and Security Policy
CIS - Commonwealth of Independent States
CLNM - Constitutional Law on National Minorities
CoE - Council of Europe
CMEA -Council of Mutual Economic Assistance
CSBMs - Confidence and Security-building Measures
CSSC - Conference for Security, Stability and Cooperation
DPPI - Disaster Preparadness Prevention Initiative
EA – Europe Agreement
EAPC - Euro-Atlantic Partnership Council (NATO)
EBRD - European Bank for Reconstruction and Development
ECSC - European Coal and Steel Community
ECOWAS - Economic Community for West African States
EEA – European Economic Area
EEC – European Economic Community
EIB - European Investment Bank
EPU – European Payments Union
ERP -European Recovery Programme

ESAF – Enhanced Structural Adjustment Facility
ESDP - European Security and Defense Policy (EU)
EU - European Union
EUPM - European Union Police Mission in Bosnia-Herzegovina
FBiH – Federation Bosnia-Herzegovina
FDI - Foreign Direct Investment
FRY - Federal Republic of Yugoslavia
FTA – Free Trade Agreement
FYROM - Former Yugoslav Republic of Macedonia
GFAP - General Framework for Peace in Bosnia-Herzegovina
HDZ - Croatian Democratic Community
HLSG - High Level Steering Group (SP)
IFI - International Financial Institution
IFOR - Implementation Force
IMF - International Monetary Fund
ISDL - International Socialist Division of Labour
ITFY – International Tribunal for Former Yugoslavia
KFOR - Kosovo Force (NATO)
KLA - Kosovo Liberation Army (UCK)
LAFTA - Latin American Free Trade Association
MAI - Migration and Asylum Initiative (SP)
MAP - Membership Action Plan (NATO)
MEBO – Management Employee Buyout Company
MERCOSUR - Mercado Comun del Sur
MPFSEE - Multinational Peace Force South-East Europe
MoU - Memorandum of Understanding
MRF – Movement for Rights and Freedoms
NACC - North Atlantic Cooperation Council
NAFTA - North Atlantic Free Trade Area
NATO-North Atlantic Treaty Organisation
NGO - Non-Governmental Organisation
NLA - National Liberation Army
NRA - New Regionalism Approach
NSC - National Security Council
NTB - Non-Trade Barriers
NWFZ - Nuclear Weapons Free Zone
OECD -Organisation for Economc Cooperation and Development
OSCE - Organisation for Security and Cooperation in Europe
PfP - Partnership for Peace (NATO)
PHARE - Poland Hungary Aid for Reconstruction of the Economy
PIC - Peace Implementation Council
PPP – Purchasing Power Parity
QSP - Quick Start Package (SP)
RACVIAC - Regional Army Control Verification and Implementation Assistance Centre
REM - Regional Electricity Market

REPR - Regional Environmental Reconstruction Programme
RMASH - Regional Mine Action Support Group
RRI - Regional Return Initiative
RS – Republica Srpska
RSP - Regional Strategy Paper
SAA-Stabilisation and Association Agreement
SADC - Southern African Development Community
SALW - Small Arms and Light Weapons (SP)
SAP- Stabilisation and Association Process
SEATO - South East Asian Treaty Organisation
SECI - Southeast European Cooperative Initiative
SEDM - Southeast European Defense Ministerial
SEEBRIG - Southeast European Brigade
SEECAP Southeast Europe Common Assessment Paper (NATO)
SEECP - Southeast European Cooperation Process
SEECs - South East European Countries
SEEGROUP – South East Europe Security Cooperation Group
SEEI - South East Europe Initiative
SFOR - Stabilisation Force (Bosnia)
SFRY - Socialist Federal Republic of Yugoslavia
SGSR – Secretary General's Special Representative
SMEs - Small and Medium Size Entreprises
SPSEE - Stability Pact for South Eastern Europe
SPAI - Stability Pact Anti-Corruption Initiative
SPOC - Stability Pact's Initiative agains Organised Crime in Southeast Europe
SRSG - Special Representative to the Secretary General (UN)
TBTs - Technical Barriers to Trade
TCA - Trade and Cooperation Agreement
TTFSE - Trade and Transport Facilitation in Southeastern Europe
UN - United Nations
UN-ECE - UN Economic Commission for Europe
UNHR- United Nations High Representative
UNHCR - United Nation High Commissioner for Refugees
UNMIK - United Nations Mission for Kosovo
UNMOP - UN Mission of Observers in Prevlaka
UNPREDEP – United Nations Preventive Deployment Force
UNSC – United Nations Security Council
VER - Voluntary Export Restraint
WB - World Bank
WEU - Western European Union
WTO - World Trade Organisation
WTO – Warsaw Treaty Organisation

Chapter 1

Introduction

1.1 Background

The post Cold War period has seen a resurgence of regionalism in international relations manifested through increased inter-state agreements at regional levels as well as a thickening in transnational flows of interaction in various sectors such as migration. Compared to the first wave of regionalism which, prompted by the emergence of the European Communities in the 1950s and decolonisation in the 1960s, focused on issues of economic integration in the industrialised and non-industrialised world as well as security alliances, the contemporary phenomenon labelled "new regionalism" is more diverse and multi-dimensional in character emphasising social, political and cultural aspects and involving many actors and levels of cooperation in 'high' and 'low' politics (Hettne and Sodenbaum, 1998).[1] In addition, 'new regionalism' accommodates diverse groups of states with different sizes, governmental systems and economies and often bridges the North-South divide (Gruegel and Hout, 1999).[2]

The 'new regionalist' trend has been particularly evident in Europe, previously the main area of bipolar competition andhas taken primarily two forms. On the one hand, already established regional organisations such as the European Union (EU), the Council of Europe

[1] According to Hettne and Sodenbaun "*New Regionalism is a comprehensive multifaceted and multidimensional process, implying the change of a particular region from relative heterogeneity to increased homogeneity with regard to a number of dimensions, the most important being culture, security, economic policies and political regimes*" (Hettne and Sodenbaum, 1998: 7).

[2] Regionalism is generally viewed as a phenomenon through which all the parties involved are expected to benefit although increased interdependence may eventually lead to a conflict of interests.

(CoE), the North Atlantic Treaty Organisation (NATO) and the Organisation for Security and Cooperation in Europe (OSCE) are undergoing processes of deepening and widening (enlargement). On the other hand, new sub-regional organisations have emerged in various geographical parts of Europe stretching from the Baltic to the Black seas, such as the Council of Baltic Sea States (CBSS), the Barents Euro-Arctic Council (BEAC), the Central European Initiative (CEI) and the Black Sea Economic Cooperation (BSEC). Their aim is to contribute to security and confidence-building among neighbouring countries, foster cooperation in various areas, ease post-communist transition as well as prepare countries of integration into the European Union (Cottey, 1999).

As a conflict-prone zone, Southeastern Europe is a test case for "new regionalism'.[3] In the post-Cold War era, the Balkans have witnessed the emergence of a series of regional initiatives. These include the Royaumont Process for Good Neighbourly Relations which accompanied the signing the of Dayton Accords in 1995, the Conference on Stability, Security and Cooperation of Southeastern Europe (CSSC) and the Southeast European Cooperative Initiative (SECI) established 1996, the Multinational Peace Force for South-Eastern Europe (MPFSEE) created in 1998 as well as the Stability Pact for Southeastern Europe (SPSEE) and the South East European Initiative (SEEI) founded in the aftermath of the bombing campaign against Yugoslavia in 1999.[4] Overlapping the region but not exclusive to it are also the CEI and the BSEC, both established in 1992 (Kearns and Hook, 1999).

Regional schemes have been promoted in the Balkans as a means of achieving stability and

[3] The term *Southeastern - or South East - Europe* will be used interchangeably with the term *Balkans* to imply the wider geographical region comprising of contemporary Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR Macedonia, Greece, Romania, Serbia-Montenegro and Turkey.

[4] The Conference on Stability, Security and Cooperation (CSSC) was renamed Southeast European Cooperation Process (SEECP) in 1999.

security through the strengthening of good-neighbourly relations and the resolution of bilateral disputes, the introduction of confidence and security-building measures (CSBMs), military cooperation and the harmonisation of defense and crisis-management related issues. They have been viewed as a way of addressing common problems, such as transport and energy infrastructure, the environment, post-war reconstruction, cross-border cooperation and organised crime. They have also been considered as a means for promoting the creation of vibrant market economies, regional economic cooperation, democratic political processes, unimpeded contact among citizens as well as the protection of minorities (SECI, 1996, EU, 1998; SPSEE, 1999; SEEI, 1999; SEECP, 2000).[5]

Despite some significant achievements such as increasing levels of societal interaction in the region by bringing together state and non-state actors and putting in place various infrastructure projects and a series of bilateral free trade agreements (FTAs), the effectiveness of regionalism, however, has been questioned as stability and security was not achieved in the region in the post-1995 era. To illustrate, violence broke out in Kosovo in June 1999 and March 2004 and FYR Macedonia in March 2001.[6] In addition, the further fragmentation of the Federal Republic of Yugoslavia (FRY) was only prevented by outside mediation which promoted the creation of the State Union of Serbia and Montenegro in March 2003. Finally, regional schemes have not addressed Southeastern Europe's developmental problems as indicated by the continued macro and micro-economic

[5] To illustrate, according to the *Charter of Good-Neighbourly Relations, Stability, Security and Cooperation in Southeastern Europe*, the primary objective of SEECP is "*to strengthen good-neighbourly relations among all states in the region so as to transform it into an area of peace, security, stability and cooperation*" (SEECP, 2000: Article I). Similarly, the Stability Pact stressed the aim of "*strengthening countries in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region.*" (SPSEE, 1999: 2).

[6] Although the constitutional name of the country is 'Republic of Macedonia', it was the term Former Yugoslav Republic of Macedonia (FYROM) that was officially used as a basis for its entry into the UN in 1993 subsequent to Greece's objections to its use. This thesis will use the term FYR Macedonia to refer to the country in question.

instability and lack of sustainable growth of many countries undergoing transition to market economies, especially in the Western Balkans. [7]

1.2 Research Question and Structure of the Thesis

In light of the faith attributed to regionalism in the Balkans as a solution to instability and conflict, the purpose of the research project is to examine **why in the post-Cold War era the promotion of regional cooperation in Southeastern Europe has been largely ineffective.** It is an important project for PhD research given that subregional cooperation has been identified by the international community as one of its main policies towards the region and significant funds have been allocated to its implementation. To illustrate, at the regional conferences of March 2000 and October 2001 donors pledged Euros 2,4 and 3 billion respectively for the Stability Pact's projects in the region (Anastasakis and Bojicic, 2002: 24). Moreover, the question merits doctoral attention as regionalism is considered to be a major facilitator for Southeastern Europe's European and Euro-Atlantic integration (SECI, 1996 1; SPSEE, 1999: Objectives; SEECP, 2001: Article I).[8]

In order to understand why regional cooperation in Southeastern Europe has been largely ineffective since 1995, it is first essential to examine the theoretical preconditions for the emergence of regionalism. The study of regionalism has a rich theoretical tradition behind it and a significant emergent debate as a dominant topic in the literature of International Relations and International Political Economy. Chapter 2, therefore, will be devoted to

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[7] Western Balkans is an appellation given by the EU to the region comprising Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia and Serbia-Montenegro.

[8] To illustrate, in the *Charter of Good Neighbourly Relations, Stability, Security and Cooperation* signed in Bucharest in February 2000 it is stated that " *We aim to create a Southeastern Europe whose future lies in peace, democracy, economic prosperity and full integration into European and Euro-Atlantic structures*" (SEECP, Article 1).

surveying the literature on international regions and regionalism in order to define key concepts and approaches to be employed in the study.[9]

It will find that two separate levels of analysis exist for explaining the sources of contemporary regionalism, namely the international, which is divided between rationalist and reflectivist theories, and the domestic (Hurrell, 1995). Rationalist theories are divided between those focusing on sources internal or external to the region. The internal dynamics approach, which is dominated by integration theories, regards bureaucracies, political parties or trade unions as principal regional actors and links them to regional institutions (Mitrany, 1975; Haas, 1964; Deutsch, 1957; Keohane, 1989). The external approach concentrates on the role of states and firms in influencing regionalism (Waltz, 1979; Ohmae, 1995).[10] Reflectivist theories are characterised by emphasising the interpretation of actors as central to the process of cooperation (Wendt, 1994; Adler, 1997). Finally, domestic explanations of regionalism include intra-national structural factors such as types of regimes ('democratic peace' thesis), state coherence, sustained economic dynamics as well as state-society relations related to policy preferences (Doyle, 1997; Milward, 1992; Hettne, 2001; Busch and Milner, 1994).

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[9] The only previous attempt to evaluate Balkan cooperation attempts in a theoretically informed manner was made in *Small States and Security in the Balkans* (Braun, 1983). Braun found that during the Cold War *'concordisation'*, a concept that he identified with a pre-pluralistic security community, was *'perceptible but barely so'* among Balkan states (Braun, 1983: 273). All other literature on the subject has been limited to historical accounts of specific schemes, both prior and subsequent to the emergence of regional theory. These include *The Balkan Conferences and the Balkan Entente* (Kerner and Howard, 1936), *Balkan Union: A Road to Peace in Southeastern Europe* (Geshkoff, 1940), *Balkan Federation* (Stavrianos, 1964), *The Balkan Triangle: Birth and Decline of an Alliance across Ideological Boundaries* (Iatrides, 1968), *Balkan Cooperation and European Integration* (Wallden, 1994) and, more recently, *Regional Initiatives in Southeastern Europe* (Lopandic, 2001).

[10] An important body of literature regarding international factors that generate regionalism operates between the internal and external schools of thought. For the 'security complex' theory regional developments are determined by the internal dynamics of the subsystem in conjunction with external influence (Buzan, 1983).

Subsequently, the thesis will provide a historical perspective of regionalism in the Balkans. Chapter 3 will examine the regional projects that were undertaken in the region in the nineteenth and twentieth centuries and analyse the reasons for their failure. The analysis will provide a picture of the region prior to the initiation of the post-Cold War region-building process and consider the legacy of cooperation attempts and lessons from the past. It will be argued that all efforts towards regional cooperation, such as the Balkan Leagues in the nineteenth and early twentieth century, the Balkan Conferences of the 1930s, the Balkan Federation, the Balkan Pact, Balkan Arms Limitation Talks (BALTs) and the second series of Balkan Conferences during the Cold War, failed to produce concrete results because of the fragmentary role of Balkan nationalisms as well as the external factor, namely the Great Powers in the late nineteenth and early twentieth century, Germany in the interwar period and the US and the Soviet Union during the Cold War.

In Chapter 4 the thesis will consider how regionalism has been promoted in Southeastern Europe in the post-Cold War era. It will assess regional cooperation initiatives in which Balkan states have been included, such as the Royaumont Process, SECI, SEECP, the SPSEE, the MPFSEE and the SEEI, in order to evaluate what modalities of regionalism they have introduced and what has been their impact. It will find that most initiatives promoted a combination of activities on a high political level (inter-state) and concrete measures that are of programmatic use for the economies and societies of member-states. They have significant organisational flexibility and accommodate countries at different levels of development.

In addition, they have created special legal instruments, the Memoranda of Understanding (MoUs), which provide 'soft law' cooperation in the region. Finally, regional schemes encourage cooperation among business and other professional circles, facilitate

communication and create networks of contacts and institutions. As such, they are contributing to the emergence of a regional identity and creating a sense of a Southeastern European community through increased societal interaction. In addition, the use of the term *Southeastern Europe* denotes a political project aimed at overcoming the pejorative legacy of the term Balkans (Bechev, 2001: 1).[11]

Most initiatives, however, have not had significant visible results. To illustrate, despite putting in place a series of bilateral Free Trade Agreements (FTAs) and certain infrastructure schemes as well as promoting a Regional Electricity Market in the Balkans, the Stability Pact has not addressed the region's developmental problems and has acted merely as a forum for the registration of projects (Gligorov, 2002). Similarly, although it saw the signing of a Charter on Good-Neighbourly Relations and an Action Plan for Regional Economic Cooperation, the SEECP has not yet gone beyond the declaratory stage of its development (Tsardanides, 2001).

The absence of practical results of regional initiatives has been attributed to the lack of institutionalisation that would provide enforcement mechanisms. In addition, most schemes do not have independent budgets and depend primarily on loans from International Financial Institutions (IFIs). Moreover, their activities are often duplicated as they have lacked coordination and competition has often emerged, such as between the SECI and the Stability Pact. Finally, some Southeastern European countries such as Croatia showed scepticism towards joining regional schemes for fear that they would endanger their prospects for European integration.

[11] The word *Balkan* derives from the Turkish word for 'wooded mountain'. It is also the common Turkish name for the largest mountain range in the peninsula traversing Bulgaria (Stara Planina in Bulgarian or Aimos in Greek). The use of the term to imply the Balkan peninsula was introduced in 1808 by the German geographer Johann August Zeune and arose from the misconception that this mountain range stretched from the Black Sea to the Adriatic coast. In the twentieth century, the word acquired a pejorative connotation and 'balkanisation' came to imply fragmentation and war (Glenny, 1999: xxxii).

Chapter 5 will turn to an examination of EU bilateral policies in Southeastern Europe in order to assess other external/systemic pressures on the region. It will find that while promoting subregional cooperation in the Balkans, the European Union has at the same time been pursuing differentiated integration with Southeastern European countries, thus exacerbating dividing lines in the region and promoting centrifugal dynamics.[12] To illustrate, Bulgaria and Romania have been involved in the enlargement process since the mid-1990s through Europe Agreements (EAs) and their participation in the Central European Free Trade Agreement (CEFTA) which granted them gradual liberalisation of trade and a means through which to adopt the rules and regulations of the Internal Market. They have also been included in the Pan-European Free Trade Area since 2001. Having signed Accession Treaties with Brussels in 2003, Bulgaria and Romania are expected to join the Union in 2007.

The Western Balkan countries, however, were not granted EAs but have since 1999 been included in the Stabilisation and Association Process (SAP) which includes asymmetrical trade liberalisation, financial assistance and support for democratisation as well as cooperation in fields such as justice and home affairs. Within the Western Balkans, differentiation is even greater with countries such as Croatia and FYR Macedonia having applied for membership and signed Stabilisation and Association Agreements (SAAs) with the EU in 2001, Albania negotiating one and Bosnia-Herzegovina and Serbia-Montenegro not yet been deemed capable to do so.[13]

In addition, as envisaged by the 1964 Association Agreement (AA), Turkey established a

[12] Similarly, although NATO promoted regional cooperation through the SEEI and the MPFSEE, its contractual relations with Balkan countries were based on the Partnership for Peace (PfP) Agreements. In addition, Bosnia-Herzegovina and Serbia-Montenegro have not yet signed the PfP Framework Document with the Alliance, thus further contributing to heterogeneity in the security sector.

[13] In addition, Croatia was granted candidacy by the EU during the Brussels European Council of June 2004.

Customs Union with the EU in 1996 which embodies elements of both *deep* and *shallow* integration and is introducing the country to Single Market legislation.[14] After the 1999 Helsinki European Council, Ankara was also granted candidate status by the European Union. Until 2003, however, the country had not been deemed capable to initiate negotiations for membership given its lack of progress in satisfying the political criteria set out at the European Council of Copenhagen in 1993.

Chapters 6 of the thesis will consider the domestic political obstacles that obstruct the emergence of regionalism in Southeastern Europe. It will be argued that the problem of 'stateness' in the former Yugoslav space has been a key obstacle to regional cooperation given that in the theoretical chapter it will be shown that the viability of states is a key prerequisite for successful regionalism (Linz and Stepan, 1996).[15] The process of state and nation-building in the Yugoslav success states and entities in the post-Cold War era, namely Bosnia-Herzegovina, Croatia, the FRY – succeeded by Serbia and Montenegro - Kosovo and FYR Macedonia, will therefore be examined.

Created by the Dayton Peace Agreement in December 1995, in the post-Cold War era Bosnia-Herzegovina faced the greatest difficulties of all Yugoslav successor states in state and nation-building. Set up as an 'asymmetric confederation' between two entities - the Federation Bosnia-Herzegovina (FBiH) and the Serb Republic (RS) - and three nations (Croats, Serbs and Bosniaks), the central state lacked effective sovereignty and common

[14] Turkey has abolished its tariff protection against the EU for all industrial and processed agricultural goods (shallow integration) and is also addressing new regulatory areas such as competition policy, technical barriers to trade (TBTs) and other administrative procedures (deep integration) (EU, 1996). Agriculture and the free movement of labour and capital, however, are not yet covered by the agreements that guide EU-Turkish relations.

[15] In the words of Linz and Stepan, "*when there are profound differences about the territorial boundaries of a political community's state or about who has the right of citizenship in that state, there is what we call a 'stateness' problem*" (Linz and Stepan, 1996: 16).

decisions were difficult to implement. In addition, although internationally recognised, *de facto* the country has not been sovereign as it does not have the monopoly of legitimate coercion such as a Bosnian army. The structure of the state is constitutionally guaranteed by the presence of an international army - the Stabilisation Force (SFOR) - and at the few joint institutions foreign nationals are appointed. The expansion of the role of the international community after 1997 disempowered Bosnian institutions, weakening state and entity bodies central to unifying society and reinforcing ethnic identification (Chandler, 2001).

In the post-Cold War era, Croatia's 'stateness' problem was primarily related to the status of the Serbian minority which constituted 12% of the country's population before the war but was expelled from Krajina during the final stages of the campaign against Belgrade in the summer of 1995. Although since the death of Franjo Tudjman in 1999 Croatia has undertaken a transition towards liberal democracy and was even granted candidate status by the European Commission in June 2004, the country still needs to resolve border issues with neighbouring countries and accelerate efforts to facilitate the return of refugees from Serbia-Montenegro and Bosnia-Herzegovina as recognised by the Commission's Opinion of April 2004 (COM, 2004: 257).

Comprising of Serbia and Montenegro, in the post-Cold War era uncertainty also characterised the FRY the constitutional structure of which was challenged by Montenegrin separatism. Under international pressure, Belgrade and Podgorica formed the State Union of Serbia and Montenegro in March 2003. It is a loose federal structure in which the common state has limited competences such as foreign affairs. The implementation of the Constitutional Charter of the State Union of Serbia and Montenegro, however, has been problematic and many delays have become apparent in important reforms such as the Law on Minorities. In addition, the Constitutional Charter has not clarified Kosovo's unresolved

status problem or the relationship between the federal and republican levels within Serbia.

Kosovo's 'stateness' problem is related to irreconciliable differences over its territorial boundaries and status. A full protectorate of the international community since the end of the bombing campaign against FRY in June 1999, Kosovo's unresolved status problem derives from the fact that UN Resolution 1299, upon which the United Nations Interim Administration's mandate is based, introduced an intentional ambiguity supporting both "*substantial self-government for Kosovo and the territorial integrity of the Federal Republic of Yugoslavia*" (UN Resolution 1299: Annex 1).[16] In addition, although the Constitutional Framework for Self-Government in Kosovo signed in May 2001 granted many competences to local institutions in an attempt to create a self-administered political unit, it has failed to make power-sharing a reality or provide for a revision of the status problem. Meanwhile, incidents against minorities continue to take place culminating in the renewed outbreak of violence in March 2004.

Finally, in the post Cold War era, FYR Macedonia's 'stateness' problem has been related to the strained inter-ethnic relations between the Slav Macedonian majority and the ethnic Albanian minority as a result of the exclusionary citizenship and language policies of the Macedonian state. Although subsequent to the outbreak of violence in the country in 2001 a Framework Agreement was signed promoting collective and individual rights for the Albanian minority, many of the components of the accord have not been applied and the institutions of state have been granted strong ethnic qualifiers. Extremists, therefore, continue to pose a security threat and an ongoing partition between the two communities is also taking place despite the fact that the country applied for EU membership in March 2004.

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[16] Resolution 1244 has subsequently applied fully to Serbia-Montenegro as the successor state of the FRY.

Chapter 7 will analyse the domestic economic obstacles to regionalism in Southeastern Europe in the post-Cold War era in light of the fact that sustained economic dynamics will be argued in Chapter 2 to be a precondition for successful regionalism . It will find that in the post-Cold War era, Southeastern European countries were laggards in transition to market economies and confronted serious developmental problems that sapped growth. At the heart of the most significant economic problems were a number of internal constraints and inappropriate international assistance policies. Internal constraints included large trade, current account and fiscal deficits, high unemployment, deindustrialisation, incomplete privatisation and inadequate restructuring (Gligorov et al, 1999). In addition, international assistance policies often worsened external indebtedness by covering imbalances through capital inflows, such as foreign aid, granted on commercial terms (Kekic, 2001).[17]

Since the late 1990s, however, many countries in the region experienced a 'second transition' after pursuing structural change with more vigour. Whereas Bulgaria and Romania accelerated their economic reforms subsequent to being invited to initiate negotiations for EU membership at the Helsinki European Council in December 1999, Croatia also saw improved growth rates and micro-economic stability after the change of regime in 2000 and the signing of an SAA with the EU in March 2001. Other Balkan countries, however, still face significant macro-economic imbalances in their budgets, balance of payments and labour markets as well as a protracted process of deindustrialisation (BeCeI: 2003: 5). To illustrate, in 2003 Bosnia-Herzegovina and Serbia-Montenegro were still at slightly above half their 1989 GDP levels (EBRD, 2004: 16).

Finally, Chapter 8 will briefly recapitulate issues raised in the analysis and explore its policy

[17] The problem of dependency has been most acute in the case of Bosnia-Herzegovina (Kekic, 2001).

implications at greater length. It will question the available instruments for regional cooperation in the direction of strengthening the European perspective of the Western Balkan countries. It will argue that regional cooperation in the Balkans has no chance of being effective unless the problems of delayed nation-building and economic underdevelopment are addressed and the relationship between regionalism and integration is clarified. Involving the EU in the state and nation-building processes and economic transition of the Western Balkans as well as making regionalism endogenous to integration are, therefore, the best ways to enhance the effects of cooperation initiatives in the region.

1.3 Methodology

The thesis uses a single 'case study' approach with an emphasis on historical detail. Research is hypothesis-generating (Yin 1984). **The hypothesis put forward is that in the post-Cold War era the lack of effective regionalism in Southeastern Europe can be attributed to the insufficient mechanisms of implementation of primarily externally-driven regional schemes and the systemic pressures on the region by the EU's bilateral policies with Balkan countries as well as the delayed state-making of most Yugoslav successor states and the economic vulnerability of the region.** External (systemic) and domestic theories will be used to explain the failure of regionalism in Southeastern Europe in the post-Cold War era.[18]

Apart from the insufficient mechanisms of implementation of regional schemes, the external obstacles to regional cooperation refer primarily to the impact of the differentiated European integration process which created distortions and divisions and generated

[18] The external/domestic hypothesis is confirmed by the historical analysis in Chapter 3 which demonstrates that regional cooperation in Southeastern Europe was constrained by the interplay between Great and Super-Power policies towards the region as well as Balkan nationalisms throughout the nineteenth and twentieth centuries.

centrifugal dynamics in the region. Given that in the period under consideration the European (EU) system has been essentially inter-governmental with respect to its external relations, a liberal institutionalist approach is more appropriate for explaining the external constraints on regionalism in Southeastern Europe. Systemic explanations for the lack of regionalism will therefore introduce the region (EU) as an actor that can influence the emergence of the phenomenon thus contributing a neo-liberal aspect to the more traditional state-centric (neo-realist) outside-in approach to regional cooperation. [19]

Domestic obstacles to Balkan regional cooperation are primarily related to the retarded state and nation-building of former Yugoslav countries and the delayed transition to market economies. The thesis will contribute to the theory of regionalism the concept of 'stateness' which subsequent to the collapse of communism has been added to the literature on democratisation with respect to developments in Eastern Europe and the post-Soviet states (Kopecky and Mudde, 2000).[20] Tools from the inter-disciplinary study of nationalism will thus be introduced into the theory of contemporary regionalism and link state coherence and the 'democratic peace' thesis as prerequisites for its emergence (Hurrell, 1995). In addition, the economic analysis will highlight the importance of a stable macro-economic and institutional environment for the success of regionalism. Finally, the interaction between political and economic factors specific to the Balkan region will contribute to bridging the gap between the disciplines of International Relations and International Political Economy.

For the empirical base, the thesis depends upon the extensive examination of primary

[19] Similarly, the Euro-Atlantic system (NATO) has obstructed the emergence of effective regional cooperation in the security sector in the Balkans.

[20] State coherence has been identified as a precondition for successful regionalism by Andrew Hurrell who defines it in terms of effective state apparatuses and mutually accepted boundaries (Hurrell, 1995: 67). Mohammed Ayoob referred to the problem of the simultaneity of state-making and democratisation which he saw as a major source of insecurity in the developing world. He did not, however, go as far as to name the phenomenon (Ayoob, 1995: 57).

sources, such as official documents of regional initiatives (Royaumont Process, SECI, SEECP, SPSEE, MPFSEE, SEEI), the European Union (Commission and Council of the European Communities) and other organisations (NATO). Southeast European constitutions, such as The General Framework Agreement for Peace in Bosnia-Herzegovina (GFAP), the Constitution of Croatia, The Constitutional Charter of the State Union of Serbia and Montenegro, Resolution 1244 (1999), the Interim Agreement for Peace and Self-Government of Kosovo and the Framework Agreement will also be examined. For the economic analysis, data will primarily be drawn from the European Bank for Reconstruction and Development (EBRD).

Chapter 2

The Concept of Regionalism

2.1 Introduction

In order to understand why subregional cooperation has been largely ineffective in Southeastern Europe in the post-Cold War era, it is necessary to examine what are the preconditions for its emergence. Chapter 2 will therefore survey the variety of theoretical approaches for the study of regional systems. It will present the two separate levels of analysis that exist for explaining the emergence of regionalism within the disciplines of International Relations and International Political Economy, namely the international and the domestic. Within the international level of analysis, both rationalist and reflectivist schools of thought will be considered.[21] In addition, a concise historical overview of the study and praxis of regionalism as well as some definitions of the terminology used in the thesis will also be provided.

2.2 Historical Overview of the Study and Praxis of Regionalism

Regionalism as a basis of world order emerged in the aftermath of World War II.[22] The rise of the Cold War and the loss of confidence in the United Nations (UN) as a collective

[21] Rationalist schools of thought are arranged along a continuum between those focusing on sources of regionalism internal or external to the region. The inside-out/outside-in continuum was first introduced by Iver Neuman in 1994 and subsequently taken up by Andrew Hurrell and Stephen Calleya (Neuman, 1994; Hurrell, 1995; Calleya, 1997).

[22] Some authors view the protectionist policies of the 1930s as the first wave of regionalism (Hettne and Soddenbaum, 1998: 20).

security system initially led to the formation of regional defence systems such as the NATO in 1948 and increased interest in security regionalism. Prompted by the emergence of the European Economic Community (EEC) in 1957, the first wave of regionalism was confined predominantly to the highly institutionalised forms of international cooperation among countries in the industrialised world. Decolonisation, however, paved the way for regional economic integration and regional security agreements in the developing world. Here regional integration was a response to the economic predominance by industrial powers whereas security groupings tried to cope with the emergence of newly independent states.[23]

Security regionalism became a major topic of academic discussion immediately after the war but was quickly replaced by research on regional integration which flourished in the 1950s and 1960s. It concentrated on different versions of integration theory and was advanced by such scholars as Karl Deutsch and Ernst Haas (Deutsch, 1957, Haas, 1964). The study of regionalism, nevertheless, declined in the 1970s as the pace of European integration slowed down and expectations of economic development through regional economic integration were not realised in the developing world. To the waning of integration theory also contributed the influence of the realist and later neo-realist approaches to international relations which emphasised the interaction between the state and the international system disregarding the region as a level of analysis (Morgenthau, 1948; Waltz, 1979). This trend was reinforced by Cold War considerations which divided the world in two blocs, thus undermining regional dynamics. In the 1970s interest in the field declined mainly because difficulties arose in locating empirical proof of regionalism (Puchala, 1971).

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[23] To illustrate, the 1960s saw the emergence of economic groups such as the Association for South East Asian Nations (ASEAN), the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), the Caribbean Community (CARICOM) and the Andean Pact. Security initiatives include schemes such as the South East Asian Treaty Organisation (SEATO) and the Baghdad Pact established in 1954 and 1955 respectively.

The revival of the integrationist momentum started in the mid-1980s in response to increased social and economic interdependence in Europe manifested by the signing of the Single European Act in 1986 and to the emergence of a regionalist projects in North America - such as the 1988 US-Canada free trade agreement - which was interpreted as a shift away from US support of multilateralism. Economic regionalism once again spread to the developing world with the reinvigoration of long-stagnant regional schemes in Latin America, Africa and Asia-Pacific.[24] Post-Cold War international relations consist of different patterns of regionalism simultaneously taking place and carried forward by the most powerful states (Calleya, 2000). It is seen by many analysts as a response to globalisation often emerging at the North-South interface (Wyatt-Walter, 1995).

The 'new regionalist' trend has been particularly evident in Europe, previously the main area of bipolar competition and has taken primarily two forms. On the one hand, already established regional organisations such as the EU, the CoE, NATO and the OSCE are undergoing processes of deepening and widening (enlargement).[25] On the other hand, new sub-regional organisations have emerged in various geographical parts of Europe stretching from the Baltic to the Black seas, such as the CBSS, the BEAC, the CEI and the BSEC. Their aim is to contribute to security and confidence-building among neighbouring countries, foster cooperation in various areas, ease post-communist transition as well as prepare countries for integration into the European Union (Cottey, 1999).

[24] To illustrate, the post-Cold War era has seen the revival of ASEAN, CARICOM, CACM and the Andean Group as well as the emergence of formal economic regionalism such as the Mercado Comun del Sur (MERCOSUR) and the Asia Pacific Economic Cooperation (APEC) and transnational models of economic integration such as the Economic Community for West African States (ECOWAS) and the Southern African Development Community (SADC) (Page, 2000).

[25] The EU enlargement process is one of the most significant regional economic integration efforts as it implies the removal of legal, regulatory or tax obstacles to the movement of goods and services, finance and entreprises.

Regionalism has therefore re-emerged as an important theme in international relations literature and is viewed as a solution to major security and economic problems. It is often argued that 'new regionalism' is an advance over different versions of integration theory because it emphasises the social, political and cultural dimensions of the phenomenon, apart from the economic which traditionally has been the focus of analysis (Hettne, 1994; Page, 2000).[26] The nature of regionalism has also become more linked to questions of development and often bridges the North-South divide (Gruegel and Hout, 1999).[27] In contrast to the 'old regionalism' which was inward oriented and exclusive, the recent manifestation of the phenomenon is open and often emerges from below (Hettne and Soddenbaum, 1998: 7-8). The political understanding of the new wave of the phenomenon has been labeled New Regionalism Approach (NRA) and is different to the dominant discourse among economists who conceive it as merely a trade promotion policy (Hettne and Soddenbaum, 1998: 16-17). The theory and praxis of the 'new regionalism', however, are in a state of flux and thus difficult to conceptualise.[28]

2.3 Definitions of a Region and Regionalism

Given that regionalism implies the region as a level of analysis, it is first essential to define

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[26] According to Hettne and Sodenbaum, "*New Regionalism is a comprehensive, multifaceted and multidimensional process, implying the change of a particular region from relative heterogeneity to increased homogeneity with regard to a number of dimensions, the most important being culture, security, economic policies and political regimes*" (Hettne and Sodenbaum, 1998: 7).

[27] Signed in 1992 by the US, Canada and Mexico, the North Atlantic Free Trade Area (NAFTA) is an example of North-.South regionalism.

[28] Nevertheless, for those who see globalisation as a direct consequence of intra-systemic integration within the Western camp and as such one of the causes of the end of the Cold War, 'new regionalism' is not all that 'new' (Clark, 1997).

the latter and provide a terminology for the thesis.[29] Defining regions attracted significant academic attention in the 1960s and 1970s as well as the 1990s with the second wave of regionalism. The first criterion used by most scholars in defining a region is geography (Russett, 1967; Nye, 1968; Cantori and Spiegal, 1970; Hettne, 1994; Hurrell, 1995; Buzan, 1999). The geographical concept of a region is usually based on its physical characteristics delimited by natural barriers. Although it is a widely held view that physical proximity is a defining criterion of regionalism, there are no 'natural' regions and boundaries such as the sea can be seen to both unite and divide. Moreover, proximity nowadays is not only related to contiguity but to technology as well.

Other criteria are also used in defining a region.[30] These may include political criteria such as membership of certain organisations denoting common political interests and similar attitudes (Russett, 1970; Hettne, 1994). They may also include cultural or social cohesiveness (Russett, 1970; Hettne 1994). The cultural definition may emphasise the similarity of historical development in such factors as ethnicity, religion, lifestyle, language and other characteristics of societies. [31] Another important criterion is economic cohesiveness such as intra-regional trade and complementarity (Russett, 1968; Hettne, 1994). According to Page, the most important criterion is an extensive economic relationship with a legal framework (Page, 2000).

An international region can therefore be defined in many ways, depending on the criteria

[29] The term region will be used here to imply a subunit of the international system, even though it can also be part of a state or a single territory covering parts of several states, such as Euro-regions (Keating and Loughlin, 1997).

[30] In *International Regions and the International System*, Bruce Russett identified five types of regional classification groupings: a) of social and cultural homogeneity; b) which share political attitudes; c) of institutional interdependence; d) of economic interdependence and e) of geographical proximity (Russet, 1967: 11).

[31] Though often interrelated, these aspects of culture may also differ significantly.

used to measure *regionness*.[32] In ideal types of regions, several criteria might be applied at the same time forming a complex interaction between political, socio-economic and geographic factors. According to Hettne, the most comprehensive way to see an ideal region is as a historical formation, a political subject with its own identity (Hettne, 1994: 2).[33] For others, however, it is how political actors perceive and interpret the idea of a region and notions of regionness that is critical (Nye, 1968). For Neuman, for example, all regions are constructed and hence politically contested. They are made and remade, 'imagined communities' brought into existence (Neuman, 1994: 59).[34]

Finally, for some analysts regions become united by more than one *ad hoc* problems. For Barry Buzan, for example, regions are identified through 'regional security complexes' united by common security problems (Buzan 1983). They are international subsystems that can be distinguished from the whole by the particular nature and intensity of their interactions with each other. According to Sophia Clement "*a region shall be loosely defined as a pattern of relations among basic units in world politics which exhibits a particular degree of regularity and intensity of relations as well as an awareness of interdependence among its particular units*" (Clement, 2000: 92). A degree of mutual interdependence is therefore a key to defining international regions (Nye, 1968).

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[32] According to Hettne, *regionness* is the degree to which a particular area constitutes a coherent unit. Different degrees of *regionness* are distinguished by five levels of interaction which encompass a geographical unit, a social system, organised cooperation, regional civil society and a region-state (Hettne, 1994: 7-8).

[33] Hettne identified three types of structurally different regions: a) regions in the core zone, namely North America, Europe and East Asia which are economically advanced and politically stable; b) regions in the intermediate zone, such as South America, Central Europe and South-East Asia which are strongly linked to one or more of the core regions and c) regions in the peripheral zone which are politically turbulent and economically stagnant (Hettne, 2001: 5-7).

[34] According to Neuman "*regions are defined in terms of speech acts, they are talked and written into existence*" (Neuman, 1994: 59).

Defining international regionalism has attracted less academic effort than regions.[35] Often its meaning is assumed, with discussion focusing on its manifestations or utility. By regionalism one can imply both the general phenomenon as well as the ideology of regionalism, that is the urge for a regionalist order aimed at creating wealth and providing security within a region. However, concrete causal links between regionalism as a body of ideas, values and goals and manifestations of intra-regional interaction have not yet been established (Hveem, 1995). Prescriptive regionalism should, therefore, be analytically distinguished from its descriptive counterpart (Hurrell, 1995: 39).

Regionalism as a descriptive attribute has been used as a label to discuss many manifestations of the phenomenon such as economic cooperation, free trade areas, regionalisation of world politics, regional organisations, interest and policies of regional states. Conceptualising descriptive regionalism depends on identifying patterns of interaction within an area. When doing so, it is important to distinguish between undirected processes of social and economic integration, namely regionalisation, and regionalism as a state project.[36] The former includes transnational flows and links in various sectors. The latter is manifested through inter-governmental agreements, regional schemes or regional economic integration.[37] Economic regionalism can take several forms including a Free

[35] Inter-state (macro) regionalism should be distinguished from the intra-state (micro) phenomenon. For some scholars, however, they are interlinked processes so that regionalism has both integrative and disintegrative implications (Hettne, 1994; Mittelman, 1999).

[36] According to Hurrell, there are five different categories of regionalism These are a) regionalisation, or else migration, markets and social networks; b) regional identity, namely the discourse of regionalism or regional awareness; c) construction of inter-state agreements or regimes (statist); d) state promoted regional economic integration and; e) regional cohesion, a combination of the above. Hurrell considers these categories to be analytically distinct *"although the ways in which they can be related to each other lie at the heart of both the theory and practice of regionalism"* (Hurrell, 1995: 39).

[37] Regional economic integration involves *"specific policy decisions by governments designed to reduce barriers to mutual exchange of goods, services, capital and people. Early stages of integration tend to concentrate on the elimination of trade barriers and the formation of a Customs Union for goods. As integration proceeds, the agenda expands to cover Non-Trade Barriers (NTBs), the regulation of markets and the development of policies at the micro and macro levels"* (Hurrell, 1995: 43).

Trade Area (FTA), a Customs Union (CU), a Common Market, an Economic Union or complete integration (Balassa, 1961: 2).

In the developing world, economic integration has been treated as an approach to development, not just a tariff issue. It was labeled developmental regionalism because it was designed not only to encourage new industries but also to help diversify national economies and increase bargaining power with developed nations (Sloan, 1971). More recently, by developmental regionalism we refer to *"concerted efforts from actors (state, market and civil society) within a geographical area to increase the economic development of a region as a whole and to improve its position in the world economy*' (Hettne and Soderbaum, 1998: 19).[38]

Despite the flexible use of the term regionalism to cover multiple activities, it is possible to discern a core meaning which implies cooperation among regional states and non-state actors to enhance well-being. The phenomenon is generally considered to benefit all parties although increased interdependence may eventually lead to a conflict of interests. Regionalism can thus be defined as *"cooperation among governments or non-government organisations in three or more geographically proximate and inter-dependent countries for the pursuit of mutual gain in one or more issue areas*" (Alagappa 1997: 362)

Finally, equally ambiguous to the definitions of a region and regionalism are those of a subregion and subregionalism. A subregion can be seen as part of a region or parts of states intersecting at border areas (Weaver and De Wilde, 1998; Mittelman, 1999). Like a region,

[38] Security regionalism, on the other hand, *"is an attempt by the states and other actors in a particular geographical area - a region in the making - to transform a security complex with conflict-generating intra-state relations towards a security-community with cooperative external relations and domestic peace*" (Hettne, 2001: 13).

its definition depends on one's own delimitation. Subregionalism, which exists in the shadow of regionalism, refers to *"projects promoted by the weaker states in the global economy which are seeking to strengthen cooperation in a more circumscribed space than at the regional level. In this sense, subregionalist projects take on their significance within the context of more embracing regionalist projects and identities promoted by the more powerful states"* (Hook and Kerns, 1999: 5). Such a definition raises the question of the complementarity between subregionalism and wider integration, namely its linkage to the broader regional context.

2.4 International Theories of Regionalism

2.4.1 Rationalist Continuum

(i) Internal/Inside-out Factors

Regionalism is often equated with the study of regional integration. Integration theory operates squarely at the inside-out end of the continuum. The study of regional integration is concerned with tasks, transactions, perceptions and learning. Scholars have argued at length whether regional integration is a process or a terminal condition. With hindsight, integration can be said to be a process, not an end state, but many of its aspects can become consolidated in structures, rules and practices that are enduring (Caporaso, 1998). There is no simple definition or path of integration so that groups move in different ways towards its various forms. Theories that explain its emergence include economic integration, functionalism and neo-functionalism, transactionalism as well as neo-liberal

institutionalism.[39]

The functionalist strand of integration theory refers to its role in promoting peace. David Mitrany was the first to state its principles in the classic essay *A Working Peace System*: A*n Argument for the Functional Development of International Organisation* (Mitrany, 1943). The basic premise of functionalism is that divisions between states can be overcome by the spread of cooperation in various social and economic areas. Mitrany was concerned primarily with the practical problem-solving of concrete tasks mostly of a technical nature, namely how to replace territorially defined structures of decision-making with international functional agencies leading towards a working international system. As such, his tradition is above all a theory of international society based on the principle of 'technical self-determination' (Mitrany, 1943: 35; Chrysochoou, 2003: 10).

The importance of functionalism lies in discovering the types of forces responsible for bringing countries closer together politically, although 'technical self-determination' should be separate from power-political issues. This potentially positive influence of integration is relevant to regional conflict issues and has a strong prescriptive element. Functionalist analysis, however, which is characterised a by society-centric bias, regards the state as suspect and neglects it as an actor (separability thesis). In *The Funtional Theory of Politics*, for example, Mitrany argued that the functional structure could be made by a union of peoples directly concerned by giving them 'functional representation' (Mitrany, 1975).

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[39] The theory of economic integration is concerned with the effects that arise from divergences in national monetary, fiscal and other policies (Balassa, 1961). To illustrate, at one time it was believed that the establishment of a Customs Union would be beneficial to its members by leading to the optimal allocation of world resources. Jacob Viner, however, pointed out that the creation of a Customs Union could have either a trade-creating or a trade-diverting effect (Viner, 1950). Although in recent years the theory of economic integration has opened up to other disciplines such as political science and international relations, it will be considered as part of economics and trade theory and will not be analysed here.

Functionalist theory helped understand change, namely how political actors reassess and redefine their interests. The technocratic nature of politics and the *spillover* dynamic may be a successful way of trying to reduce friction likely to be encountered in the process of integration. But it does not however account for what happens when the process of technocratic change fails to secure the necessary political support. Moreover, the assumptions of this school of thought failed to allow for the influence of extra-regional dynamics and 'high' politics.

Neo-functionalism has been the most influential branch of regional integration theory.[40] The first generation of neo-functionalist scholars tried to explain the broad transition from societal movement and political plan forged by European heads of state to a concrete project embodied first in the European Coal and Steel Community (ECSC) in 1951 and later in the EEC in 1957 (Linberg 1963, Etzioni 1965; Haas, 1964). They argued that high levels of interdependence create an ongoing process of cooperation that will lead eventually to political integration. Neo-functionalism shares with functionalism the centrality of transnational interaction and stresses the role of the elites in promoting integration.

Ernst Haas's research programme came to dominate the field of integration studies. According to Haas, integration is a process leading to the creation of political communities defined in attitudinal and institutional terms. By participating in the policy-making process, for example, interest groups are likely to develop a stake in promoting further integration and can bridge the elite-mass gap (Haas, 1968). The successful experience of integration in one area of society or the economy therefore might lead to further integrative ventures as a result of the *spillover* effect. Apart from the impact society has on political cooperation, the role of supranational organisations and transnational society are also stressed (Haas, 1964).

[40] Monnet's gradualist approach to integration was a synthesis of both functionalism and neo-functionalism, without however being in complete agreement with either (Chrysochoou et al, 2003: 21).

The major dependent variable in Haas' work was the hypothesised evolution of supranational institutions thus linking domestic to regional dynamics.

Neo-functionalism played a central, but criticised, role in the study of European integration. The major factor that gave rise to the shortcomings of this school is its reliance on a technocratic understanding of the post-1945 politics of Western Europe. It has also been criticised for projecting a supranationally biased image of Community arrangements, overstressing the role of organised interests and underestimating the viability of national polities (Chrysochoou, 2003: 24). Finally, similar to functionalism, it did not account for external pressures on the region.

Another strand of integration theory is transactionalism, named after its stress upon the quantitative analysis of the wide range of transactions between and within states. In his 1957 study *Political Community and the North Atlantic Area*, its main proponent Karl Deutsch advanced powerful insights about integration and disintegration processes based on detailed historical evidence (Deutsch, 1957).[41] Deutsch hypothesised that many of the same processes which led to national integration and nationalism in domestic politics might be equally relevant for international politics and community development.[42] At the heart of his approach is the assumption that *communication* is the cement of social groups in general and political communities in particular.

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[41] Disintegration is the antithesis of integration. According to Groom and Heraclides, approaches to disintegration can be divided into a) negative theories of integration such as explanations of nation-building; b) negative theories of cohesion such as consociationalism and c) indirect theories of disintegration and separatism such as revolution and inter-group conflict. Direct theories of integration have as their intellectual forebear the theory of nationalism (Groom and Heraclides, 1985: 183-185).

[42] In the 1953 study *Nationalism and Social Communication: An Inquiry into the Foundations of Nationality*, Deutsch had introduced communication theory to the study of nationalism arguing that nations acquire coherence through communicative processes (Deutsch, 1953).

Integration, for Deutsch, was the process of creating unified habits and institutions strong enough to ensure expectations of peaceful change among populations (Deutsch, 1957: 5). He argued that when cultural interaction is intense, a region can become a 'security community', a group that has become integrated through the attainment of a sense of a 'we-feeling' accompanied by formal institutions and where war is no longer possible among its members. 'Security communities' for Deutsch could either be 'amalgamated' when political units merge or 'pluralistic' when separate states retain their sovereignty (Deutsch, 1957: 7). His study concluded that the North Atlantic area had in the 1950s moved a long way towards becoming integrated.

Transactionalism shares with neo-functionalism the commitment to certain variables such as regional transactions, communication between elites and the adequacy of institutions. For communication theory, however, all types of transactions are equally salient, whereas for neo-functionalists welfare-related issues are more important regional tasks. The Haasian approach was therefore more durable a research programme. Both branches of integration theory, however, exaggerated the role of European states in the integrative process and simplified their historical development. In the 1970s it became apparent that many of the predictions of neo-functionalism and transactionalism were insufficient to explain the ups and downs of European integration (Puchala, 1971). Many theorists, therefore, shifted their attention to analysing how states succeeded in maintaining their authority and in shaping the pace of the integration process by creating the institutional conditions for it (Taylor, 1971).

Moreover, scholars interested in theorising integration increasingly started to use the vehicles of international interdependence. In the self-critical monograph *The Obsolence of Regional Integration Theory,* Haas argued that neo-functional theory became irrelevant in circumstances of interdependence among advanced industrial societies (Haas, 1975). He

claimed that integration and interdependence would "*cease to co-vary*" because of pressing problems in the global agenda which led to novel types of scientific and technological knowledge (Haas, 1975: 88). Haas had assumed, however, that problems of interdependence would lead governments to cooperation. This meant that regional integration theory should be supplemented by a general theory on national policy response to international interdependence.

A more advanced version of regional integration theory therefore emerged. Neo-liberal institutionalism/neoliberalism argues that a successful theory of cooperation must take into account the effects of international institutions without denigrating the role of the state (Keohane, 1989: 11). This school of thought concentrates on the ways in which strategic interaction among actors may manage interdependence in any given area of international relations and examines the impact of institutions on state action as well as the nature of institutional change. The neoliberal institutionalist perspective has two branches: one which views regionalism as the creation of institutions and regimes for policy coordination where the state acts as a negotiator at the inter-governemental level and another which explains action as a result of policy-making processes and state-society relations (Krasner, 1983; Moravcsik, 1993) .

The origins of neo-liberal insitutionalism can be found in Keohane and Nye's seminal study *Power and Interdependence* (Keohane and Nye, 1977). In this ambitious but somewhat vague attempt to bridge realism and liberalism, Keohane and Nye used tools from both approaches in order to explain how states are affected by changes in the global economic system. Interdependence - or mutual dependence - is defined by the authors as referring to "*situations characterised by reciprocal effects among countries or among actors in different countries*" (Keohane and Nye, 1977: 8). *Complex interdependence*, an ideal type

contrasting with realist assumptions about the international system, is "*a situation among a number of countries in which multiple channels of contact connect societies and where military force is not used by governments toward one another*" (Keohane and Nye, 1989: 249). At the core of liberal theories of economic interdependence is the claim that the increasing flows of goods, services, factors or pollutants create international policy externalities among nations which in turn trigger the need for policy coordination. Increased levels of interdependence, therefore, generate demand for international cooperation (Keohane, 1984).

Neo-liberal institutionalists drew from this study a regional interpretation of *complex interdependence* as opposed to a worldwide one nowadays referred to as *globalism* (Keohane and Nye, 2000). In the 1970s, the concept was used primarily to describe emerging relationships among democratic industrialised countries. These were principally Western, like the Organisation for Economic Cooperation and Development (OECD), and offered an integrative perspective of regionalism not necessarily implying geographic cohesion. For neo-institutionalists, regionalism emerges when states define common interests brought about by interdependence (Axelrod, 1984). Designed to manage the complexities that arise with interconnectedness and exerting substantial influence on the policies of governments, the institutionalisation of international relations therefore treated the *politics* of interdependence and was concerned with creating the institutional conditions for integration.

International regimes were identified as major types of international institutions alongside inter-governmental organisations and conventions and became particularly appealing tools to liberal insitutionalists in the late 1970s (Keohane, 1989: 3-4). Introduced by John Ruggie, the concept of international regimes has been a major focus of theoretical and empirical

research in international relations (Ruggie, 1975). According to Krasner, regimes are "*sets of principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations*" (Krasner, 1983: 2).

Although Krasner saw regimes as instruments of state power used primarily by the powerful, neoliberal institutionalists emphasised the role of regimes in helping states realise their shared interests and are more optimistic about their effects on international relations (Keohane, 1984: 131). The basic concern of regime analysis is its normative interest in the conditions of international "*governance without government*" (Rittberger, 1995). More recently, transnational actors such as corporations have also been identified as possible actors in regime formation. Regimes have expanded in all issue areas of contemporary world politics and delimit a range of activities from trade and security to human rights and the environment (Rittberger, 1995).

Liberal institutionalists increasingly turned their attention to the European project. They drew from neo-functionalism the role of domestic and transnational societal influence, but undermined its supranational organisational component stressing the role of intergovernmental bargains between states. Andrew Moravcsik explained EC institutional development through an analysis of national preference formation and intergovernmental strategic interaction and saw it as an international regime for policy coordination (Moravcsik, 1993: 480). This two-stage theory of state-society relations brought together a liberal theory of preferences with an intergovernmental focus on power-bargaining among states.

Following liberal theories of international relations, Moravscik saw the policy goals of governments as responses to pressures from domestic groups determined by

interdependence. According to Keohane and Hoffman, institutional change such as the Single European Act is explained in terms of changes in the international political economy and a convergence of interests among states related to changes of national interest around neoliberal policy-making (Keohane and Hoffman, 1991). For Keohane and Hoffman, however, the EC was much more centralised and institutionalised than international regimes for it is organised as a *network* that involves the pooling and sharing of sovereignty (Keohane and Hoffman, 1991).

Liberal institutionalism's major contribution to regionalism studies is that it placed the EC case to models of integration potentially applicable to all states, thereby specifying the conditions under which a similar process may occur elsewhere. In contrast to neo-functionalism, neoliberalism sees regional institutional frameworks emerging in response to concrete needs of states to manage regional problems and as a means of reducing the costs of strengthening intra-regional linkages such as economic transactions. Within the neo-liberal school, however, there have been extensive debates over the exact relationship between economic interdependence and cooperation. Moreover, liberal institutionalist theory is still struggling to define conditions under which institutions matter as in some regions cooperation can proceed in the absence of institutionalisation, whereas dense institutionalisation does not guarantee deep levels of cooperation.

(ii) Inside/Out - Outside/In Factors

An important body of literature regarding international factors that generate regionalism operates at the centre of the continuum. Among the first proponents of such a synthesis were Cantori and Spiegal in their comparative framework of regions or else 'subordinate systems' (Cantori and Spiegal. 1970). According to Cantori and Spiegal *"a subordinate system*

consists of one state, or of two or more proximate and interactive states which have some common ethnic, linguistic, cultural, social, and historical bonds, and whose sense of identity is sometimes increased by the actions and attitudes of states external to the system." (Cantori and Spiegal, 1970: 6). Their hierarchy of 'subordinate systems' consists of the core and periphery sectors as well as the intrusive system, namely the influence of external powers on the international politics of regions. They also identified four pattern variables intended to establish elements of intrinsic importance to the understanding of subordinate systems: levels of cohesion and power, nature of communications and the structure of internal relations.

Although useful in trying to pool together various approaches to the study of regional international politics, Cantori and Spiegal failed to produce a satisfying classification of their variables which lack clarity in the empirical analysis. Moreover, that core and periphery sectors were viewed as part of the same 'subordinate system' was contrary to the conventional understanding of these terms. The attempt to set up a comparative framework of five 'subordinate systems' in global perspective, therefore, proved too complex to provide a generally accepted understanding of regions.

That regions become the product of dynamics working inside-out and outside-in, however, was further elaborated by Barry Buzan in the theory on *security complexes* first sketched out in *People, States and Fear* (Buzan, 1983). For Buzan a 'regional security complex' is a specific kind of region united by common security problems, *"a set of states whose major security perceptions and concerns are so interlinked that their national security problems cannot reasonably be analysed or resolved apart from one another"* (Buzan 1999: 2). The essential logic, therefore, of such a subsystem is security interdependence of states characterised by their patterns of enmity and amity. But regional developments are

determined by the internal dynamics of the security complex in conjunction with the external dynamics. At the time the theory was first developed, external dynamics were associated with the bipolar rivalry of the Cold War and it was suggested that superpower *overlay* suppressed local security dynamics.[43]

Finally, the kind of analysis whereby regional transformation is the product of both internal and external dynamics is further elaborated by other scholars who see regions in terms of security relations. For Vayrynen, for example, 'regional conflict formations' are a mixture of intranational, intraregional and extraregional contests of violent character. They are shaped by the impact of the capitalist world economy and the economic and strategic penetration of major powers as well as their own domestic and regional circumstances (Vayrynen, 1984). Adjusting the concept of regional security complex to fit contemporary international politics, Lake and Morgan defined it as "*a set of states continually affected by one or more security externalities that emanate from a distinct geographic area*" (Morgan and Lake, 1997: 12)

Although the 'security complex approach' avoided many of the problems contained in earlier attempts to define regions by focusing on interdependence, the existence of local externalities linking states together did not explain how these states *manage* their relations. The concept of 'regional orders' was consequently introduced by Morgan and Lake to imply a dependent variable, namely "*the mode of conflict management within the regional security complex*" (Morgan and Lake, 1997: 11). A typology of regional orders therefore includes Great Power concert, collective security, pluralistic security communities and integration

[43] It is not possible to identify security complexes, however, when states are too weak to project power beyond their boundaries or the presence of outside powers is so strong that it suppresses the operation of security dynamics between local ones (Buzan 1991: 197). Although in the 1983 classic *People, States and Fear* Buzan categorised the Balkans as a 'security subcomplex', in the post-Cold War era the theory cannot be applied to Southeastern Europe in light of the extensive international military presence in the region as well as the proliferation of collapsed states (Buzan, 1991: 226).

(Morgan, 1997: 32-33). Overall, however, there is a lack of well developed theories of regional security systems.

(iii) External/Outside-in Factors

Whereas advocates of the internal dynamic approach regard bureaucracies, political parties, trade unions and commercial enterprises as principal regional actors, the external dynamics school of thought tends to emphasize systemic factors (states and firms) and geography. On the one hand, systemic/structural schools of thought, which constitute the most important body of rationalist 'outside-in' theories, concentrate on the level of the system in which regionalist schemes are embedded and the impact of outside powers working on the region. Two sets of systems theories have emerged, namely structural realism, which stresses the importance of broader political structures within which regionalist schemes emerge and the impact of states, and globalism which focuses on the role of economic structures holding firms responsible for outside pressures (Waltz, 1979; Ohmae, 1995). Geography, on the other hand, stresses the importance of natural geopolitical or strategic landmarks such as mountain ranges and bodies of water in delineating a region's borders (Cloke et al, 1991). It stands in opposition to the internal theories that attribute regionalism to common culture or civilisation (Huntington, 1996).

Structural realism or neorealism has characterised Anglo-American thinking of international relations since the beginning of the Cold War. Political realism, which inspired the writings of such classical authors as Thucydides, Macchiaveli and Hobbes, became conventional wisdom in Europe with the rise of nation-states and the Westphalian system. Modern realism sees the international system as essentially anarchic since there is no central government capable of making and enforcing international rules of conduct. Nation-states

are the dominant unitary actors of such a system. According to the father of this school of thought Hans Morgenthau, states promote their own interests in a constant struggle for power according to the principle of rationality (Morgenthau, 1948). Political competition for power among states, therefore, is at the centre of realist thinking. Although he tried to create a 'science' of international politics, however, Morgenthau failed to offer coherent definitions of power and balance of power or to explain alterations of war and peace.

Keneth Waltz tried to remedy the defects of Morgenthau's theory by developing a systemic explanation of world politics, that is to say he tried to delineate more clearly the effects of the international system on the behaviour of states. His structuralist view locates sources of explanation at the system level and its main outcomes at the unit level (states) (Waltz, 1979: 99). According to the *Theory of International Politics,* international relations is an anarchic realm composed of units (states) performing similar functions but differing in their *distribution of power.* Whereas for Morgenthau power had predominantly a military dimension, for Waltz capabilities were ranked according to how states score on such issues as "*size of population and territory, resource endowment, economic capability, military strength, political stability and competence*" (Waltz, 1979: 131). States were therefore seen to be constrained in their relations with other units by their relative capabilities vis-a-vis these others. Their fundamental goal became to prevent other states from achieving advances/gains in these capabilities (Waltz, 1979: 105). By focusing primarily on conflictual relations among states, neorealism has thus been criticised for presenting a pessimistic analysis of prospects for international cooperation.

Neorealism stresses the role that the international political system has on its units. Consequently, it understands regionalism by looking at the region from outside-in and analysing its position in the broader international picture. Its proponets introduced the

bipolarity of the Cold War system as a variable that explained the change of international politics after 1945 and saw the creation of the EU as a response to superpower confrontation (Wallace, 1995). For power theorists, therefore, regional groupings form in response to external challenges in the same way that states form alliances in order to balance against threats (Walt, 1987). They believe regional economic integration, for example, to be ultimately determined by the structures of the international political system and policies of major states. For neorealists, political actions by state institutions are therefore at the core of regionalism.

The neorealist logic has been elaborated in the 'hegemonic stability theory' which argues that order in world politics is created by a single dominant power and that its maintenance requires continued hegemony (Keohane, 1984). According to Robert Gilpin, the *Pax Brittanica* and *Pax Americana* were created by Great Britain and the United States respectively in order to ensure their own interests in the world and the their decline brought about change in the international system (Gilpin, 1981). For the 'hegemonic stability theory' the existence of a predominant state is also a prerequisite for cooperation among states. When applied to regionalist arrangements, the hegemonic leadership thesis expects that the existence of a hegemon will enhance the success of regionalist projects. In regions without a clear hegemon, neorealists would argue that regionalist arrangements will be evaluated on the basis of the relative gains accruing to the different partners in the arrangement (Grieco, 1993). From this perspective, regionalism can be understood as a means for states to enhance their bargaining power, balance a bigger power or as a means to contain a more powerful state in a given framework.

As has been mentioned in the discussion on regional integration theories, the critique of neorealism came mostly from neo-liberalism and crystalised in the 1970s with

interdependence and regime theory. By focusing almost exclusively on power structure at the system level, neorealism is useful in explaining external pressures on states and regions but weak in accounting for change, especially in international political economy, the domestic structure of states or the concept of sovereignty. Neo-liberal criticisms, however, triggered a debate between the two approaches that is ongoing and fruitful especially as regards understanding the conditions that promote or inhibit international cooperation (Keohane, 1986; Baldwin 1993). The main areas of contention between the two approaches include the relative importance of non-state actors, priority of state goals as well as relative and absolute gains.

Globalism is the second systemic theory that emphasises the changing character of the international system and criticises neorealism for not accounting for changes in the global economy and how it affects states. It has triggered a significant debate as regards its impact on regionalism. Globalism has been defined as a "*state of the world involving networks of interdependence at multicontinental distances. The linkages occur through flows and influences of capital and goods, information and ideas, people and forces as well as environmentally and biologically relevant substances*" (Kehoane and Nye, 2000: 105) To distinguish it from interdependence, Keohane and Nye explain that globalism refers to *networks* of connections and includes *multicontinental* distances, not just regional networks. This implies that twenty years after it was first conceptualised, *complex interdependence* can be seen to correspond to reality in many parts of the world, not just the West.

Contemporary debates on globalism originated in the works of the 1970s regarding transnationalism. In 1971 Keohane and Nye had argued that the state-centric paradigm was an inadequate basis for the study of changing world politics and defined transnational interactions as "*the movement of tangible and intangible items across state boundaries*

when at least one actor is not an agent of a government or intergovernmental organisation" (Keohane and Nye, 1971: xii) Similarly, Rosenau focused his attention on the effects that international transactions, flows of money, goods, people have on the transnationalisation of world affairs (Rosenau, 1980). Today, one of the strongest proponents of globalism is Kenichi Ohmae who argues that economic ties across the world have become so strong that political boundaries have lost much of their meaning. He views globalisation, triggered by modern information technology and business practices, to be the dominant force in the contemporary era bringing about a 'borderless' economy (Ohmae, 1995).[44]

The relationship between globalism and regionalism has come into particularly sharp focus with the end of the Cold War and is related to questions of world order (Payne, 1996). The debate focuses mainly on whether regionalism is a 'building' or a 'stumbling' bloc in the process of globalisation. The answer depends on how processes are defined. Some scholars who reserve regionalism for the arena of trade policy see it as a stumbling bloc towards globalisation and a threat to multilateralism (Baghwati, 1992). Regionalism as a political response to economic internationalisation divides the world economy into three blocs that might lead to conflict in the form of trade wars and contribute to world disorder. The neoliberal school of thought, however, holds that by helping national economies become competitive in the world market, regional integration encourages multilateral cooperation. Ohmae, for example, argues that by stimulating global regional trade, regionalism is a building bloc towards globalisation (Ohmae, 1995). For these scholars, however, regionalism is driven by transnational forces and micro-regions and the role of states is diminished.

[44] According to Keohane and Nye globalisation is the increase of globalism, the process by which the latter becomes increasingly 'thick' (Keohane and Nye, 2000). The terms globalisation and globalism will be used interchangeably in the thesis.

In fact, the conflict between regionalism and globalisation is more theoretical than real. Regionalism is not in dialectical opposition to globalism but rather they are complementary processes. Regionalism sustains regions as it does globalism. According to Wyatt-Walter, the processes are symbiotic and both the regionalisation and globalisation metaphors are misleading: *"Regionalisation literature focuses on international trade patterns overlooking the ways in which capital movements have reinforced economic interdependence between regions. Globalisation literature focuses on firms underplaying the way in which the existence of political boundaries influences flows of economic activity"* (Wyatt-Walter, 1995). Above all, it is important to examine the ways in which regional policies and business processes interact to produce both regionalisation and globalisation in the patterns of world trade and investment.

2.4.2 Reflectivism

The above rationalist literature seeks to explore the conditions under which cooperation takes place. The politics of defining and redefining regionalism are marginalised while scholars are concerned with weighing the importance of 'inside-out' and 'outside-in' pressures against each other or combining them. The reflectivist approach, however, is characterised by emphasising the interpretation of actors as central to the process of cooperation. This perspective presents actors as reflective, capable of adapting to challenges imposed by changes in their physical and social environment as well as the behaviour of other actors. The world-making approach of reflectivism stands in opposition to the world-description approach of rationalist theories (Keohane, 1989: 158-76). The reflectivist approach is manifested in constructivism and cognitivism, a symbolic turn in social sciences.

Deutsch's preoccupation with communication, language and meaning is at the origins of constructivism. For Deutsch, socially influenced patterns of learning were crucial for community and identity-building and political integration was a process of social learning implying that human identities alter (Deutsch, 1957). Constructivists are interested in the construction of identities and interests and as such take a more sociological than economic approach to systemic theory. For constructivism, regionalism is explained not as a result of structural or institutional factors but as an instrument for changing existing structures and institutions to create new identities through *intersubjective* dynamics.

Constructivists seek to understand how shared ideas, knowledge and norms, namely collective identity, can contribute to the emergence of regional cooperation. Drawing on integration theory which focuses on the formation of community at the international level, Alex Wendt reframed the collective action issue in terms that make interests *endogenous to interaction* or the process of cooperation. He argued that interaction at the systemic level shapes and reshapes state identities and interests (Wendt, 1994). This means that regional entities can be constructed through building new loyalties and identities above the nation-state and promoting a collective definition of interest.

Cognitivism, an overlapping representation of the constructivist perspective, emphasises that actors are capable of restructuring international society and reshaping interest formations. Cognitivism holds that actors attempt to pursue their own strategies based on their own ideas and goals. For Emanuel Adler, for example, security communities are 'cognitive regions', regional subsystems of meaning not limited to a specific geographic space that help constitute the interests of their members. Adler saw the OSCE as a 'cognitive region' because of its community-building functions as well as its aim to promote security by means of inclusion (Adler, 1997). These region-building processes, nevertheless, often

compete with conflicting visions of regions. To illustrate, that there are different national conceptions of Europe among the French, German and Russians explains why the attempt to create a new order on the continent became problematic in the immediate post-Cold War days (Waever, 1990).

Changes in international relations theory in recent years, however, have contributed to renewed interest in exploring the role of identity, norms, ideas and the social basis of global politics. A transnational community of policy-makers has emerged who have departed from realist-based security debates by attributing the existence of common values primarily at the origin of security cooperation and 'new' security issues. The concept of *security community,* for example, is being revisited and scholars have started examining its empirical application in various historical and regional contexts beyond the original North Atlantic area considered by Deutsch and his associates (Adler and Barnett, 1998). The community concept, however, is a direct challenge to models of security politics that dominated the Cold War. Constructivist scholarship is therefore suited to consider how social processes and an international community might transform security studies.

2.5 Domestic Theories of Regionalism

Neither of the above approaches, both rationalist and reflectivist, pay sufficient attention to the domestic sources of regionalism, that is to say economic and political factors internal to states. Integration theories emphasize the role played by the domestic dynamics such as interest groups or elites but link them to regional ones such as institutions (Haas, 1964, Linberg, 1963). With the advent of interdependence theories and transnationalism, the role of domestic factors slipped more out of focus, particularly as the concept of regimes came to dominate the field (Krasner, 1983). In the post-Cold War era, however, it is hard to ignore

the domestic prism as regional relations are no longer linked to the logic of superpower competition. The politicisation of regional policy offers a better opportunity to study the domestic conditions that shape regionalism. These include structural factors such as types of regimes, state coherence, sustained economic dynamics and state-society relations related to domestic interests and policy-preferences.

A large body of literature on domestic explanations of regionalism is concerned with the relationship between democracy and peace. The 'democratic peace' hypothesis postulates that democracies do not wage wars against each other, thus extending into the debate of cooperation and conflict. This thesis originates in the Kantian idea that the spread of liberalism is likely to draw a pacific union in its wake. In the twentieth century, the theory acquired a status of conventional wisdom (Doyle, 1997). The conceptual links between democracy and peace/cooperation have a structural and normative base. The structural model is related to the institutional checks and balances of democratic regimes on their leaders that make conflict difficult to pursue, especially in light of public opinion's sensitivities to the human and material costs of war. The normative model is related to the tradition of compromise between democracies which prevents conflicts of interest from escalating to violent clashes (Maoz and Russett, 1993). Owen, for example, defends the 'democratic peace' proposition by arguing that liberal ideas cause democracies to avoid war with one another (Owen, 1994).[45]

An overview of regional schemes in the world, however, demonstrates that cooperation has not always been the result of democratic minds. Many regional schemes such as ASEAN include non-democratic states such as Myanmar whereas in Latin America the Andean

[45] Using justification from both normative and structural restraints on conflict between democracies, Russett even found evidence for the 'democratic peace' thesis among ancient Greek cities and non-industrialised societies (Russett, 1993).

Group or LAFTA were first established in the 1960s under authoritarian regimes. According to Cohen, the 'democratic peace' phenomenon is restricted in time, place and civilisation.[46] Moreover, the causal mechanism behind the concept is not proven, thus lacking a serious theoretical foundation (Cohen, 1994). Nor does most of the literature answer why democracies wage wars against non-democracies. It is also essential to determine at which stage of the democratisation process a country is. During transition, for example, various pressures might affect a country's disposition towards conflict or cooperation (Mansfield and Snyder, 1995). In fact, the existence of democracy in itself is neither necessary nor sufficient for cooperation to emerge. Given the centrality of economic reforms to the pace and stability of democratic institutions, a review of the interaction between political and economic liberalisation is therefore essential (Solingen, 1998).

Domestic explanations of regionalism also concentrate on state coherence. While regionalism may over time lead to new forms of political organisation, state strength is a prerequisite for regional development and states are often building blocs within which regionalist arrangements are constructed. Alan Milward has argued that even in the case of Europe there is no antithesis between integration and the nation-state, the former being part of the reassertion of the latter as an organisational concept (Milward, 1992). Milward goes as far as to argue that European states have never had more effective power and extensive control over their citizens than since World War II (Milward, 1992). The most successful regional schemes such as the EU exist, therefore, where strong states have been built in terms of effective apparatuses and mutually accepted territorial boundaries.

As Haas wrote in the 1960s, regionalism is a phenomenon that emerges *beyond* the

[46] Like Karl Deutsch, Cohen only found evidence for 'democratic peace' in North Atlantic/Western European countries during the Cold War. He attributed this to powerful interests such as a common external threat, the experience of the World War II and economic interdependence (Cohen, 1994).

nation-state (Haas, 1964). In Europe, the challenge of competing nationalisms within territorial states was not really a salient issue after World War II. In fact, the territorial and economic basis for national states had been prepared as far back as the late fifteenth century (Hutchinson and Smith, 1994). A state that enjoys legitimacy is more at ease with devolving some aspects of its sovereignty to supranational institutions than one that is trying to attain domestic cohesion and autonomy. The EU has made significant steps towards political and economic union precisely because most of its members enjoy an intact sense of national identity and undisputed borders, features that enable them to participate safely into arrangements that impinge on the traditional realm of sovereignty (Kupchan, 1995).

In the developing world, however, Mohammed Ayoob has argued that the vulnerability and permeability of states is the major source of insecurity. Including the Balkans in this category, Ayoob points out that the infancy of developing world states, the simultaneity of their state-making and democratisation processes and their colonially imposed boundaries - and consequent overlap in the affinities of significant segments of their populations across borders - contribute to the emergence of regional subsystems based more on conflict than cooperation (Ayoob, 1995: 57).[47]

Although the relationship between economic development and regionalism has to date been underdeveloped and as was shown in section 2.4.1 academic analysis has mostly focused on the impact of economic integration on welfare, sustained economic dynamics can be argued to be a precondition for successful regionalism.[48] Post-war European integration, for example, was based on the growth experienced in the continent after

[47] The complex relationship between state, nation and democratisation has been called 'stateness' problem by political scientists (Linz and Stepan, 1996).

[48] As was shown in footnote 39, economists rarely agree in their projections of the balance of gains and losses in any one instance of economic union.

World War II. Although the mainstream view is that growth in Europe was the result of US aid through the Marshall Plan, historical controversy surrounds the extent to which the latter assisted the continent economically or even the degree to which European countries needed the help in the first place.[49] Whereas Alan Milward, for example, has argued that when the Marshall Plan was authorised in 1948 no symptoms of an economic crisis were observed in European countries, Michael Hogan has claimed that a serious crisis of production had hit Europe in 1947 and that the ERP helped recovery by "*facilitating imports, easing production bottlenecks and encouraging high levels of capital formation*" (Milward, 1984: 365; Hogan, 1987: 432).[50] The establishment of the ECSC in 1951, however, came in the aftermath of the economic reconstruction period. Output and external trade continued to grow fast and the creation of the EEC in 1957 merely catered to trade in existing products (Tsoukalis, 1997: 12).

In Latin America, however, early regionalist efforts ended in failure because economic events in the 1970s and 1980s reduced the desire for integration and even contributed to actual regression in certain cases. Whereas, for example, in the 1960s the need to enlarge the markets for import substitution led to the creation of LAFTA and CACM, after 1973 the substantial increase in the price of oil weakened industrialisation efforts and export expansion in countries like Ecuador, Mexico and Venezuela and the abundance of foreign

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[49] The Marshall Plan, otherwise known as European Recovery Programme (ERP), provided the finance for the large payments deficits of Western European economies and was conditional on effective cooperation among governments and the progressive liberalisation of intra-european trade, creating the foundations for economic cooperation at the regional level. It led to the creation of the Organisation for European Economic Cooperation (OEEC) (later OECD) and the European Payments Union (EPU) and contributed significantly towards the rapid expansion of intra-european trade (Tsoukalis, 1997: 10).

[50] Alan Milward, for example, has argued that the economic crisis of 1947 amounted to a shortage of dollars for the purchase of US capital goods urgently required to maintain an already impressive economic recovery of Europe (Milward, 1984: 365). Similarly, John Harper has argued that the Marshall Plan's contribution to European reconstruction was more political and psychological than economic given that industrial production was on the upswing already by mid-1947 (Harper, 1998: 151).

exchange made it difficult for these countries to export non-oil products. In addition, in the second half of the 1970s, easy access to bank loans weakened efforts to earn foreign currency through exports to regional partners. And in the 1980s, the debt crisis, a recessionary framework and the proliferation of import restrictions and retaliatory practices within Latin America adversely affected intra-regional trade which never reached much more than one fifth of total external trade (Sunkel, 2000: 61).[51]

According to the early theoreticians of integration, national economic performance was argued to be a precondition for regionalism in so far as it is spread homogeneously among the units. Schmitter and Haas, for example, considered economic size and power, which they defined as "*the relative weight of industrial capacity in the specific functional context of the union*", to be one of nine conditions for integration (Schmitter and Haas, 1964: 711). Barrera and Haas expanded on the argument by stating that the more homogeneous the countries are in per capita GNP, the greater the chance of a successful union (Barrera and Haas, 1969: 155). Similarly, Joseph Nye argued that the more equal the level of development measured by per capita GNP, the higher the regional trade integration (Nye, 1971: 79).

More recently, Bjorn Hettne defined sustained economic dynamics together with political stability as the two basic criteria of core regions, a category in which he included Europe, North America and East Asia (Hettne, 2001: 3).[52] Similarly, Sheila Page has found that

[51] Neo-liberal macroeconomic adjustment and restructuring in the 1990s initially had a stimulating effect on trade, investment and cooperation in Latin America through the new regionalism. But the fragility of economic development in several countries, including Brazil and Argentina, places a question mark on the prospects for regional integration in the region.

[52] According to Hettne, "*regions in the core are accordingly coherent, politically strong, well organised at the supra-state level and, furthermore, not only economically growing in a sustained manner, but also leading in technological innovation. They organise for the sake of being better able to control the rest of the world, the world outside their own region, and compete among themselves in exercising this influence*" (Hettne, 2001: 4).

these regions, which have institutionalised their activities through the EU, NAFTA and APEC, have the highest average income per capita rates in the world at Purchasing Power Parity (PPP) (Page, 2000: 67). Page also suggested that more developed regions are more likely to maintain the same interests and survive longer (Page, 2000: 71).

Finally, there exists an emerging literature on the political economy of regionalism which highlights interest-group politics and societal pressures as well as the influence of structural factors such as domestic political institutions. Putnam, for example, offered a two-level game theory of integrating domestic and international spheres, addressing the role of domestic preferences, negotiating strategies and political practices (Putnam, 1988). Although this literature produced few attempts to explain patterns of regionalism, recent years have seen authors point to the importance of factors internal to states, such as pressures by firms, domestic economic conditions and distributional issues in shaping regional economic groupings (Milner and Manfield, 1997). Busch and Milner argue that sources of regionalism are to be found in the interaction of domestic politics and the changing international economy. In this approach, regionalism is perceived as the result of the 'demand' of domestic firms that are export dependent to the 'supply' by states of regional arrangements (Busch and Milner, 1994).

A major recent work that pays significant attention to the domestic field is *Regional Order's at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Solingen, 1998). Etel Solingen explains how coalitions that evolve within states affect countries' overall behaviour internationally and regionally. She argues that the coalitions' agendas - *grand strategies* - have lead to more regional orders. Internationalist orders favour economic liberalisation thus promoting cooperation whereas statist-nationalist and confessional ones oppose it thus reproducing zones of war. According to Solingen "*coalitions provide a*

means for coming to terms with the otherwise elusive concept of regions, by subsuming a region's boundaries to the coalitions' respective grand strategies" (Solingen, 1998: 4).

In fact, coalitions are policy-networks spanning state and private political actors and assuming that state agencies and societal actors can undertake joint projects, thus avoiding sterile debates between purely statist and purely societal reductionist conceptions. While helping define sources of change, another important contribution of this approach is that it requires a conceptual blending between the more extensive literature on the impact of economic liberalisation and the less so on domestic, regional and global dimensions of security. By relying on a coalitional perspective as the essential building bloc of emerging regional orders, therefore, it is possible to integrate some of the most important concerns and premises of different approaches to international politics.

2.6 Conclusions

The study or regionalism has a rich theoretical tradition behind it and constitutes an emergent topic in the literature of International Relations and International Political Economy. Rational/world description international explanations of regionalism are concerned with weighing the importance of 'inside-out' and 'outside-in' pressures on a region or combining them. Dominated by integration theories, for example, the internal dynamics approach regards bureaucracies, political parties or trade unions as principal integrative actors and links them to regional ones such as institutions (Mitrany, 1975, Haas, 1964, Deutsch, 1957, Keohane, 1989; Moravscik, 1993).

The external dynamics school emphasises the role of outside powers working on the region, such as the broader political structures within which regionalist schemes are embedded or

the role of economic factors such as transnational companies (Waltz, 1979; Ohmae, 1995). An important body of literature regarding international factors that generate regionalism also operates at the centre of the continuum. It includes the theory on *security complexes* which are viewed as determined by the internal dynamics of a region united by common problems in conjunction with external dynamics (Buzan, 1983).

The reflectivist/world-making approach, on the other hand, is characterised by emphasising the interpretation of actors as central to the process of cooperation. Constructivists, for example, believe that regional entities can be created through building new loyalties and identities above the nation-state and promoting a collective definition of interest (Wendt, 1994). Similarly, cognitivists view 'security communities' as regional subsystems of meaning - cognitive regions - that help constitute the interest of their member states (Adler, 1997).

Finally, domestic explanations of regionalism concentrate on intra-national structural factors that shape regionalism. To illustrate, the 'democratic peace' thesis postulates that democracies do not wage war against each other, thus extending into the debate of regional cooperation (Doyle, 1997). State coherence is another prerequisite for regionalism to emerge (Milward, 1992; Haas, 1964). In addition, sustained economic dynamics have been identified as an important contributor to a successful union (Nye, 1971; Hettne, 2001). Finally, an emerging literature on the political economy of regionalism argues that the sources of the phenomenon are to be found in the interaction of domestic politics and the changing international economy (Busch and Milner, 1994).

As can been demonstrated primarily through the development of the European project, one cannot locate the sources of regionalism by focusing on one level of analysis. The European

Communities, for example, can best be understood through a staged approach, as the result of particular historical circumstances, external pressures and a response by states to regulating the consequences of interdependence. A major conclusion, therefore, is that regionalism can be more accurately explained by integrating the various theories developed in the last half century (Hurrell, 1995).

In this thesis, the lack of effective regionalism in Southeastern Europe in the post-Cold War era will also be explained by focusing on various levels of analysis. In particular, the modest achievements of regional cooperation in the Balkans will be attributed to the absence of clear mechanisms of implementation and coordination of regional initiatives and the systemic pressures on the region primarily by the EU as well as the lack of domestic preconditions for the emergence of successful regionalism.[53] The thesis will, therefore, demonstrate that theories of regional systems that have been worked out on the basis of the experience primarily among Western countries can apply to areas where the phenomenon has been under-developed as well as to subregional cooperation processes which are to date undertheorised.

Apart from the lack of institutionalisation, self-financing and coordinated activities of regional initiatives, external obstacles to regionalism refer primarily to the impact of the differentiated European integration process that has also been taking place in the Balkans in the post-Cold War period, exacerbating the region's heterogeneity and inducing centrifugal tendencies by regional countries. Given that in the period under consideration the European (EU) system was essentially inter-governmental with respect to its external relations, a liberal institutionalist approach is more appropriate for explaining the external constraints on regionalism in Southeastern Europe. Systemic preconditions for the lack of regionalism

[53] Similarly, the Euro-Atlantic (NATO) system has obstructed the emergence of effective regionalism in the security sector.

will, therefore, introduce the region (EU) as an actor that can influence the emergence of the phenomenon thus contributing a neo-liberal aspect to the more traditional state-centric outside-in approach to regional cooperation.

In addition, the major domestic barriers to the emergence of regionalism in the Balkan are the ongoing state-building process of the Yugoslav successor states as well as the delayed transition to market economies which perpetuate insecurity in the peninsula. An examination of the intra-national preconditions for regional cooperation will introduce to the domestic sources of regionalism the concept of 'stateness' which subsequent to the collapse of communism has been added to the literature on democratisation with respect to developments in Eastern Europe and the post-Soviet states (Kopecky and Mudde, 2000).[54] Finally, the interaction between political and economic factors that inhibit the emergence of successful regionalism will contribute to bridging the gap between International Relations and International Political Economy.

[54] In the words of Linz and Stepan "*when there are profound differences about the territorial boundaries of the political community's state or about who has the right of citizenship in that state, there is what we call a 'stateness' problem*" (Linz and Stepan, 1996: 16).

Chapter 3

Historical Overview of Balkan Regional Cooperation

3.1 Introduction

Before turning to contemporary patterns of interaction in Southeastern Europe, it is necessary to examine earlier attempts at regionalism in the Balkans in order to put the contemporary experience in perspective and draw lessons from the past. Chapter 3 will examine attempts at Balkan cooperation by states and non-state actors in the nineteenth and twentieth centuries and will elaborate on why they failed to produce concrete results. It will consider such schemes as the Balkan Alliances of 1868 and 1912, the Balkan Conferences and Balkan Entente of the 1930s, the Balkan Federation, the Balkan Triangle of 1953-55, Balkan Arms Limitation Talks (BALTs) and the second wave of Balkan Conferences in the 1970s and 1980s and will argue that they were largely ineffective because of external and domestic reasons. External constraints on regional cooperation, on the one hand, refer to the interest in descending order of the Great Powers, Germany and the Superpowers in keeping the region divided. Domestic constraints, on the other hand, are related to the fragmentory role of Balkan nationalisms.

3.2 Balkan Leagues and Confederal Plans

Even before the formation of nation-states in the Balkans, a number of plans for regional cooperation were put forward in Southeastern Europe. The origins of the idea can be sought

in the works and activities of Rhigas Pheraios.[55] Inspired by the French Revolution, in 1797 Rhigas anonymously published the *New Political Constitution for the Inhabitants of Rumelia, Asia Minor, the Mediterranean Islands and Moldavia-Wallachia* (Geshkoff, 1940: 19).[56] In this revolutionary manifesto of Pan-Balkan political cooperation, Rhigas called on all Southeast European peoples to take up arms in a common struggle against the Ottomans. His goal was the establishment of a confederation comprising of the Balkans and Anatolia in which Greek would be the language of administration and the Church as it had been during the Byzantine Empire (Woodhouse, 1984: 130). The spirit of combined struggle moved certain individuals and small groups, such as the planners of the 1821 revolution, but it did not however have wide popular support as the universalistic tendencies of the Enlightenment were not capable of countering the rise of nationalism (Lopez Villalba, 2003: 146).[57]

Other proponents of regional cooperation in this period included the Hungarian revolutionary Lajos Kossuth who in the 1850s and 1860s envisaged the creation of a Danubian Confederation comprising of Hungary, Romania, Serbia, Transylvania to be joined at a later stage by Croatia, Bosnia and Bulgaria (Braun, 1989; Stavrianos, 1964: 66).[58] Kossuth's anti-Habsburg initiative was meant to operate via a federative parliament and council with powers to collectively manage trade, customs, foreign affairs and defence (Kearns, 1999: 29). The fundamental cause of its failure, however, was that none of the

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[55] Rhigas Pheraios, or else Constantine Velestinlis, was a Secretary of Phanariot and boier magnates in Constantinople and Bucharest who settled in Vienna in the late eighteenth century stirring through his revolutionary poems a Balkan uprising against the Ottoman Empire (Pavlowitch, 1999: 25).

[56] The statute for the 'Greek Republic' contained a *sui generis* translation of the 1793 French Constitution as well as the famous revolutionary poem *Thourios* (Lopez Villalba, 2003: 144).

[57] Rhigas was eventually captured and killed by the Ottomans in 1798 (Svolopoulos, 1999).

[58] In 1848, Kossuth formed an anti-Habsburg liberal government in Hungary which was eventually defeated by Franz-Joseph with the aid of Russia (Jelavich, 1983: 310).

national groups involved was seriously interested in a confederation for its own sake, but only insofar as it might satisfy their national aspirations for autonomy and independence (Stavrianos, 1964: 83).

With the emergence of states in the region, the responsibility for setting up mechanisms of regional cooperation became an affair of national governments. Such cooperation, however, was never achieved on a multilateral basis. Rather it involved two sets of alliance systems against the Ottomans based on a network of *bilateral* agreements. The first Balkan League was set up between 1866 and 1868 by Michael III of Serbia and consisted of a series of treaties that Serbia concluded with Romania, Montenegro, a Bulgarian revolutionary society and Greece (Stavrianos, 1958; Svolopoulos. 1999).[59] The coordinated Balkan revolt against the Turks planned for 1868, however, disintegrated very fast after the assassination of Michael III and the withdrawal of Russian support (Jackson, 1996).

A second Balkan League consisting again of a series of separate treaties between Greece, Bulgaria, Serbia and Montenegro was formed in 1912 .The Treaties of Alliance between Bulgaria and Serbia, Greece and Montenegro were largely the product of Russian diplomacy and were signed as a result of the opposition of Balkan states to the Turkification policies of the Young Turks (Geshkoff, 1940: 41). Although the Second Balkan League gained a measure of success against Ottoman Turkey in 1912, when it came to "*minting common victory into political coin*" and dividing the spoils, however, the antagonisms between the partners became apparent (Mitrany, 1927: 166). The Second Balkan War broke out in 1913 with Greece, Serbia and Montenegro – and subsequently Romania - on the one side and Bulgaria on the other (Geshkoff, 1940: 43).

[59] The Greek-Serbian alliance was expressed through the 1867 Treaty of Voeslau.

That Balkan cooperation never succeeded in the nineteenth and early twentieth centuries can be attributed to internal and external factors. Within the region, the awakening of nationalism and the creation of autonomous and independent states with overlapping claims on Balkan territories was not compatible with creating the necessary climate for cooperation.[60] The period 1878-1914 in particular was one of crises and wars in the peninsula because of the grievances created by the Congress of Berlin. Although the 1878 Berlin settlement involved major changes in frontiers and political status, all Balkan states were left dissatisfied. To illustrate, Bulgaria gained autonomy from the Ottoman Empire but embitterment followed the loss of territories that were granted to Sofia earlier that year by the Treaty of San Stefano, namely all of present day FYR Macedonia and large parts of northern Greece (Stavrianos, 1958).[61] In addition, although Serbia and Romania gained full independence and additional territory, Serbs were unhappy about the advance of Austria-Hungary into Bosnia and Romanians about the loss of Bessarabia to Russia (Stavrianos, 1958).

The consequences of the Treaty of Berlin, therefore, were the Serbo-Bulgarian War of 1885, the Bosnian crisis of 1908 and the Balkan Wars of 1912-13. That Macedonia remained under Turkish administration also brought about the suicidal Bulgarian, Greek and Serbian struggle over its territories which eventually overcame even their common opposition to the Porte (Stavrianos: 1958: 412). In the nineteenth century, therefore, Balkan statesmen occasionally showed some interest in cooperating with their neighbours and even talked of forming federations, but only so long as it suited the interests of their particular country

[60] The Balkan national revolutions of the nineteenth century were carried out individually with little cooperation among nationalities. But they all, however, shared common characteristics such as a cultural revival, armed insurrections and similar political and economic goals for the future (Sfikas, 1999).

[61] The Treaty of San Stefano was dictated to the Ottomans by Russia at the conclusion of the Russo-Turkish war of 1877-78 (Stavrianos, 1958).

(Stavrianos, 1964). Finally, the creation of nation-states further fragmented the region economically since production was nationalised and linked to dominant centres in Europe.[62]

External factors were also unfavourable to Balkan cooperation. In the nineteenth century, Great Power diplomacy concentrated in keeping Southeast European states divided. Balkan0 divisions were initially supported by the Concert of Europe due to a fear that a major rearrangement derived from the decline of the Ottoman Empire would favour Russia because of its influence on Balkan Slavs (Stavrianos, 1958)[63] Arranged by Bismarck with the participation of Austria-Hungary, Russia, Britain and Germany who had been the representatives of the 1856 Paris Peace Treaty, therefore, the 1878 Congress of Berlin checked Russia's ambitions in the region and led to the diplomatic carve-up of the Balkans that ruled out the creation of viable states (Gallagher, 2001). Thereafter, the European powers were interested in preserving the status quo, opposing territorial revisions in the region, collecting interest on state loans and keeping each other in check (Lampe, 1990: 15).[64]

Finally, economic interests of the Great Powers also stood in the way of Balkan cooperation. To illustrate, when as early as 1880 the governments of Bulgaria and Serbia entered into

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[62] The failure of the Ottoman command economy in the eighteenth century to establish a mercantilistic institutional framework to replace a military and feudal state structure, allowed Balkan traders to provide the commercial nexus around which modern nation-states would emerge in Southeastern Europe (Lampe, 1982: 16).

[63] As a result of their competition with Britain over influence in the Near East, Persia and India and given their historical interest in the Dardanelles and the Bosphorous, Russians played the card of the natural protectors of the Orthodox Christians under Ottoman domination. In the 1860s and 1870s, Russian Panslavists had proclaimed their own plans for a federal union of Balkan people with Russia as the guiding power (Rosenberger, 1969: 16; Jelavich, 1983: 353).

[64] Even Russia, which had sponsored the Balkan Alliance systems of 1866-68 and 1912, was not keen to see the Ottomans collapse and on both occasions eventually restrained its policies so as to preserve the crumbling Ottoman Empire (Stavrianos, 1958: 228).

negotiations for the establishment of a Customs Union, Austria-Hungary posed significant objections and Serbo-Bulgarian negotiations fell through. When a treaty was signed between Sofia and Belgrade in 1905, Austria closed her border to Serbian cattle imposing an economic war between 1906-1911 (Geshkoff, 1940: 32). A Habsburg tariff war had also been imposed on Romania between 1886-91 (Lampe, 1990: 13).[65]

3.3 Balkan Conferences and Balkan Entente

With the collapse of the Russian, Ottoman and Habsburg Empires which had been significantly involved in Southeastern Europe until 1914, Balkan governments had the opportunity to form a front to protect their interests and fill the political vacuum in the region.[66] In the 1920s, international impetus for cooperation was provided by the spirit of liberalism that followed the establishment of the League of Nations in 1920 and the signing of treaties like Locarno in 1925 which guaranteed the borders between France and Germany embodying the principle of non-aggression and arbitration (Economides, 1992: 121). The conclusion of a series of bilateral agreements between Balkan countries was an important factor in promoting stability in the region and removing sources of discord.[67]

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[65] In 1911, the Romanian economist Xenopol re-examined prospects for the creation of a Balkan Federation. He concluded against it arguing that the industrial countries dominating the Bulgarian and Serbian markets would not allow it (Mitrany, 1927: 166). Serbian trade with Vojvodina and Romanian trade with Transylvania, however, already provided a degree of economic cooperation for the enlarged states of Yugoslavia and Romania that would be created after the Great War (Lampe, 1990: 13).

[66] Apart from their diplomatic role in the region, until the Great War the three Empires also dominated large parts of the peninsula. Austria-Hungary owned Dalmatia, Croatia, Slovenia, Bosnia-Herzegovina and Transylvania, Russia Bukovina and Bessarabia and Ottoman Turkey Albania, Macedonia and Thrace. The annexation of Bosnia by Austria-Hungary in 1908 intensified Great-Power rivalries culminating in June 1914 in the assassination in Sarajevo of Archduke Franz Ferdinand, the Habsburg heir to the throne, an event which sparked World War I (Cviic, 1995).

[67] Romania, for example, signed an agreement with Greece in 1928, Yugoslavia in 1929 and Bulgaria in 1930. Turkey signed treaties of friendship with Yugoslavia in 1925, Bulgaria in 1929, Greece in 1930 and Romania in 1933 (Kerner and Howard, 1936; Lopandic, 2001: 45).

In such a climate of reconciliation, David Mitrany presented his liberal ideas for promoting cooperation in the Balkans. In *The Possibility of a Balkan Locarno*, Mitrany argued that an all inclusive arrangement should be set up in Southeastern Europe in order to guarantee borders and provide a mechanism for arbitration (Mitrany, 1927). According to the father of functionalism, conditions for the success of such a project were finding a commonality of interest among Balkan countries as well as containing outside interference. Even Mitrany's idealism, however, found these conditions to be lacking in Southeastern Europe in the interwar period (Mitrany, 1927: 30).

The most significant attempt at regional cooperation in the interwar period was promoted multilaterally through a series of Balkan Conferences between 1930-33. Organised as meetings of unofficial representatives of all states in the region, the Balkan Conferences aimed to create a Union of Balkan States.[68] The idea was initiated by Greek representatives at the Twenty-Seventh World Peace Congress held in Athens in 1929 and headed by former Premier Alexander Papanastassiou. Although delegations to the Conferences included politicians, intellectuals, chamber representatives and journalists, the positions of national groups were in line with their governments and observer status was granted to diplomatic representatives (Lopandic, 2001: 38)

It has been argued that the Balkan Conferences were an attempt by countries in Southeastern Europe to adjust their mutual interests and organise a bloc strong enough to resist pressures from the Great Powers (Geshkoff, 1940: 147). An implicit reason for these plans was that the Great Depression of 1929 had hit Balkan countries hard through a significant drop in

[68] "*The aim of the Balkan Conference is to contribute to a rapprochement and collaboration of the Balkan peoples in their economic, social, cultural and political relations, so as to direct this collaboration toward the ultimate establishment of the Union of Balkan States (Albania, Bulgaria, Greece, Rumania, Turkey and Yugoslavia)*" (Statutes of the Balkan Conference: Article 1).

agricultural prices and a decline in their exports (Lampe, 1982). A Customs Union was consequently also promoted with view to allowing Balkan states to bargain on equal terms with those countries which had formed protectionist blocs in Western and Central Europe (Stavrianos, 1964).

The First Balkan Conference held in Athens in October 1930 adopted various ambitious declarations and resolutions as a basis for future work as well as The Statutes of the Balkan Conference whereby it was established as a permanent organisation. It was also agreed that the directing bodies would be a General Assembly, a Council, a Bureau and a Secretariat (The Statutes of the Balkan Conference: Article 2). Finally, symbols of an incipient union were introduced such as a flag and a hymn composed for the first Balkan games (Braun, 1983: 41). The Second Balkan Conference held in Istanbul in October 1931 saw the creation of six commissions for the establishment of a political, social and economic rapprochement. An Inter-Balkan Trade and Industrial Chamber, Postal Union and Tourist Federation were also formed and the abolition of visas among Balkan citizens was advocated (Lopandic, 2001: 39).[69]

The Third Balkan Conference held in Bucharest in October 1932 saw the adoption of a draft for the creation of a Balkan Pact and a Convention on the State of Citizens as well as various proposals for the elaboration of a common textbook on the region's history or the foundation of a Physicians' Union.[70] Finally, the Fourth Balkan Conference held in Thessaloniki in November 1933 examined proposals for the development of a network of regional transport

[69] Various other technical cooperation bodies were promoted such as a Balkan Press Association, a Medical Union as well as Tobacco and Labour Offices (Geshkoff, 1940).

[70] The draft of the Balkan Pact comprised of 39 articles which were divided into five chapters. These included a) non-aggression and friendship; b) pacific settlement of disputes; c) mutual assistance; d) the protection of minorities and d) general provisions (The Bucharest Draft Balkan Pact).

infrastructure and saw the adoption of a Draft Convention on Regional Economic Entente.[71]

The process, however, gradually broke down as Bulgaria and Albania raised objections during the Third and Fourth Conferences with respect to the Draft Balkan Pact. Refusing to further participate until their grievances were satisfied with respect to unresolved territorial disputes and minority questions, Tirana and Sofia continued to pursue their own claims on neighbouring states (Economides, 1992: ; Lopandic, 2001: 40).[72] In practice, therefore, the Balkan Conferences failed to resolve political problems that derived primarily from Bulgarian revisionism of the Treaties of Berlin (1878), Bucharest (1913) and Neuilly (1919) (Geshkoff, 1940: 199).

In addition, the establishment of a Customs Union was doomed to fail because of the unwillingness on the part of Balkan countries to relinquish trade barriers (Lampe, 1982: 457). Bilateral economic agreements with Germany gradually created competition between Balkan countries and the lack of significant levels of intra-regional trade - which at the time was estimated at 9% - hampered prospects for the establishment of economic integration in the region (Karafotakis, 1999: 24). The signing of a Yugoslav Free Zone in Thessaloniki in 1914 eventually proved to be the only concrete step towards economic integration in the Balkans in the interwar period (Karafotakis, 1999: 2).[73]

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[71] "*The Governments of the Balkan States animated by the desire 1) to develop the exchange of goods and services among the national markets of the Balkan countries to the largest possible extent and 2) to cooperate for the most effective protection of their staple products in the extra-Balkan markets, bind themselves to establish, within the period of one year, the Regional Economic Entente as a first step toward the Balkan Customs Union*" (*The Draft Convention on Regional Economic Entente*: Preamble).

[72] Bulgaria had never accepted the loss of Dobrudja to Romania and believed Macedonians to be ethnic Bulgarians. Albania claimed Greek Epirus and Yugoslav Kosovo.

[73] The Yugoslav Free Zone, however, was not consolidated until 1929 when Greece and Yugoslavia disposed of a controversy over its functioning (Karafotakis, 1999: 28).

The consequence of the rift among participants of the Balkan Conferences was the signing in February 1934 of an Entente between Greece, Yugoslavia, Romania and Turkey. It was intended as a regional compact against all forms of territorial revision and provided for a permanent Economic Council and legislative coordination.[74] In practice, however, the Balkan Entente was an alliance aiming to uphold the territorial *status quo* against Bulgarian revisionism and was not directed against any states outside the region.[75] In addition, that Yugoslavia and Romania had already been signatories to the 1921 Little Entente, which in 1933 reorganised under the Pact of Organisation directed against the Axis Powers, destroyed any notion of a Balkan regional identity by removing two major countries from the equation (Economides, 1992).[76]

Furthermore, since they did not possess a protective mechanism against external threats, the members of the Balkan Entente eventually sought security through bilateral treaties with Germany and Italy, such as the Italo-Yugoslav agreement of 1937 (Veremis, 1994: 34). In addition, although in 1938 the Balkan Pact was even briefly enlarged to include Bulgaria in return for a promise that Sofia would not seek frontier revisions by force, the agreement formally functioned until September 1940 when Romania officially withdrew its participation (Campus, 1978: 150-3). The Italian attack on Greece in October 1940, therefore, provoked no reaction among members of the Balkan Entente.

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[74] The Balkan Entente comprised of three articles whereby the signatories a) mutually guaranteed security of borders; b) undertook to consult one another and act in a mutually adjusted manner with respect to other regional countries and c) guaranteed that the agreement was open to all Balkan countries (The Pact of Balkan Entente, 1934).

[75] It is noteworthy that the word 'Balkan' first gained international recognition through its use in this pact (Geshkoff, 1940).

[76] The Little Entente was signed in 1920-21 between Yugoslavia, Romania and Czechoslovakia in order to guarantee the territorial integrity of the successor states of the Austro-Hungarian Empire and prevent Hungary from restoring the Habsburg Dynasty. In 1933, the Little Entente reorganised under the Pact of Organisation out of fear that Great Britain and France would appease the Axis Powers at the expense of small states, turning it into a defensive alliance against Germany (Campus, 1978).

Apart from domestic controversies, therefore, external factors undermined the foundations of Balkan cooperation in the interwar period. Germany's revival in the 1930s gradually filled the power vacuum in Southeastern Europe and the centrifugal pull of its expansionism was too strong for Balkan countries to resist.[77] Italy, which also sought to expand eastwards, backed revisionist powers Hungary, Austria and Bulgaria and subsidised terrorist groups in other countries contributing to turbulence in Balkan politics. In addition, France, which in the 1920s had promoted Balkan and Central European cooperation in order to preserve a favourable continental *status quo*, was unable to maintain a balance between revisionist and anti-revisionist powers in the 1930s.[78] Finally, the 1930s saw the discrediting of the League of Nations' principle of collective security in favour of bilateral pacts of non-aggression.[79]

3.4 Balkan Federation

In the interwar period, a federation movement with considerable mass following first developed under the leadership of the radical agrarian as well as socialist and communist parties (Stavrianos, 1964: 260). Espousing its ideas in 1922, the Premier of Bulgaria Alexander Stambolinski put forward a plan for the creation of a Customs Union between Bulgaria and the Kingdom of Serbs, Croats and Slovenes along agrarian lines (Braun, 1989).

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[77] As they formed a political alliance to oppose revisionism which the Reich supported, the Balkan Entente associates were on the way to becoming economically dependent on Germany (Pavlowitch, 1999: 273).

[78] The rise of the Axis powers made France reconsider Hungarian containment and even support plans for a Danubian Federation between 1930-35 to end the latter's isolation (Rosenberger, 1969). In 1932, French Foreign Minister Tardieu advocated the creation of a Customs Union between Austria, Hungary, Czechoslovakia and Romania in order to prevent German expansionism. But Austria and Hungary blocked the idea of creating an economic entity between the states that emerged from the Habsburg lands (Gallagher, 2001: 106).

[79] In the Balkans, these included the Pact on a Cordial Alliance between Greece and Turkey of 14/9/1933; the Agreement on Friendship, Non-Aggression, Arbitration and Reconciliation between Romania and Turkey of 17/10/33 and the Agreement on Friendship, Non-Aggression, Judicial Negotiations, Arbitration and Reconciliation between the Kingdom of Yugoslavia and Turkey of 27/11/33 (Lopandic, 2001: 45).

Fearing that a cooperation scheme between Croats, Slovenes and Bulgarians might deprive them of supremacy in an integral Yugoslav Federation, however, the Serbs rejected the Stambolinski proposal (Geshkoff, 1940: 61).[80] Although Stambolinski was assassinated in 1923, ideas of a unification of the Balkans along an agrarian union were alive in the region until the late 1930s (Braun, 1983: 48).[81]

Socialist parties had also been suggesting federal solutions for Southeastern Europe as early as 1870 (King, 1973: 57). At the first Balkan Conference of Social Democrats in 1910 the idea of a federation was put forward as a way to solve the national, social and class problems of the region (Lopandic, 2001: 36). In addition, in the 1920s and 1930s, the communist Comintern advocated the creation of a Balkan Federation with the aim of replacing the French-backed Kingdom of Yugoslavia and other surrounding national states. The ideological basis behind the Marxist advocacy for a Balkan Federation was that it would be a step on the road to an eventual world-wide revolution. A Secretariat and other organs were organised to include Balkan communist parties (King, 1973: 58).

Advocating the creation of an autonomous Macedonian state within the federation, the idea was popular in Bulgaria and Yugoslav Macedonia - which in this period was called Southern Serbia - but not among Croats, Serbs and Slovenes (Cviic, 1995: 13).[82] In addition, up to World War II, the communist parties and Marxist intellectuals in Balkan

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[80] Despite the network of treaties that emerged in the 1920s, no cooperation agreement was signed between Bulgaria and the newly-founded Kingdom of Yugoslavia (Kerner and Howard, 1936: 22).

[81] Contrary to the ideas of the agrarian movement, in 1943 Rosenstein-Rodan advocated that Southeastern Europe should develop strategic complementarity and light labour-intensive industries. His classic study on industrialisation problems in Eastern and Southeastern Europe is considered to have founded development economics (Rosenstein-Rodan, 1943).

[82] Yugoslav and Bulgarian communists each felt they could benefit from the unification of Macedonia with a Balkan Federation as a means of consolidating or reestablishing their control on its territories (King, 1973: 59-61).

states did not have more than a limited impact on the foreign policies of their countries. Finally, in the mid-1930s, the Comintern was obliged to change its line of supporting an anti-fascist coalition of states and temporarily stopped advocating the break-up of Yugoslavia until the two-year rapprochement with Nazi Germany instigated by the 1939 Molotov-Ribbentrop Pact of Non-Aggression between Berlin and Moscow was over (Braun, 1989).

After its break with the Axis Powers in 1941, however, Moscow encouraged plans for a federation in the Balkans to occur in steps, first among the Southern Slavs to be followed by the inclusion of Albania, Greece and Romania. This policy was in line with Stalin's flirtation with the idea of creating a number of federations in Eastern Europe that would look towards the Soviet Union (Vucadinovic, 1994). The universalistic interpretation of Marxism and subservience to Soviet interests influenced the more concrete proposals toward federation that were made in the latter part of the Second World War.

The Socialist Federal Republic of Yugoslavia (SFRY) initially promoted plans for a Balkan Federation because Tito thought he could benefit from it, especially by consolidating Yugoslav control over Macedonia (King, 1973). Under the so-called Tito-Dimitrov Proposals of 1944-45, Yugoslav-Bulgarian unification plans were put forward (Braun, 1989: 33). In 1946, steps were taken for an economic union with Albania through the signing of a Treaty of Friendship and Cooperation which envisaged the coordination of economic plans between the Belgrade and Tirana, standardisation of monetary systems, the creation of a Customs Union and unification of prices (Cviic, 1995: 28). In 1947, the Bled Accords were signed with the prospect of creating a similar union between Yugoslavia and Bulgaria (Wallden, 1994: 89).

Socialist Yugoslavia, however, favoured proposals for regional cooperation so long as it felt that it was leading ideological developments and that its national aspirations were fulfilled. When Tito realised that these plans were to be no more than an appendage to the Soviet system, he began to interpret socialism as a world process that developed at different speeds and introduced the concept of decentralisation (Braun, 1989: 36). Subsequently, Yugoslav plans were condemned by Moscow and the diverging aspirations contributed to the Yugoslav-Soviet break in 1948 (Wallden, 1994).[83] Marxism, therefore, failed as an integrative force in the Balkans because when national economic and security interests were threatened, as in the case of Yugoslavia, its ideology was reinterpreted to fit the interest of these states (Braun, 1989).

The idea of a Balkan Federation was also controversial among many Greek, Bulgarian and Albanian communists who saw it as Tito's aspiration to hegemony in Southeastern Europe (Braun, 1989; Wallden, 1994).[84] Internal Balkan antagonisms such as the perennial Macedonian question, for example, plagued the Yugoslav-Bulgarian unification proposals which were viewed as counter to Bulgarian national aspirations. The West was also opposed to the proposed union for it was seen as an attempt by Bulgaria to evade punishment for its role in supporting the Axis powers (Braun, 1989: 35). Eventually, Stalin lost interest in a Balkan Federation that Moscow would not control and after 1948 found other ways to push Eastern Europe and the Balkans in the Soviet orbit through the creation of COMECON and

[83] To the Yugoslav-Soviet break also contributed quarrels over Soviet intelligence activities in Yugoslavia, Tito's impression of economic exploitation through plans for the creation of mixed Soviet-Yugoslav corporations and Moscow's half-hearted support to Belgrade over its claims on Trieste and Austrian lands (Kulski, 1964: 168).

[84] Tirana in particular resented Tito's attempt to turn Albania into a Yugoslav satellite through setting up joint stock companies to exploit the country's oil and mineral reserves in which it had the status of a junior partner. After the Yugoslav-Soviet break in 1948, Albania expelled Yugoslavs from its territory on grounds of national sovereignty and turned towards Moscow for economic and technical aid (Cviic, 1995: 28).

the Warsaw Pact. [85]

3.5 Balkan Triangle[86]

During the Cold War, the Balkan peninsula was divided into two blocs of competing socio-economic and political systems. On the one hand, Greece and Turkey became attached to Western European institutions set up to counter the Soviet threat. Subsequent to being offered economic and military assistance through the Truman Doctrine in 1947 and the Marshall Plan in 1948, Greece and Turkey joined NATO in 1952. In addition, both countries signed Association Agreements (AAs) with the EEC in 1961 and 1963 respectively.[87] On the other hand, Albania, Yugoslavia, Bulgaria and Romania became part of the communist bloc as Moscow saught tightly knit economic relations in Eastern Europe and the Balkans through the establishment of Comecon in 1949.[88] In addition, the Soviet Union based its pursuit for security in its Eastern and Southeastern neighbourhood through

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[85] Braun has even argued that after Stalin turned against the idea of a federation in Southeastern Europe in 1948, *"Moscow looked askance at Balkan cooperation and both the Warsaw Pact and COMECON were important tools that could be used in trying to prevent the growth of regionalism in the peninsula"* (Braun, 1983: 116).

[86] The term Balkan Triangle is taken from the literature (Iatrides, 1968).

[87] Greece's agreement with the EEC provided for a Customs Union to be established between the two within 22 years and covered agricultural harmonisation, technical and financial assistance and issues considered necessary for the gradual integration of the country into the EC such as competition, free movement of labour and services and the coordination of economic policies. It was the first and most comprehensive AA ever to have been signed by the EC. It covered more ground than the Ankara Accord which envisaged a long transition period before the harmonisation of important policy areas, set up fewer institutions and gave a less positive commitment to Turkey's EC membership (Kazakos, 1994: 1).

[88] The Council for Mutual Economic Assistance (CMEA) - or else COMECON - was promoted by the Soviets as an attempt at regional economic integration in the communist world. Introduced in the aftermath of the launching of the Marshall Plan, CMEA attempted to establish an alternative economic complex in the Peoples Democracies of Eastern and Southeastern Europe. Comecon's founding members in 1949 were the USSR, Czechoslovakia, Hungary, Poland, Bulgaria, Romania, GDR and soon after Albania. Mongolia joined in 1962, Cuba in 1972 and Vietnam in 1978 (Brine, 1992).

the creation of the Warsaw Pact.[89]

Even within the same blocs, however, conflicts arose. The Greek-Turkish disputes that evolved into serious crises over the status of Cyprus during 1955-58, 1963, 1967 and 1974, constantly brought the two countries to the brink of war and plagued NATO's cohesion. To illustrate, Athens' estrangement from the Alliance subsequent to the Turkish occupation of the northern part of the island in 1974 led to its withdrawal from NATO's military wing between 1974 and 1980 (Papahadjopoulos, 1998: 7). Following the American weapons embargo against Turkey in 1975 and still resenting Lyndon Johnson's letter of June 1964 to Ismet Inonu urging him not to intervene in Cyprus, Ankara closed down twenty-six US military installations on its territory (Brauch, 1983: 86).[90]

The communist bloc was also seriously fragmented and lacked ideological uniformity. Belgrade, Tirana and Bucharest frequently challenged Soviet domination and flirted with outside powers. To illustrate, although the Yugoslav-Soviet break was mended after 1958, Belgrade never joined the Warsaw Pact and despite eventually joining COMECON as an associate member in 1965, it was the first Balkan country to sign Trade and Cooperation Agreements (TCAs) with the EEC in 1970 and 1980 respectively (Wallden, 1994: 60). Albania stopped participating in COMECON meetings after its break with Moscow in 1961 and its alignment to Beijing in 1962 and withdrew from the Warsaw Pact in 1968.[91]

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[89] The Warsaw Treaty Organisation (WTO) was founded in 1955 as a reaction to West German rearmament and integration into NATO and was used as an excuse to station Soviet troops in Romania and Hungary after the signing of the Austria State Treaty. WTO signatories were the Soviet Union, East Germany, Poland, Czechoslovakia, Hungary, Romania, Bulgaria and Albania (Braun, 1983: 86).

[90] Only four US military installations were allowed to resume their activities in Turkey in 1978 (Braun, 1983: 86).

[91] The Soviet-Albanian rift took place because of Hoxha's dislike of Khrushchev's revisionism and the new theory of 'peaceful coexistence' with the West and his opening towards China. In 1961, the USSR suspended economic aid to Albania asking for the removal of the Albanian leadership. Tirana responded by extraditing

Subsequent to breaking with China in 1978, Tirana turned to autarchy and isolation and an independent foreign policy as a means of achieving security (Nelson, 1990: 139).[92]

Furthermore, in the 1960s Romania affirmed its desire for autonomy from the USSR by refusing to participate in WTO joint operations and withdrew from many joint COMECON projects after realising that increased specialisation was at the advantage of the more industrially developed Eastern European countries (Linden, 1990). In addition, in 1980 Bucharest signed an industrial Cooperation Agreement with the EEC (Wallden, 1994). Finally, even Bulgaria, the only loyal Soviet ally in the Balkans, was traditionally the least active member of the Warsaw Pact as WTO troops were not stationed on its territory (Braun, 1983: 90). During the Cold War, therefore, *"the Balkans were not separated by the iron curtain only, but by a number of regional curtains of differing thickness"* (Gligorov, 1999: 2).

In the early 1950s, regional cooperation breaking traditional Cold War lines was first promoted through the so-called Balkan Triangle. Intended to counteract Moscow's expansionism in the area at a time when Yugoslavia, Greece and Turkey felt exposed to a perceived Soviet threat, the Balkan Triangle can be seen as the outcome of western support for Belgrade against the Soviet Union after Tito's break with Stalin in 1948. In 1953, a Treaty of Friendship and Cooperation was signed in Ankara between Turkey, Greece and Yugoslavia. It provided for the parties to consult on a regular basis on issues of common interest. It was envisaged that foreign ministers would hold regular meetings and that the parties would exert efforts to preserve peace and security including common defense

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Soviet advisers and closing down Moscow's submarine base on the Adriatic port of Vlore (Lange, 1989; Nelson, 1990).

[92] The Sino-Albanian relationship deteriorated after Mao's death in 1976. In 1978, Beijing cut off aid to Tirana due to disagreements over revolutionary principles and foreign policy (Nelson, 1990: 139).

measures (Treaty of Friendship and Cooperation: Articles 1 and 2).[93]

The Treaty also provided for cooperation in the spheres of the economy, technology and culture upon which separate agreements could be concluded (Treaty of Friendship and Cooperation: Article 4). Finally, a supplementary agreement concluded in November 1953 provided for the creation of a Permanent Secretariat which had the status of an international organisation (Reglement Interieur du Secretariat Permanent: Article 1). The tasks of the Permanent Secretariat were to prepare foreign ministers meetings, examine questions of political and military cooperation and propose the convening of conferences. It consisted of a Committee and Permanent Bureau and had sections for political, military, economic and cultural issues (Reglement Interieur du Secretariat Permanent: Article 3).

The Ankara Treaty was followed by the Treaty on Alliance, Political Cooperation and Mutual Assistance signed in Bled in August 1954. The so-called Bled Pact committed military aid among the signatories in case of an attack raising relations to the level of an alliance (Treaty on Alliance, Political Cooperation and Mutual Assistance: Article 2).[94] A Permanent Council was also created consisting of foreign ministers and other government members. Finally, in March 1955 an Agreement on the Establishment of a Balkan Consultative Assembly was signed in Ankara. The Assembly was intended to examine issues concerning the consolidation of cooperation in many areas (Agreement on the

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[93] "*Les parties contractantes entendent continuer leurs efforts communs pour la sauvegarde de la paix et de la securite dans leur region et poursuivre, en commun, l'examen des problemes de leur securite y compris les mesures communes de defense dont la necessite pourrait se produire au cas d'une agression non provoquee contre elles*" (*Traite d' Amitie et de Collaboration entre le Royaume de Grece, la Republique Turque et la Republique Federative Populaire Yougoslave*: Article II).

[94] "*Les parties contractantes conviennent que toute aggression armee contre l'une ou plusieurs d'entre Elles sur n'importe quelle partie de leur territoire sera consideree comme une aggression contre toutes les parties contractantes*" (*Traite d'Alliance, de Cooperation Politique et d'Assistance Mutuelle:* Article II).

Establishment of the Balkan Consultative Assembly: Article 2; Lopandic, 2001: 53).[95]

Like the 1934 Balkan Entente, however, the 1954 Bled Pact in practice created a defensive alliance that set one group of countries against another depicting more division than unity in the peninsula. In addition, in practice both the Treaty of Friendship and Cooperation and the Treaty on Alliance, Political and Mutual Assistance failed to establish an efficient bureaucracy. The instruments of tripartite cooperation were small in size and not endowed with any significant authority or the ability to evolve. Finally, both military and political matters essentially remained outside the competence of the Secretariat which as a result was prevented from enhancing the credibility of the Balkan Triangle (Iatrides, 1968: 183).

Based on the signatories' temporary interests, the Balkan Pact in particular ceased to have any significant role after a complete break down in Greek-Turkish relations caused by a standstill in discussions over the future status of Cyprus in September 1955 and the subsequent violent anti-Greek riots in Istanbul and Izmir (Iatrides, 1968: 167).[96] To its demise also contributed the first signs of a Yugoslav-Soviet *rapprochement* subsequent to Stalin's death in 1953 and Tito's shift towards non-alignment. The last Council of Foreign Ministers, therefore, took place in 1955 (Iatrides, 1968: 178). The abandonment of the Balkan Pact may serve to illustrate the case that alliances which form in times of tension tend to succumb to regional differences which reappear as soon as external threats have

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[95] "*The Assembly has as its task to study all the means which might benefit the development of cooperation between the Signatory Countries with the aim of security peace, protection of common interests and achievement of welfare of the peoples of the signatory powers in all fields of their mutual relations*" (*Agreement on the Establishment of the Balkan Consultative Assembly:* Article 2).

[96] At the London Conference of September 1955, Greece requested that Cyprus be granted independence from the British. Turkey, however, was concerned with minority rights and its own security in the Eastern Mediterranean. The British eventually offered a new constitution granting the island enhanced self-rule and a vague prospect of independence (Iatrides, 1968: 167).

receded (Iatrides, 1968).[97]

3.6 Balkan Arms Limitation Talks (BALTs)

During the Cold War, regionalism bridging the bipolar divide in the Balkans was also pursued through arms limitation talks. A variety of proposals for reducing arms and denuclearisation were promoted in the region primarily by communist countries (Platias and Rydell, 1983: 120). In 1957, for example, Romania put forward the *Stoica Plan* for a Nuclear-Weapons-Free Zone (NWFZ) in the Balkans. It was supported by the Soviet Union in its attempt to eliminate US nuclear weapons and came shortly after Greece and Turkey decided to install American missile bases on their territory (Braun, 1989). Although the *Stoica Plan* appeared in line with Khrushev's desire to restore an atmosphere of 'peaceful coexistence' in the aftermath of the Soviet intervention in Hungary in 1956, Gheorghiu Dej's primary goal was securing the withdrawal of Soviet armed forces from Romania (Brauch, 1983: 83). The proposal, however, was rejected by NATO allies which stressed the necessity for a nuclear means of counterveilling Soviet conventional forces and long-range nuclear weapons (Platias and Rydel, 1983: 121).

Interest in Balkan disarmament continued throughout the Cold War. Supported by Albania, Bulgaria, Romania and Yugoslavia, the Soviet Union reiterated calls for a NWFZ in Southeastern Europe on several occasions between 1959-1963 (Platias and Rydel, 1983: 120). In the context of preparations for the 1975 Helsinki Final Act, Romania pursued a strategy of Confidence and Security-Building Measures similar to the neutral and

[97] This interpretation is in line with realist theory which argues that alliances form in response to external challenges (Walt, 1979).

non-aligned European countries.[98] In 1972, for example, Romania tabled a proposal for denuclearisation of Southeastern Europe at the Conference of the Committee on Disarmament (CCD) in Geneva (Brauch, 1983: 83). In the 1980s, Romania joined Yugoslavia in promoting BALTs as a subregional forum of European arms-control and disarmament negotiations (Brauch, 1983: 92). Finally, Greece took up the cause of Balkan denuclearisation between 1982 and 1984 under the newly elected Socialist government (Veremis, 1995: 39).

Platias and Rydell have argued that these initiatives constituted an attempt to promote an international 'security regime' in the Balkans and illustrate local concerns for stability and an alternative defense arrangement in Southeastern Europe (Platias and Rydell, 1983). Gradually, however, the idea of a NWFZ became a means for Balkan countries to further their own foreign policy objectives. Whereas the Soviet Union had a security interest in the removal of long-range nuclear forces from Greece and Turkey that could reach its territory, Romania's initiatives for Balkan disarmament, which proliferated after Bucharest announced its autonomy form the USSR in 1964, can be seen to have stemmed from its desire to have a foreign policy independent from Moscow.[99] Similarly, that Greece joined the campaign against nuclear weapons in the early 1980s can be interpreted as one of Papandreou's tactics of pursuing an independent policy from the West in light of Greece's

[98] The Helsinki Final Act of 1975 was the culmination of a three stage process under the aegis of the Conference of Security and Cooperation in Europe (CSCE) set up in 1972 in order to promote European security.

[99] Romanians have traditionally seen themselves as having a moderating role in the Balkans given their preeminence as arbitrators at the 1913 Bucharest Peace Conference and their leading position in the Little Entente in the interwar period (Rosenberger, 1969: 46-47). Anti-Soviet feeling originated in the immediate post-war years as a result of the heavy reparations that Moscow imposed on the country classifying it as a former enemy state and the loss of Bessarabia to the USSR. Romania's drive towards independence from Moscow, however, started to be played in 1960-61 given the leverage offered to Bucharest by the Sino-Soviet rift and culminated between 1964-1968 due to disputes over the country's role in COMECON. The nationalist policy had a strong cultural context as well given Romanians' self-image as a Latin oasis in the middle of a Slav world (Cviic, 1995: 31-33).

disappointment at NATO's disability to prevent the Turkish military occupation of northern Cyprus in July 1974 (Papahadjopoulos, 1998).

Overall, however, one can argue that during the Cold War, denuclearisation and disarmament were considered as bases for Balkan cooperation but were never implemented given bipolar considerations (Veremis,1995: 35-39). The Romanian Communist Party, for example, would never have gone as far as withdrawing from the communist bloc as its own position would have been threatened by such a move and did not name the Soviet Union as the enemy of its territorial defense strategy (Eyal, 1989). Paparela has even argued that Yugoslavia would have eventually sided with the Soviets in a potential conflict with NATO given the internal character of the regime and the lack of international security guarantees in the non-aligned movement (Paparela, 1989: 208). Finally, despite his anti-Western rhetoric, Papandreou maintained Athens' link to NATO and never attempted to launch a non-aligned Greece (Papahadjopoulos, 1998: 8).

3.7 Balkan Conferences

Until the mid 1970s, few concrete steps were reached in Balkan multilateral cooperation. These include an agreement on tourism in 1971 - the first in the post-war period to have been signed by all Balkan countries except Albania - and some cooperation in road transport under the auspices of the UN Commission for Europe (UNECE) (Wallden, 1994: 488). In 1975, the latter also set up a committee for the interconnection of electric grids in Southeastern Europe. Some functional projects were also undertaken between COMECON countries during this period including a pipeline on Romanian territory for the delivery of natural gas from the Soviet Union to Bulgaria and the joint Romanian-Yugoslav Iron Gates

hydroelectric damn on the Danube (Djerdap I and II) (Hoffman, 1974: 234-35).[100]

The *detente* era after 1975 saw renewed attempts at multilateral cooperation in the region through the convening of Balkan Conferences. Introduced by Prime Minister Constantine Karamanlis, a Conference on Governmental Experts for Economic and Technical Cooperation was held in Athens in 1976 reflecting Greece's multi-dimensional foreign policy in the context of the Helsinki spirit. On the basis of consultations from the delegations of Greece, Bulgaria, Turkey, Yugoslavia and Romania, a list of proposals for multilateral cooperation in various sectors was drawn up. These included agriculture, energy, transport, tourism, telecommunications and the environment (Wallden, 1994: 122). The initiative, therefore, entailed an incremental approach which assumed that cooperation in non-controversial areas would spillover into more difficult political ones in a neo-functional way (Braun, 1989: 52).

The 1976 Athens Conference, nevertheless, yielded inconclusive results. Political constraints on its success derived from the Greek-Turkish rivalry and Bulgaria's hostility towards the process given its role as a Soviet proxy in the region.[101] As was the case in the 1930s, Albania did not participate either given its alliance with China.[102] When Bulgaria softened its opposition, however, follow-up sectoral meetings were held on telecommunications (Ankara 1979), transport (Sofia 1981), energy (Bucharest 1982) and

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[100] Other functional cooperation projects were also considered, such as joint projects for utilisation of mineral resources and power production between Greece and Bulgaria and joint irrigation projects between Greece and Yugoslavia, but never materialised (Hoffman, 1974: 234-236).

[101] Bulgaria was a loyal COMECON member conducting over 80% of its trade with the organisation and primarily the Soviet Union throughout the Cold War period (Braun, 1983: 204-5).

[102] After Hoxha's alignment with Beijing in 1962, Albania refused to participate in multilateral cooperation efforts in the Balkans and was the only country in Europe not to participate in the CSCE in 1975 (Brauch, 1983: 83).

industrial cooperation (Belgrade 1984) (Lopandic, 2001: 54). Nevertheless, the political importance and practical significance of the follow-up meetings was equally minimal given Soviet opposition to Balkan cooperation which Moscow feared would affect the cohesion of the Warsaw Pact (Veremis, 1994: 37).

Ideas for more advanced forms of cooperation between the two socio-economic systems, including the establishment of a Balkan Common Market, were also strongly voiced in the late 1970s and early 1980s along the lines of 'development integration' theories popular at that time (Pournarakis, 1981).[103] An industrial and technological cooperation agreement between Romania and Greece in 1976, for example, had set up joint commercial corporations for petroleum and other products (Braun, 1989: 71). Despite some cooperation in various types of specialisation primarily between Romania, Yugoslavia and Bulgaria, however, the industrial structures of Balkan countries did not develop in accordance with revealed comparative advantages (Braun, 1989: 71). Consequently, parallel activities were built causing them to be competitors in foreign trade (Novak, 1999). In addition, ideas for 'development integration' were never implemented due to systemic obstacles and after 1981 the constraints put upon Greece by EC membership

In the context of *perestroika* after 1985 and the Reagan-Gorbachev agreement on nuclear arms limitations which improved East-West relations, however, Soviet bloc opposition to Balkan cooperation eased. In 1988, the multilateral process was eventually institutionalised through the Balkan Conference of Foreign Ministers. Held in Belgrade, the 1988 the First Balkan Conference of Foreign Ministers was a *milestone* in the history of Balkan regionalism because it included top level representation from all six Balkan countries,

[103] As has been shown in Chapter 2, in the 1970s 'development integration' was designed to encourage new industries and diversify national economies (Sloan, 1971).

including Albania (Wallden, 1994:). The emphasis of the 1988 meeting was on economic cooperation and although political issues such as the nuclear-free zone and minorities were also discussed progress was only made on questions of education, communications, the environment, commerce and culture (Veremis, 1995: 41).

The Second Balkan Conference of Foreign Ministers was held in Tirana in 1990. It was proposed that Balkan cooperation be established on a more functional basis and that a Secretariat be created to act as a referee to ethnic and territorial disputes (Veremis, 1995: 41). Greece requested that a Research Institute for Balkan Economic Cooperation be set up in Athens and called for increased exchange among Balkan parliamentarians. An agreement was approved calling for the protection of cultural, linguistic and religious freedom and an Albanian proposal to set up guidelines and principles for good-neighbourly relations was endorsed (Veremis, 1995: 41).

From the 1988 Belgrade Conference to the end of 1989, more than twenty multilateral meetings were held on sectoral issues such as transport (Belgrade 1988), trade (Ankara, 1989), industrial cooperation (Bucharest, 1989) and energy production (Tirana, 1990) (Lopandic, 2001: 56). Most sectoral meetings, however, were confined to declarations of intent and plans that were never implemented, such as the creation of a Balkan Chamber of Commerce and Industry, which had been briefly established in the 1930s (Wallden, 1994: 179). As soon as COMECON collapsed in 1990, for example, Balkan countries were more concerned with reorienting their trade towards the West as except for economic links within Yugoslavia, little trade had existed between Southeastern European countries prior to 1989 (Uvalic, 2001: 2).[104] It was Yugoslavia's disintegration in 1991 and the ensuing wars

[104] According to Penglis and Christodoulakis, prior to 1989 only 6% of total Balkan trade was intra-regional and was based on barter (Penglis and Christodoulakis, 1993).

between 1992-95, however, that eventually halted the progress of multilateral cooperation in the Balkans.

3. 8 Conclusions

The main argument of this chapter is that during the last two centuries, regional cooperation in the Balkans was obstructed by the interplay between internal and external factors, namely nationalism and foreign intervention. During the nineteenth and early twentieth centuries, for example, the Balkan Alliances of 1868 and 1912 as well as various federal plans, were set up in opposition to Ottoman rule in the region. The creation of nation-states with overlapping claims on Balkan territories, however, was not compatible with a climate for cooperation and these schemes disintegrated fast. In addition, the Great Powers kept the region divided through the 1878 Treaty of Berlin so as to maintain the status quo and prevent a Russian advance in light of the decline of the Ottoman Empire.

In the interwar period, the climate of the League of Nations allowed for the emergence of multilateral plans for regional cooperation primarily through the Balkan Conferences which between 1930-1933 envisaged the creation of a Union of Balkan States and the establishment of a Customs Union. Objections over unresolved minority and territorial questions expressed by Bulgaria and Albania, however, halted their progress and led to the signing of the 1934 Balkan Entente which merely exacerbated dividing lines in the region. In addition, the rise of the Axis Powers after 1933 saw German and Italian penetration in the region which further obstructed cooperative attempts in the Balkans.

During the Cold War, it was primarily the bipolar divide that prevented the success of cooperation schemes in the region. Attempts to establish a communist Balkan Federation in

the early years after the end of World War II, for example, met Western objections which viewed it as a method of expanding Soviet influence in the region. Moscow became equally disinterested in the scheme when it realised that it would not eventually be able to control it, despite the fact that it had been one of its major advocates both before and during the Second World War. Similarly, the 1953-54 Balkan Triangle, which was the outcome of Western support towards Belgrade at a time when Yugoslavia, Greece and Turkey felt exposed to a perceived Soviet threat, broke down in light of the Yugoslav-Soviet rapprochement which re-established Moscow's influence in the region and the traditional Cold War divide.

In addition, disarmament efforts such as the 1957 Stoica Plan or the BALTs of the 1970s and 1980s expressing local interest in an alternative defense arrangement in the region as well as a means to promote Balkan foreign policy objectives, were nevertheless never implemented given NATO's interest in maintaining a nuclear means of countervailing Soviet conventional forces. Finally, the Balkan Conferences of the 1970s and 1980s entailing an incremental approach which assumed that cooperation in non-controversial areas such as trade, energy, transport and industrial cooperation would spillover into more political issues in a neo-functional way, were, however, of little practical significance given Moscow's opposition to their implementation. As a soviet proxy, Bulgaria obstructed the process between 1976-79.

Finally, during the Cold War cooperation schemes were also obstructed by Balkan nationalisms. To illustrate, inter-state Balkan antagonisms such as the Macedonian question plagued the Bulgarian-Yugoslav unification proposals in the late 1940s. Moreover, Yugoslavia was interested in a Balkan Federation only so long as it felt that it was at the forefront of ideological developments and that its national aspirations for hegemony in

Southeastern Europe were fulfilled. In addition, the deterioration of Greek-Turkish relations after the 1955 crisis over the status of Cyprus brought progress towards the institutionalisation of the Balkan Triangle to a halt. Finally, it was the disintegration of former Yugoslavia in 1991 that caused the suspension of the Balkan Conference of Foreign Ministers initiative in 1991.

Chapter 4

Regional Initiatives in the Post-Cold War Era

4.1 Introduction

As presented in Chapter 1, in the post-Cold War era Southeastern Europe has witnessed the emergence of a series of regional initiatives such as the Royaumont Process for Good Neighbourly Relations, the SEECP and the SECI established in the aftermath of the Dayton Peace Accords, the MPFSEE established in 1998 as well as the SPSEE and the SEEI founded in the aftermath of the bombing campaign against Yugoslavia in 1999. Overlapping the region but not exclusive to it are also CEI and the BSEC.[105] Chapter 4 will examine the initiatives exclusive to Southeastern Europe in order to assess how regionalism is promoted in the region and what has been its impact.[106] It will find that despite contributing to increased societal interaction in the region and implementing certain cooperative projects, most initiatives have had limited practical results failing to meet their original goals, become

[105] Established in 1992, the CEI and the BSEC have included many Balkan countries in their membership and have seen the implementation of projects within Southeastern Europe. These include the reconstruction of Sarajevo airport or the telecommunications project KAFOS linking Moldova to Istanbul through Bulgaria and Romania undertaken by CEI and BSEC respectively (Cviic, 1999: 122; Aybak, 2001: 42). Both initiatives, however, included states from other regions in their membership, namely Central Europe and the Caucasus, and consequently will not be examined in Chapter 4.

[106] Alongside regional schemes, a wide range of cross-border cooperation arrangements have emerged within Southeastern Europe, such as the Euro-Region Initiatives established between FRY-Hungary-Romania, FRY-Bulgaria-FYROM, Bulgaria-Greece and Bosnia-Herzegovina-Croatia-FRY. They have an important role to play in the development of border regions and in fostering good-neighbourly relations and people to people contacts, contributing to strengthening peace, stability and growth and promoting the process of European integration (SPSEE, 2002g). Regional cooperation in Southeastern Europe is also conducted on a trilateral ministerial level between Bulgaria, FYR Macedonia and Albania (corridor N8 project); Bulgaria, Romania and Greece (since 1995), Bulgaria, Romania and Turkey (since 1998) and Turkey, Greece and Bulgaria (since 2000) (Bechev, 2001: 13).

institutionalised and financially independent or gain the unequivocal support of Southeast European countries.

4.2 Royaumont Process for Stability and Good Neighbourliness

The Royaumont Process for Stability and Good Neighbourliness accompanied the signing of the Dayton Accords in December 1995 given the need for the peace process to be included in a regional forum for strengthening stability in Southeastern Europe. It was inspired by the principles outlined in the Pact on Stability that was launched in Central and Eastern Europe and the Baltic Republics in early 1994 as a first attempt to conduct preventive diplomacy within the framework of the Common Foreign and Security Policy (CFSP) (Ehrhart, 1999: 178).[107] The Declaration on a Stability Process and Good Neighbourliness was signed by the Dayton signatories and neighbouring and other European states, namely Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR Macedonia, FRY, Hungary, Romania, Slovenia, Turkey, the EU, US, Russia, the Council of Europe and the OSCE.[108]

The Declaration on a Stability Process and Good Neighbourliness stressed that the aim of the initiative was "*the progressive restoration of dialogue and confidence, the prevention of tension and crises, reconciliation, regional cooperation, economic reconstruction and good neighbourliness*" (Erhart, 1999: 181). The EU Council of 29 January 1996 accepted a

[107] Launched as a Joint Action in December 1993, the Pact on Stability saw the creation of two round tables for the Baltic states and Central and Eastern Europe. Adopted in 1995, it consisted of three parts: a) a declaration on good-neighbourliness; b) 120 bilateral agreements by participating countries and c) an annex containing project suggestions intended to give substance to its objective. The solutions that were found in regional tables, such as between Hungary and Romania, were embodied in national legislation or inter-state agreements while the OSCE was entrusted with monitoring its implementation (Ehrhart, 1999: 178).

[108] At a time when FRY was exluded from most cooperation schemes, Royaumont was the only initiative that included the country in its framework. The 1998 Kosovo crisis, however, froze Belgrade's participation in the process.

broader platform for the development of Royaumont including activities such as the progressive restoration of the movement of people and ideas, the organisation of regional meetings among intellectuals, journalists and religious leaders, the banning of propaganda promoting aggression, the relaunching of cultural, scientific and technical cooperation, the identification of cross-border projects as well as assistance in the construction of a civil society especially in the fields of justice and administration (EU, 1996).

Although the main institutional framework within which Royaumont was envisaged to function was the OSCE which was supposed to act as its Secretariat and monitor, in practice the EU took over the coordination of the process primarily because FRY had been suspended from the former since 1992 (Ehrhart, 1999: 181). In the early years of its implementation, Royaumont activities were coordinated by the General Secretariat of the EU Council which after 1997 named a Special Coordinator for the Process. Nevertheless, no separate resources from the EU budget were envisaged when the process was launched. Support could only draw on PHARE programmes already in place which under EU conditionality prevented the participation of Croatia and FRY (Ehrhart, 1999: 183).

In November 1998, the Council eventually adopted a 'Common Position' whereby Royaumont obtained a legal basis in European legislature through the CFSP as well as the possibility of direct financing from the EU budget (Lopandic, 2001: 120; EU, 1998). The Common Position further clarified the main areas of action of the process. These were: a) *the normalisation of relations between the countries involved including the possible conclusion of treaties of good-neighbourliness; b) the restoration of full freedom of movement and expression and the organisation of events and projects which encourage it and c) the promotion of regional cooperation in cultural, religious, scientific and technical fields, as well as in the re-establishment of a civil society in the region* (EU, 1998: 3).

As envisaged by its goals, the Royaumont Initiative promoted civil society dialogue among neighbouring states by organising meetings between journalists, academics, trade-unionists, NGOs and parliamentarians. Until 2000, up to 80 projects had been submitted for financing and 18 obtained financial assistance to the total value of Euros 2.1 million (Lopandic, 2001: 121).[109] These included parliamentary exchanges through meetings of chairmen of foreign policy committees and projects on education and training (*Graz Process*) as well as cooperation between Balkan universities. The gathering of media representatives in Athens in March 1998 saw the adoption of a Declaration and Action Plan for Peace, Understanding and Tolerance in Southeastern Europe. Finally, conferences of non-governmental organisations were held establishing a Non-Governmental Organisations' (NGO) network in the region (Lopandic, 2001: 122).

Although the Royaumont Initiative increased levels of societal interaction in certain fields in Southeastern Europe, its achievements were modest and the Process failed to gain a high political profile.[110] The slow implementation of the civilian parts of the Dayton Agreement affected its own development which was held up for the first two years. A small number of projects were subsequently financed and few resources engaged but no treaties of good-neighbourliness were achieved through its framework. According to Ehrhart, "*the Royaumont Process lacked the diplomatic initiative and political clout necessary to make it an influential instrument for regional security-building and conflict prevention*" (Ehrhart, 1999: 192). By the time Royaumont was adopted as a Common Position, the crisis in Kosovo had demonstrated the need for a much larger initiative on the part of the

[109] Many of these projects were financed by European member states and organisations on an *ad hoc* basis (ESI, 1999: 5)

[110] In the four years of implementation, the only meeting held at high political level was that of labour ministers in January 2000 in the scope of the Conference on Dialogue of Social Partners (Lopandic, 2001: 123).

international community in the Balkans. After the launching of the SPSEE in 1999, the Royaumont Process lost its independent purpose and was eventually integrated in Working Table I on Democratisaion and Human Rights in 2000.

4.3 Southeast European Cooperation Process (SEECP)

The SEECP originates in the CSSC held in Sofia in July 1996. The Foreign Ministers of Albania, Bosnia-Herzegovina, Bulgaria, Romania, FRY, Greece and Turkey came together in Sofia with the aim of relaunching the Balkan Conferences initiative that was halted after the Tirana meeting in 1990 due to the disintegration of former Yugoslavia. Croatia, which was not keen to be included in cooperation schemes with other Balkan countries, preferred to remain outside the process and only later became an observer.[111] FYR Macedonia joined a year later thus increasing the number of participants to eight (Lopandic, 2001: 110).[112]

Subsequent to the holding of the CSSC in Sofia in July 1996, a number of meetings took place at ministerial and head of state level. These included Conferences of Ministers of Foreign Affairs in Thessaloniki in 1997, Istanbul in 1998, Bucharest in 1999, Skopje in 2000, Tirana in 2001, Belgrade in 2002 and Sarajevo in 2003 as well as Summits of Heads of State in Crete in 1997, Antalya in 1998, Bucharest in 2000, Skopje in 2001, Tirana in 2002 and Belgrade in 2003.[113] During the 1999 Romanian presidency the CSSC was renamed SEECP (Altman, 2003: 135).

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[111] Croatia's reluctance to be included in Balkan cooperation schemes is constitutionally entrenched. Article 141 of the 1991 Constitution, for example, stated that "*It is prohibited to initiate any procedure for the association of the Republic's alliances with other states if such association leads to a renewed Slav state community or to any other Balkan state of any kind*" (Constitution of the Republic of Croatia: Article 141).

[112] FRY was suspended from the process between 1998-2000 because of the Kosovo crisis.

[113] To illustrate, during the first Summit of Heads of State held in Crete in 1997, the leaders of Albania and Yugoslavia met for the first time in forty nine years (Papahadjopoulos, 1998: 61).

During the 1996 Sofia meeting of Foreign Ministers a Declaration of Good-Neighbourly Relations, Stability, Security and Cooperation in the Balkans was signed identifying main areas of cooperation such as transport, telecommunications and energy infrastructure, trade and investment promotion as well as the protection of the environment (CSSC, 1996). In 1997, the Conference of Foreign Ministers that met in Thessaloniki introduced 'high politics' to the agenda by including security matters such as cooperation in areas of justice, the fight against organised crime, elimination of terrorism, illegal trafficking of drugs, weapons and people and reaffirmed all ten principles referred to in the Helsinki Final Act (CSSC, 1997).[114]

The goals of the SEECP, however, were not codified until the Summit Meeting of Bucharest in February 2000 during which a Charter of Good-Neighbourly Relations, Stability, Security and Cooperation in Southeastern Europe was signed. According to the Charter, the primary objective of SEECP is "*to strengthen good-neighbourly relations among all states in the region so as to transform it into an area of peace, security, stability and cooperation*" (SEECP, 2000: Article I). The above objective is to be achieved through the enhancement of politico-security and economic cooperation as well as cooperation in the field of justice through regular meetings of Heads of State, Ministers of Foreign Affairs and Political Directors as well as inter-parliamentary dialogue (SEECP, 2000). During the Skopje Summit of Heads of State in February 2001, an Action Plan for Regional Economic Cooperation was also adopted encompassing areas such as trade, foreign direct investment, infrastructure, transport, telecommunications, energy, organised crime, the environment and transfrontier cooperation (SEECP, 2001).

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[114] These include "*sovereign equality, respect for rights inherent in sovereignty, refraining from the threat or use of force, inviolability of frontiers, territorial integrity of states, peaceful settlement of disputes, non-intervention in internal affairs, respect for human rights and fundamental freedoms, equal rights and self-determination of peoples, cooperation among states and fulfillment in good faith of obligations under international law*" (CCSC, 1997. Annex II).

Although the SEECP has served as an important forum for discussions where common positions and declarations among Balkan countries can be taken at the level of political elites without external intervention, it has however, remained a declarations-oriented initiative (SEECP, 2001-2004; Tsardanides, 2001). Few practical steps have been taken in the direction of satisfying the goals identified in the Charter. A Balkan Regional Trade Promotion Centre, for example, was created in Istanbul aiming to strengthen commercial relations between Balkan countries.[115] In addition, the telecommunications sector has seen high level contacts with the aim of establishing a Balkan pool but the meetings of ministers of telecommunications have not gone beyond adopting a declaration for the exchange of information and envisaging the cooperation in internet services (Lopandic, 2001: 112). Sectoral meetings at ministerial level on trade and development, telecommunications, energy, justice and defense held between 2001 and 2004, however, have been organized in cooperation with the Stability Pact.

In addition, the SEECP has not made progress in terms of institutionalisation. Although attempts have been made to turn the high level political forum into a regional organisation through the setting up of a troika formed by representatives of the current, past and future SEECP at the ministerial, political directors and other high officials levels as well as the establishment of a joint Secretariat as envisaged by the Charter Annex, these proposals have not found unanimity among members (Lopandic, 2001: 107).[116] For example, the parliamentary dimension of SEECP has been limited to meetings at the highest level

[115] The Association of Balkan Chambers of Commerce (ABC) founded in 1994 and comprising of Bulgaria, Romania, Greece, Turkey, Cyprus, FYR Macedonia, Albania and Serbia-Montenegro, is also considered part of the SEEPC (Lopandic, 2001: 114).

[116] The only auxiliary working body that has an institutionalised position is the regular meeting of Political Directors of Ministries of Foreign Affairs (Charter Annex; Paragraph 4).

(Stability Pact, 2002c).[117] Finally, the initiative does not have a budget or the resources to implement concrete decisions. SEECP, therefore, has been seen as '*an ad hoc inter-state conference without more specific work rules, a political or technical Secretariat and without any kind of implementing bodies*' (Lopandic, 2001: 114-15).

4. 4 Southeast European Cooperative Initiative - (SECI)

The SECI was launched by the United States in December 1996. Based on the Points of Common EU-US Understanding adopted under the auspices of the OSCE in the *SECI Statement of Purpose,* its objectives were "*to enhance regional stability through the development of economic and environmental cooperation throughout the region, in particular involving the private sector in these activities*" (SECI, 1996). Participating countries initially included Albania, Bosnia-Herzegovina, Bulgaria, Greece, Hungary, Moldova, Romania, Slovenia, FYR Macedonia and Turkey whereas FRY was accepted in December 2000. Croatia was granted observer status whereas Italy, Austria, Russia, Switzerland and the US are supporting states (Clement, 1999: 79).

The basic form of work of SECI has been the selection of projects chosen among proposals submitted by member states. The highest body of cooperation has been the Agenda Committee made up of high ranking officials from SECI members (SECI, 1996: Additional Statement). Chaired by a Special Coordinator - which to date has been a citizen from the supporting states - the committee meets every two months to define priorities and examine progress achieved in the implementation of projects (Lopandic, 2001: 127). A separate Working Group is formed for each chosen project in order to prepare technical and financial

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[117] In March 2004, for example, the Conference of Presidents t of Parliaments of Southeastern Europe met in Sarajevo (SEECP, 2004: 3).

feasibility studies and look for sponsors. SECI projects are carried out by experts from the participating and supporting states with technical support from the UNECE and other international institutions including the European Commission, the World Customs Organisation and Interpol.

SECI also has some auxiliary bodies, such as the Business Advisory Council (BAC) launched in June 1997 with the aim of gathering prominent businessmen from the countries of the region and including the private sector in its activities.[118] In addition, in September 1998 an association of national trade facilitation committees was formed in Southeastern Europe (SECIPRO) aiming to simplify procedures and practice in international trade, administration and transport. Inspired by EUROPRO within UNECE, the participants of these committees are representatives of state bodies such as customs, administration and chambers as well as private associations such as freight forwarders and associations of contractors. Working Groups have also been formed identifying projects in the field of border crossings for trade and transport infrastructure, energy efficiency, credit schemes for SMEs, natural gas distribution and recovery programmes for rivers, lakes and adjacent seas (SECI, 1999).

The Trade and Transport Facilitation Working Group is the most active to date. Its most concrete project has been the physical improvement of around 30 border crossings in six Southeast European countries which in February 2000 signed a Memorandum of Understanding on Trade and Transport Facilitation in Southeastern Europe (TTFSE) (Lopandic, 2001: 130).[119] In addition, in April 1999 the Ministers of Transport of the region

[118] SECI Business Support Offices were also set up in Istanbul, Thessaloniki, Udine and Vienna (SECI, 2001: 5).

[119] Financed by the World Bank, the regional TTFSE programme will last until 2007 with the possibility of being prolonged for another seven years.

signed a Memorandum of Understanding on the Facilitation and Liberalisation of Road Freight Transport in Southeastern Europe. It provides for the gradual liberalisation of the quota regime in truck transport, the harmonisation of national regulations on truck dimension and weight as well as road taxes and the facilitation of the issuance of visas for drivers (SECI, 2001: 3). Finally, within the context of a project proposed by Turkey, a Memorandum of Understanding on Information Exchange amongst Securities Markets was signed in Istanbul in November 1999.

Within the context of activities aimed at regulating trans-border cooperation, an Agreement on Cooperation in the Prevention of and Fight against Trans-Border Crime was also signed in Romania in 1999. It provides for mutual cooperation among members in the prevention, detection, interrogation, pursuance and sanctioning of criminal activities as well as the formation of a Regional Centre for Combating Transborder Crime in Bucharest (SECI, 2001). Financed by funds from the World Bank, the United States and other sources, the centre became operational in January 2001 and has set up a number of task forces in trade in human beings, drug trafficking and smuggling (Lopandic, 2001: 132). In 2003, an MoU on Cooperation between the Special Coordinator of the Stability Pact and the SECI Regional Centre for Combating Transborder Crime concerning the Stability Pact Organised Crime (SPOC) Initiative was signed (SECI, 2003).

Although SECI is pragmatic in nature and has contributed to the establishment of some important projects achieving synergy between international organisations, its overall impact on the region has been limited. Its major drawback has been the lack of a special budget for its projects which are based on private sector financing or loans from IFIs, such as the World Bank, the EBRD and the EIB.[120] SECI has also done little it terms of its original goal of

[120] Until 2001, US $ 500 million had been brought into the region through SECI (SECI, 2001: 2).

enhancing environmental cooperation in the region. Above all, however, SECI has been viewed by other initiatives as a competitor given the weight of the American role in it. Whereas, for example, the US wanted to merge the initiative with the Stability Pact fearing that it would lose momentum after the launching of the latter, the idea was rejected by the EU and the OSCE (SECI, 2001: 6).

4.5 Stability Pact for South Eastern Europe (SPSEE)[121]

Initiated by the European Union during the Kosovo crisis, the SPSEE was the West's major political and institutional response to the war and a renewed attempt to establish stabilisation in the Balkans under the auspices of the OSCE. Adopted in Cologne on 10 June 1999 and endorsed in Sarajevo a month later, the Stability Pact is a multilateral framework which includes international organisations (NATO, UN, OECD, CoE, OSCE) and IFIs (World Bank, International Monetary Fund (IMF), European Investment Bank (EIB) and the EBRD), EU member states, accession candidates, all Balkan countries and regional initiatives. Participant countries are the Southeast European beneficiaries plus Hungary, Slovenia and Turkey whereas facilitators are the EU members, the US, Russia, Canada and Japan.[122]

The declaration on the SPSEE stressed the aim of *"strengthening countries in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to*

[121] The abbreviation SPSEE will be used interchangeably with the term Stability Pact.

[122] The Stability Pact initially included sub-state participation through the representation of entities with confused constitutional situations, namely Kosovo and Montenegro. FRY became a full member after the change of regime in Belgrade in October 2000 (Lopandic, 2001: 142). In May 2001, however, Bulgaria threatened to withdraw from the initiative fearing that it would become an obstacle to its relations with Brussels (Bechev, 2001: 15-16).

achieve stability in the whole region" (SPSEE, 1999: 2).[123] The implementation of these goals was seen as a step towards accession into the European and Euro-Atlantic community. The Stability Pact is headed by a Regional Table coordinating the activities of three Working Tables on a) Democratisation and Human Rights b) Economic Reconstruction, Development and Cooperation and c) Security Issues. The main role of these Working Tables *"is to discuss problems with the aim of adopting agreements among participating states and to identify projects aimed at facilitating the achievement of these arrangements"* (SPSEE, 1999: Annex).

The Special Coordinator, appointed by the EU after consultations with the OSCE, presides over the Regional Table and is responsible for the overall functioning of the Pact providing guidance and reviewing its progress (SPSEE, 1999: 3). An *ad hoc* High Level Steering Group for Southeastern Europe (HLSG) is also attached to the Pact and is responsible for the coordination of donor activities. The HLSG consists of the President of the World Bank and a member of the European Commission Committee on Economic Issues as well as Ministers of Finance of G-8 countries, the Special Coordinator and representatives of the UN, EU, IMF, EIB and EBRD (Lopandic, 2001: 145).

Working Table I on Democratisation and Human Rights identified seven areas for which specific Task Forces were created, incorporating as has already been mentioned activities of

[123] To this end, participants pledged to cooperate towards a list of goals including a*) the prevention of crises through multilateral and bilateral agreements; b) bringing about mature democratic political processes; c) creating peaceful and good-neighbourly relations through observance of the principles of the Helsinki Final Act, confidence-building and reconciliation; d) preserving the multinational and multi-ethnic diversity of countries in the region and protecting minorities; e) creating vibrant market economies; f) fostering economic cooperation in the region and between it and the rest of Europe and the world; g) promoting unimpeded contacts among citizens; h) combating organised crime and corruption; i) preventing forced population displacement; and j) ensuring the safe return of refugees and displaced persons* (SPSEE, 1999: Objectives).

the Royaumont Process.[124] The Task Force on Human Rights and National Minorities focuses on the strengthening of civil society and promoting of democratic citizenship and the rule of law in the target region. It includes activities such as a campaign on multi-ethnic society (Link Diversity) and the establishment of the International Centre for Inter-ethnic Relations in Ljubljana in July 2001 (SPSEE, 2002a). The Task Force on Education and Youth (Enhanced Graz Process) focuses on reform of the educational systems in the region and has established the Southeast Europe Educational Cooperation Network (SEE ECN) with a hub in Ljubljana as its dissemination backbone. The Task Force on Parliamentary Cooperation includes the establishment of a Troika sponsorship system linking the Stability Pact, international parliamentary institutions and national parliaments in participant countries as well as NGO projects providing MPs and parliamentary staff in Southeastern Europe with knowledge, skills and tools to hold governments accountable and encourage dialogue with citizens (SPSEE, 2002c).

The Task Forces on Good Governance and Gender have concentrated their activities on public administration and law and the increase of women's representation in political life respectively (SPSEE, 2002d). The Media Task Force works closely with groups of professionals in eight Southeast European countries to promote the flow of information and contributed to the adoption of the Charter for Media Freedom in Thessaloniki in June 2000 and the Strategy for Media Assistance in October 2001 (SPSEE, 2002e). Sponsored by the UNHCR, the Task Force on The Return of Refugees saw the adoption of an Agenda for Regional Action for Refugees and Displaced Persons (AREA) in 2001 addressing a wide range of issues between Bosnia-Herzegovina, Croatia and FRY with respect to 1,2 million displaced persons sponsored by the UNHCR (Anastasakis, 2001: 27; SPSEE, 2002f).

[124] In addition to task forces, the Szeged Process was initiated in October 1999 in order to sustain through city-to-city mechanisms the Serbian local authorities which had a democratic leadership. These activities were restructured after the change of regime in FRY in 2000 so as to include the cooperation of all local authorities in Stability Pact countries (Lopandic, 2001: 149).

Working Table II on Economic Reconstruction, Development and Cooperation encompasses issues related to trade liberalisation, infrastructure and the environment as well as the development of a private sector in Southeastern Europe. It has already seen the signing of a Memorandum of Understanding on Trade Liberalisation and Facilitation (MoU) whereby the governments of Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, FRY, Bulgaria and Romania (SEE-7) plus Moldavia undertook to conclude mutual bilateral free trade agreements (FTAs) by the end of 2002 thus creating a virtual free trade area (SPSEE, 2001). It called for FTAs to cover at least 90% of products, measured both in terms of tariff lines and value of trade, and permitted six years for attaining the standard (MoU, 2001: 2). It also committed the countries to standardise the rules of origin they use in the FTAs, simplify customs procedures especially at border crossings, include provisions related to public procurement, state aid and monopolies, consider the liberalisation of services, upgrade their legislation in the field of intellectual property, liberalise trade towards third countries and harmonise their legislation on company and banking law with that of the EU (MoU, 2001: 3-4).[125] Its single most important contribution lies in laying down standards for product coverage both for existing and future FTAs among participating countries (Michalopoulos, 2001: 13).

Infrastructure development includes the promotion of transport, energy and telecommunications networks. Founded on a study by the EIB, the development of transport infrastructure has seen the identification of 400 projects, 35 of which were included in the Quick-Start Package of regional projects in March 2000 (EIB, 2000). Concrete examples

[125] Rules of origin are the criteria used to define where a product was made and are designed to prevent goods from being imported into a FTA member with the lowest tariffs and then transhipped to the country with the highest protection. Because of the different external tariffs, FTAs generally develop elaborate rules of origin. The application of a common set of preferential rules of origin, including diagonal cumulation of origin, is an important component of the development of trade in the Balkan region (TDI, 1999: 33).

include the cleaning up of the Danube and the rebuilding of the bridge at Novi Sad, the construction of another one between Vidin in Bulgaria and Calafat in Romania and a highway between Bucharest and Cerna Voda (Rourke, 2003: 2). A Memorandum of Understanding for a Regional Electricity Market aligned with EU standards was also signed in Athens in November 2002 (SPSEE, 2002h). In 2003, an agreement was reached on the expansion of the Regional Electricity Market (REM) to the gas sector (Annual Report 2003: 2) Finally, launched in Istanbul in October 2000, the e-Southeast Europe initiative (e-SEE) aims to support countries of the region in the development of the Information Society (Lopandic, 2001: 151).

A Regional Environmental Reconstruction Programme (REPR) has also been set up aiming to address problems that threaten the region in the field and is coordinated through a task force (Lopandic, 2001: 151). Furthermore, a strategy for encouraging the development of the private sector has been elaborated by the EBRD. It focuses on developing a system of bank guarantees, microcredits and insurance for the development of new small-scale entreprises. Encouraging foreign investment is founded on an Investment Compact which was prepared by the OECD and Great Britain. A key concern is to ensure that countries implement the agreed reforms designed to improve their investment climate. In addition, a BAC was created which in December 2002 decided to join efforts with SECI's equivalent (SPSEE, 2002i).

Finally, Working Table III on Security Issues has been divided into two groups. On the one hand, the Sub-table on Security and Defence aims to provide support for the implementation of Articles II, IV and V of Annex I-B of the Dayton Peace Agreement in particular which

was halted during the Kosovo crisis (Pandurevic, 2001).[126] It deals with military reform and defence economics, combating the proliferation of small arms and light weapons, arms control and non-proliferation as well as humanitarian demining.[127] The most important project in the area of arms control and non-proliferation has been the Regional Arms Control Verification and Implementation Assistance Centre (RACVIAC) launched in Zagreb in October 2000 with the goal of contributing to a common understanding of current agreements and promoting CSBMs in the region (SIRPI, 2001: 568).[128] A few workshops have also been held on small arms which have led to the collection and destruction of 40.000 light weapons in Albania (Pandurevic, 2001: 318). Finally, a Regional Mine Action Support Group (RMASG) was set up in Sarajevo in May 2000 aiming to assist in the removal of minefields in Croatia, Kosovo and Bosnia-Herzegovina (Pandurevic, 2001: 318).

On the other hand, the Sub-table on Justice and Home Affairs is concerned with measures to fight corruption and organised crime, the promotion of transparent and efficient state institutions in the internal security sector, asylum and migration issues and disaster preparedness and prevention (Pandurevic, 2001). The Stability Pact has developed a series of platforms, including the Anti-Corruption Initiative (SPAI), the Initiative Against Organised Crime (SPOC), the Task Force on Trafficking in Human Beings, the Task Force for Cooperation and Development of Border Management as well as the Working Group on

[126] Under the terms of the Dayton Agreement's Annex 1-B on Regional Stabilisation, negotiations were launched with the aim of agreeing on CSBMs in Bosnia-Herzegovina (article II), reaching an arms control agreement for the former Yugoslavia (article IV) and establishing *'a regional balance in and around former Yugoslavia'* (article V) (SIPRI, 2001: 562).

[127] With few exceptions, in 1997-98 defense expenditures of Balkan states were at approximately 6,5% of GDP, well above the NATO average of 2,8% (Lozandic, 1999: 63-64).

[128] The 1996 Agreement on Sub-regional Arms *Control* (Florence or Article IV Agreement) signed by Bosnia-Herzegovina, FRY and Croatia is the only 'hard' regional arms-control arrangement now operating below the pan-european level (SIPRI, 2001: 562). The other Balkan countries, except Albania, have been balancing their military forces through the Agreement on Conventional Forces Europe (CFE) (Vucadinovic, 1999: 59).

Regional Civilian Police Training (SPSEE, 2002j). A four-year project for the development of asylum and migration systems in Southeastern Europe has also been started through the Asylum and Migration Initiative (MAI). Finally, a Disaster Preparadness and Prevention Initiative (DPPI) was launched in April 2000 aiming to improve the efficiency of the national disaster management systems and endorse a framework for regional cooperation (Pandurevic, 2001: 319). In May 2003 it saw the launching of the Ohrid Conference on Border Management and Security aiming to improve the efficiency of border management in the region (Annual Report, 2003: 5)

Although the Stability Pact is the first international initiative in Southeastern Europe that recognised the intricate link between politics, economics and security, much criticism has been voiced against it and many obstacles have become apparent in its five years of operation. First, it has been argued that the activities of the Stability Pact and its Working Tables have neglected a clear strategy and have amounted to a mere distribution of financial support to projects (Papic, 2001: 42).[129] Ambiguously conceived, the principal approach to regionalism within the Stability Pact was based on the development of regional infrastructure which received 70% of all funding and not on the developmental problems of the region which are related to the lack of internally driven growth. According to Lopandic, therefore, the Pact turned *'from a symbol of hope, to a mere forum for registration of projects initiated and financed elsewhere'* (Lopandic, 2001: 157).

Many of its initiatives have merely touched the surface of problems confronting Southeastern Europe. To illustrate, the Stability Pact's Memorandum of Understanding on

[129] At the first regional conference in March 2000, donors pledged Euros 2.4 billion and a Quick Start Package of regional projects and initiatives was decided primarily for infrastructure, security and civil society programmes. The focus of the second regional conference in October 2001, which amounted to more than Euros 3 billion, was on long-term development of the infrastructure sector, such as transport, air traffick, energy as well as SMEs, banking and refugee issues (Anastasakis 2002: 24).

Trade Liberalisation and Facilitation (MoU) left a number of issues unanswered. These are related to the degree of liberalisation of Southeast European trade regimes and the type of trade agreements to be signed with CEFTA countries (Michalopoulos, 2001: 13-14). In addition, the MoU has not dealt with non-tariff barriers, an area that is under consideration by the Trade Working Group (TWG) but needs to be intensified. Finally, the efficacy of the FTA's needs to be improved through their increased harmonisation with EU regulations and WTO obligations as well as further options identified to liberalise trade in goods and services so that an economically efficient free trade area evolves in Southeastern Europe (Annual Report, 2003: 12).[130] To date, bilateral agreements have been the only generally acceptable way to liberalise trade among Western Balkan countries.[131]

Finally, the Stability Pact has been criticised for being a cumbersome bureaucratic organisation the functioning of which remains problematic and slow. According to Kondonis, *"the multi-collectivism of the Stability Pact has created a rough polyphony and has imported competition among states and organisations within its structures"* (Kondonis, 2002: 56). To illustrate, a rivalry erupted between the Special Coordinator and Secretariat and the European Commission after its establishment (Lopandic, 2001: 156). In addition, competition between international and the weaker local NGOs has created delays in the

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[130] The effects for Southeast European economies of the establishment of a *single* FTA implying a uniform tariff of 0% are still being analysed. The main arguments in favour of it are related to increased political security through cooperation, the reduction of corruption and bureaucracy and the subsequent increase in Foreign Direct Investment (FDI). The main economic arguments against a single FTA in the region involve foregone customs revenues and the possibility that tax competition and trade diversion may occur. The advantages and disadvantages of a single FTA in the Western Balkan in particular are considered to be overlapping so that the final outcome is uncertain to the decision-makers within the affected countries, especially compared to the effects of trade liberalisation with the EU (Ranchev, 2002: 3-4).

[131] According to Messerlin, the best option for the Western Balkans would be to adopt a fre-er trade approach, namely '*the same, uniform and moderately positive tariff between themselves*' (Messerlin, 1999: 4). The same tariff across the board on all products (equivalent to the EC tariff of 5-10%) would allow the introduction of one cumulated rule of origin and all intra-regional transactions would be taxed at a similar rate. A Tariff Union (SETU) would also allow for the healthy development of Western Balkan comparative advantages and maintain a tax base in the short run (TDI, 1999: 17).

implementation of many projects, especially within Working Table I (Kondonis, 2002: 56). Some observers have therefore suggested that *"the real pact was between the competing international actors and agencies, a concordat for them all to be involved'* (Emerson, 2001: 2).

4.6 Multinational Peace Force for South-East Europe (MPFSEE)

The MPFSEE was established during the third ministerial meeting of the Southeast Europe Defense Ministerial (SEDM) in Skopje in September 1998 between Albania, Bulgaria, FYR Macedonia, Greece, Turkey, Romania and Italy.[132] The force aimed to provide a contribution to NATO-led conflict-prevention and other peace support operations under the mandate of the UN or the OSCE for the period 1999-2003 (MPFSEE, 1998: Article III.3).[133] With headquarters hosted in descending order by Bulgaria, Romania, Greece and Turkey, MPFSEE has been the most serious example of military cooperation in the region numbering 3,000-4,000 troops initially under a Turkish commander (Lozandic, 1999: 66).

Six years after its establishment, however, the MPFSEE remains largely dormant. To illustrate, the force did not participate in Operations Essential Harvest and Amber Fox aimed at disarming the ethnic Albanian guerillas and protecting international observers

[132] Initiated in Tirana in 1996 under the auspices of the US, Russia and Italy, the SEDM is a high-level mechanism of harmonisation of the various southern Balkan viewpoints on security, defense and crisis-management (Pop, 2003: 140). Its membership includes Albania, Bulgaria, FYR Macedonia, Greece, Turkey, Romania and Italy. In addition, the US, Slovenia and Croatia were granted observer status (Lozandic, 1999: 66). Some ambitious projects were initiated including the establishment of a Civil-Military Emergency Programme entrusted with coordinating disaster response and humanitarian relief in crisis situations, the setting up of an interoperable Communication Information Network (CIN/CIS) for crisis management and the establishment of a network for interconnecting of the military hospitals in SEDM countries (Pop, 2003: 140).

[133] *"The Force will be available for possible employment in UN or OSCE-mandated NATO-led or WEU-led conflict prevention and other peace support operations. It could also participate in "coalition of the willing" type of international initiatives. The Force will also function "within the spirit" of Partnership for Peace (PfP)"* (MPFSEE: Article III: 3).

overseeing the implementation of the fragile peace accord respectively in FYR Macedonia in 2001 (Bourantonis, 2003: 3). In addition, although the MPFSEE has potential for regional crisis management operations, challenges have still to be met with respect to questions of interoperability, differing capabilities, strained resources and complementarity with broader arrangements (Pop, 2003: 140). The MPFSEE has not developed an adequate institutional capacity to deal with tasks such as preventive diplomacy or aspects of peace-building. Its main operational unit - the Southeast European Brigade (SEEBRIG) - for example, has only been used for exercise and training activities and was not declared fully operational until May 2001 (Bourantonis, 2003: 4).

In addition, the member states of the region are not strongly committed to an organisation which owes its origin to a US initiative aimed at establishing a regional security agency that would prepare the ground for integration into the Euro-Atlantic structures. To illustrate, Romania, FYR Macedonia, Albania and Bulgaria saw their membership as a stepping stone on the way to full integration into NATO and it is the alliance's know-how that has served as the basis for MPFSEE's functioning (Bourantonis, 2003: 2). Thus far, the predominant role of NATO in the region has left no role for the MPFSEE, undermining its credibility and legitimacy. Although, therefore, the force has contributed to creating a sense of community among member states, the absence of shared interests has led to a further weakening of their commitment and is an additional reason why peace missions are not delegated to it. Incapable of fulfilling its original mandate, therefore, the MPFSEE has been called the region's 'sleeping beauty' (Pop, 2003: 140).[134]

[134] In April 2001, Bulgaria, FYR Macedonia, Croatia and Slovenia founded the Civil and Military Emergency Planning Council for Southeast Europe (CMEPCSEE) with the presence of Albania, Romania and the US. Its task is to prevent conflicts and maintain stability in the region (Lopandic, 2001: 165).

4.7 South East Europe Initiative (SEEI)

Finally, launched at NATO's 1999 Washington Summit as a response to the Kosovo war, the SEEI is a series of programmes promoting regional cooperation and long-term security in the Balkans focusing in the participation of FRY, Bosnia-Herzegovina and Croatia which were not at the time part of any cooperative relationship with the Alliance (Stefanova, 2000: 86). Designed to add to the activities of PfP and the EAPC, which provided for cooperative security arrangements between individual partners in Eastern Europe and the Western Alliance, a Consultative Forum on Security Issues in Southeastern Europe was formed within the initiative consisting of NATO allies and the seven states neighbouring Serbia.[135] In addition, at the first EAPC meeting of political consultations after the 1999 Washington Summit aimed to enhance partner coordination, Balkan regional cooperation in the security field was described as its primary objective and has come to be perceived as a precondition for NATO membership (Stefanova, 2000: 83).[136]

Little practical results, however, have followed the launching of the SEEI. These include the establishment of the South East Europe Security Cooperation Steering Group (SEEGROUP), an advisory forum on security issues which benefits from the expertise of NATO's International Secretariat and is comprised of representatives of Albania, Austria, Bulgaria Bosnia-Herzegovina, Croatia, FYR Macedonia, Greece, Great Britain, Hungary, Italy, Serbia-Montenegro, Slovenia and Switzerland, Turkey and the US (NATO, 2001: 1). It aims to contribute to the support of NATO clearinghouse mechanisms, identify existing

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[135] "*The central purpose of cooperative security arrangements is to prevent war and to do so primarily by preventing the means for successful aggression from being assembled, thus also obviating the need for states so threatened to make their own counter-preparations*" (Carter et al, 1992: 7). Military cooperation is an integral part of the cooperative security concept (Lozandic, 1999: 75).

[136] The 1999 Washington Summit also initiated the Membership Action Plan (MAP) which provides for a specific set of activities that will bind would-be members close to the alliance.

shortcomings in the international assistance for regional security and coordinate projects (Pop, 2003: 137). SEEGROUP participating countries, for example, have agreed to begin the exchange of liaison officials at border crossings in line with the Framework Guidelines for the Exchange of Border Security Personnel in Southeast Europe (NATO, 2001: 2).

In addition, endorsed on the margins of an EAPC meeting in May 2001, the Southeast Europe Common Assessment Paper on Regional Security (SEECAP) aims to detail risk perceptions of regional countries (SEECAP, 2001). It forms the basis for security-sector reform in the region envisaging a follow up Comparative Study of National Security Strategies (SEESTUDY) within the context of the SEEGROUP (NATO, 2001: 2).[137] SEECAP is the first comprehensive report on regional security perceptions and priorities with respect to bringing peace and stability to Southeastern Europe. It aims to support and complement the activities of the Stability Pact and other regional initiatives and contribute to building a secure and stable Euro-Atlantic area (Pop, 2003: 137).

In light of the limited impact of the SEEI as well as the impending expansion of NATO towards Slovenia, Bulgaria and Romania in 2004, the Western Balkans were also included in the Alliance's Concerted Approach on Security and Stability promoted together with the European Union (NATO, 2003). It includes activities such as conflict prevention and crisis management, defense and security sector reform, strengthening the rule of law, combating the threat of terrorism, border security and management as well as arms control (NATO, 2003). Cooperative security arrangements in the region, however, have to date mostly taken

[137] SEESTUDY aims to undertake a comparative study of national security strategies in Southeast Europe. It focuses on enabling participating countries to review and improve their capabilities for risk assessment, early warning, conflict prevention and crisis management, defense and civil emergency planning and national security strategy formulation (Anghel, 2003: 2).

place within the frameworks of NATO's PfP and the EAPC.[138] That Bosnia-Herzegovina and Serbia-Montenegro have not yet been deemed capable of joining these frameworks has obstructed the success of military cooperation over the entire peninsula.[139]

4.8 Conclusions

In the post-Cold War era, Southeastern European countries have been connected through a *'galaxy'* of primarily externally driven regional initiatives (Lopandic, 2001: 157). These initiatives have had significant organisational flexibility and accommodated countries at different levels of development, such as post-Communist Balkan states as well as Greece and Turkey. They introduced a modality of regionalism related to a combination of activities on a high political level (inter-state) and concrete measures that are of programmatic use for the economies and societies of member-states. SECIPRO committees, for example, brought together state representatives and private associations. Similarly, the Stability Pact included the participation of representatives of international organisations, states and local authorities.

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[138] Launched in 1994, PfP intended to provide a multinational security framework for military cooperation between individual partners in Eastern Europe and NATO. It provided military assistance to non-NATO members in order to modernise their defense sectors and prepare armed forces for peace-keeping in Bosnia-Herzegovina. Initially focused on developing partner cooperation in search and rescue humanitarian operations, PfP's terms of reference were gradually expanded to include peace-enforcement and civil emergency planning (Stefanova, 2000: 87). In addition, launched at the Madrid Summit as a replacement to the 1991 North Atlantic Cooperation Council (NACC), the EAPC's wide ranging agenda includes cooperation on political problems, arms control, international terrorism, peace-keeping, defense economics and civil emergency planning (Foster, 2001: 115).

[139] Whereas Bosnia-Herzegovina has not been able to participate in PfP and EAPC by the lack of a single military and insufficient defense reform, Belgrade's membership has been further complicated by the ambiguous attitude towards the Alliance in light of the bombing campaign against the FRY in 1999 (Vucadinovic, 2000: 147-149). Solving the crisis in the Presevo Valley in cooperation with NATO and KFOR in 2001, however, helped change popular attitude and the new leadership in Belgrade has showed interest in acceding to the Alliance. Subsequent to the Istanbul Meeting of June 2004, NATO's conditions for Serbia-Montenegro's PfP membership include defense sector reform, engagement in the resolution of the Kosovo problem as well as cooperation with the ITFY (NATO, 2004).

In addition, regional schemes created special legal instruments, the MoUs, which provide 'soft law' cooperation in the region. SECI, for example, saw the signing of MoUs on the Transport Facilitation and Liberalisation of Road and Freight in Southeastern Europe and on Information Exchange among Securities Markets in April and November 2001 respectively. Similarly, the Stability Pact put into place a series of bilateral FTAs through a MoU on Trade Liberalisation and Faciliatation and saw the signing of another one on a Regional Electricity Market aligned with EU standards. Cooperation initiatives also saw the implementation of some important projects such as the TTFSE improving border crossings between Balkan countries and various reconstruction activities such as the cleaning up of the Danube.

Finally, regional initiatives encouraged cooperation among business and other professional circles, facilitating communication and creating networks of contacts and institutions within Southeastern Europe. Implemented between 1998-2000, for example, the Royaumont Process achieved civil society dialogue among neighbouring states by organising meetings between journalists, academics, trade unionists, NGOs and parliamentarians thus increasing levels of societal interaction in the region. Similarly, the SEECP has served as an important forum for discussions where common positions are made at the level of political elites without external intervention. As such, cooperation schemes have contributed to the emergence of a regional identity and created a sense of a Southeastern European community. The use of the term *Southeastern Europe* also denotes a political project aimed at overcoming the pejorative legacy of the term Balkans (Bechev, 2001: 1).

Most initiatives, however, have had limited practical results. To illustrate, although the MPFSEE, established during the third ministerial meeting of the SEDM in 1998, comprised of 3,000-4,000 troops for peace support operations under the auspices of the UN or the

OSCE, it has remained largely dormant. Its main regional unit - the SEEBRIG - has limited operational capability and did not take part in the NATO's operations aimed at disarming Albanian guerillas in FYR Macedonia in 2001. Similarly, despite the signing of a Charter for Good Neihgbourly Relations and an Action Plan for Regional Economic Cooperation, for example, the SEECP has not yet seen the implementation of many of its goals and has been limited to sectoral meetings among ministers of Southeast Europe. In addition, the SEEI, which aimed to promote regional cooperation on security issues also between countries not yet part of a cooperative relationship with NATO, has merely seen the establishment of SEEGROUP, an advisory forum on security issues in the region, and the publication of SEECAP, a report on regional threat perceptions (NATO, 2001: 2).

The absence of considerable practical results has been attributed to the lack of clear mechanisms of implementation as well as self-generated financing. The Royaumont Process, for example, did not obtain a legal basis in European legislature as well as clear financing until the third year of its operation. Similarly, despite attempts to turn the SEECP into a regional organisation through the setting up of a troika formed by representatives of the current, past and future meetings, the initiative has not made significant progress in terms of institutionalisation. Although SECI has had a more flexible structure through Working Groups and Task Forces, it has lacked a special budget for its projects which were based on private sector financing or loans from IFIs. The Stability Pact has been criticised for being a cumbersome bureaucratic organisation that has acted merely as a forum for registration of projects funded elsewhere (Kondonis, 2002: 56). Finally, although the MPFSEE has potential for regional crisis management, challenges have still to be met with respect to questions of interoperability, differing capabilities, strained resources and complementarity with broader arrangements (Pop, 2003 140).

Moreover, competition and duplication of activities often emerged between regional initiatives which had similar goals as well as between actors within individual schemes. An antagonism, for example, developed between the Stabilty Pact and SECI given that both claimed ownership to trade and transport facilitation programmes as well as the fight against organised crime. In addition, within the Stability Pact rivalries emerged between the Special Coordinator and the European Commission as well as the various international organisations involved it its implementation.

Finally, some Southeast European countries have shown scepticism towards joining regional initiatives fearing that they will become obstacles to their European and Euro-Atlantic aspirations. Croatia in particular remained an observer to SECI, MPFSEE and the SEECP and only applied to join the latter as a member subsequent to the European Commission's positive Opinion of its EU membership application in June 2004. Similarly, in May 2001 Bulgaria threatened to withdraw from the Stability Pact fearing it would become an obstacle to its relations with Brussels (Vucetic, 2001: 124; Bechev, 2001: 15-16).

Chapter 5

Differentiated Integration

5.1 Introduction

Despite promoting cooperation in Southeastern Europe through the Royaumont Process and the Stability Pact and supporting all regional initiatives in the Balkans, in the post-Cold War era the EU also pursued bilateral relations with countries of the region.[140] Chapter 5 will examine these relations in order to assess other types of systemic pressures on Southeastern European countries. It will find that whereas Bulgaria and Romania have since the early 1990s been involved in the enlargement process through EAs and their participation in CEFTA, most Western Balkan countries, namely Albania, Bosnia-Herzegovina, FYR Macedonia and Serbia-Montenegro, have not yet been granted accession prospects and were only included in the SAP in 1999 whereas Croatia was also granted candidate status in June 2004. Finally, Turkey has been incorporating substantial Single Market legislation in its internal order through the Customs Union and was granted candidate status without negotiations in 1999. By pursuing differentiated integration with Southeast European countries, therefore, the EU exacerbated dividing lines in the region further contributing to its heterogeneity and creating a pull-out effect.[141]

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[140] In 1997 the European Commission prepared a report on regional initiatives in Europe including the CSSC, SECI, BSEC, Royaumont and CEI. It stated that "*the EU perceives regional cooperation in South East Europe as a crucial complement to the specific ways which countries in the area follow in their relations with the Union, as an element of, rather than an obstacle to, their European vocation*" (COM 1997, 659: 4).

[141] As an EU member state, Greece will not be considered in the analysis. Similarly, although Slovenia was subject to the same bilateral policies by the EU as Bulgaria and Romania, it is generally considered to have 'left' the Balkans given that it was in the frontline of accession candidates which joined the EU in 2004. It will consequently also be omitted from the analysis.

5.2 Bulgaria and Romania

Subsequent to the collapse of COMECON in 1990 and the SFRY in 1991, the EC signed TCAs with Bulgaria and Romania in September 1990 and March 1991 respectively (Lopandic, 1996: 31).[142] TCAs were based mainly on certain general political and economic principles, such as respect for democracy, human rights, minorities and good-neighbourliness as they have been described in the Final Act of Helsinki and the Paris Charter for a new Europe (Kotios, 2000: 244). Their main goals, beyond the strengthening of bilateral relations, were support for the transformation process of post-communist countries, the strengthening of economic development, promotion of harmonised trade, sectoral diversification, regional cooperation and the establishment of new types of trade and economic relations (EC, 1990; EC, 1991).[143]

Similar to all of the 'first generation' agreements between Central and Eastern European Countries (CEECs) and the EEC, however, the TCAs with Bulgaria and Romania were less favourable than preferential agreements with other countries (Kotios, 2000: 246). They provided for the gradual removal of all EC quantitative restrictions on industrial products, but Brussels retained the right to impose preferential duties on imports originating from these countries. In addition, agriculture, textiles and products contained within the ECSC were excluded from the agreements (EC, 1990; EC, 1991). In the early 1990s, therefore, the EC kept a protectionist guard in sectors that would have benefited CEECs so as to placate vested interests within the Community. Finally, 'first generation' agreements lacked a specific target such as EU accession (Kearns, 1999: 34).

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[142] TCAs had previously been signed with Hungary and Poland in September 1988 and 1989 respectively and with Czechoslovakia in May 1990 (Kazakos, 1996: 161).

[143] Economic cooperation refers to areas such as industry, agriculture, mining, fisheries, infrastructure, economic policy, transfer of technology and know-how, energy, transportation, research and development, tourism, the environment, the financial sector and the PHARE Programme (Poland and Hungary Assistance for Economic Restructuring) (EC, 1990: Title III).

In response to pressure from the CEECS for a more substantial relationship with the EU, relations between the EEC and Central and Eastern European countries were upgraded through the Association Agreements – otherwise known as Europe Agreements - with view to the latter's eventual membership. Bulgaria and Romania were in the first wave of negotiations together with Poland, Hungary and Czechoslovakia and signed AAs in February and March 1993 respectively. The decision in September 1991 to open negotiations with Bulgaria and Romania was dictated by events in the former USSR related to the August coup against Gorbachev as well as by the escalation of the war in Krajina (Papadimitriou, 2001: 84). The enforcement of all AAs, however, was delayed by a few years due to slow action by member-state parliaments (Kazakos, 1996: 161). In the meantime, trade between the CEECs and the EU was governed by Interim Agreements which did not include political provisions (Baldwin, 1994: 125).

EAs provided for asymmetric free trade in manufactures with a variety of transition periods and aimed to establish a FTA between the signatories within ten years (World Bank, 2000: 22). Exceptions, however, applied to some sectors such as steel, coal and textiles and more limited preferential arrangements were granted to agricultural products (EU, 1994a; EU 1994b). Although liberalisation in industrial goods moved rapidly increasing trade between the EU and CEECs, the former did not hesitate to impose contingent protection such as anti-dumping and Voluntary Export Restraints (VERs) on certain Central and East European products (Lippert, 1994: 116-17). In addition, EAs were accused of promoting hub and spokes bilateralism at the expense of Central and Eastern Europe (Baldwin, 1994: 124).[144]

[144] Romania and Bulgaria in particular confronted problems in the application of the agreements and the EU was criticised for not granting them the same preferences as it did towards the Visegrad countries, namely Poland, Hungary, the Czech Republic and Slovakia (Kazakos, 1994: 124).

Apart from trade, however, EAs contained provisions on political dialogue, movement of workers, the establishment and supply of services, payments, capital, competition and institutional provisions, approximation of laws as well as economic, cultural and financial cooperation so as to provide an appropriate framework for the integration of Bulgaria and Romania in the EU (EU, 1994 (a); EU 1994 (b)). The list of economic cooperation issues embodied in the EAs is the longest that has ever been included in association between the EU and third countries. It encompassed support for sectors such as industry, investment, agriculture, energy, transport, regional development and tourism. To illustrate, in the agricultural sector, cooperation was directed towards support for private producers, the creation of distribution networks for agricultural goods, innovations in agricultural infrastructure, the improvement of productivity and health. In addition, industrial cooperation supported the establishment of new enterprises or the transfer of technology (EU, 1994a; EU 1994b: Title VI).

In practice, however, only cautious steps were taken towards the freedoms guaranteed by the Internal Market, namely the free movement of capital and services as well as labour (Lippert, 1994: 116). To illustrate, limited free movement of capital was allowed for the payments arising from trade between the two parties as further liberalisation would have been harmful for CEEC economies (Baldwin, 1994: 127). As for the free movement of labour, the agreements merely recommended to EC member states to provide non-discriminatory treatment of workers from contracting parties (Lippert, 1994: 116).[145] Overall, therefore, although EAs were a solid foundation for pan-european integration, they were limited in scope and both sides were reluctant to go as far as the European Economic

[145] That economic cooperation with the CEECs was of greater importance than the promotion of the 'four freedoms', was attributable to the fact that in transition certain prerequisites, such as infrastructure, restructuring, administration, modernisation, new investments and macroeconomic stabilisation, must first be established before the benefits from economic integration and the freedoms associated with it can be realised (Kotios, 2000: 252).

Area (EEA) model in the short term.[146]

The goal of pan-european integration was further promoted at the Essen European Council of December 1994 which established a pre-accession strategy for the CEECs.[147] Between 1994-1996, Bulgaria and Romania together with the other Central and East European countries put forward their membership applications to Brussels. In 1997, the European Commission offered Opinions on applicant countries through *Agenda 2000* and an 'enhanced pre-accession strategy' based on Accession Partnerships (APs). The goal of APs was to bring together in a single framework all the various forms of EU financial assistance. They outlined the available economic means aimed to help countries satisfy the terms that would be in effect once aid was rendered. Within 1998, both Bulgaria and Romania submitted their national programs for the adoption of the 'acquis' which were subsequently examined within the framework of the bilateral relations with the EU (Kotios, 2000: 252).

Whereas other CEECs opened accession negotiations with the EU at the London Conference in March 1998, Bulgaria and Romania, however, were relegated by *Agenda 2000* to the slow track of candidate countries because of limited progress in meeting the criteria for membership set out by the European Council in Copenhagen in 1993, namely the stability of institutions guaranteeing democracy and the rule of law, a functioning market economy and the ability to take on obligations of membership including monetary union. In the aftermath of the bombing campaign against Yugoslavia in 1999, however, the EU

[146] Established in 1994 between Austria, Finland, Sweden, Norway, Iceland and Lichtenstein, the EEA is a Single Market arrangement that does not, however, include agriculture and the Common External Tariff (CET). Austria, Finland and Sweden left the arrangement when they joined the EU in 1995 (Baldwin, 1994: 12-13).

[147] The pre-accession strategy consisted of a) improved market access for CEEC exports; b) multilateral structured dialogue with European institutions; c) the formulation of a White Paper for the alignment to the internal market and d) restructuring of PHARE financial assistance (Tsoukalis, 1997: 250).

abandoned the two-speed strategy for accession negotiations for an all-inclusive enlargement process. Bulgaria and Romania were, therefore, eventually invited to initiate negotiations for full membership at the Helsinki European Council summit in December 1999 and are expected to join the EU in 2007 (Papadimitriou, 2001: 78).

5.2.1 Central European Free Trade Agreement (CEFTA)

Biased opening to EC economies as well as the desire to alleviate the hub and spoke bilateralism imposed on the CEECs by the EAs led to the inclusion of Bulgaria and Romania in the CEFTA in 1997 and 1999 respectively (Lopandic, 2001: 94). Signed in Krakow by Visegrad Group countries Hungary, Czechoslovakia and Poland in 1992, the CEFTA aimed to establish a FTA among members by 2001. Eliminating all customs and other restrictions on industrial products was to be achieved through a system of *bilateral* free trade agreements functioning in a framework of common rules (Dangerfield, 2000: 46). The prime body of such a type of inter-state cooperation was the Joint Committee of Ministers of the Economy or Economic Relations supervising the implementation of the Agreement. No institutional framework was, therefore, introduced although in 1995 CEFTA became an organisation by treaty amendment (Lopandic, 2001: 95).

Trade liberalisation of industrial products was accelerated throughout the 1990s and the elimination of duties on industrial goods was in some cases achieved earlier than 2001. A duty free area for industrial goods, for example, was in place for the Czech and Slovak Republics as well as Slovenia by 1997 (Dangerfield, 2000: 47). By their very nature, however, trade issues provoked constant disputes during the transition period. Economic problems, such as the occurrence of negative trade balances, provoked the implementation of protectionist measures or temporary withdrawals from the liberalisation process. Poland,

for example, restored tariffs on some types of telecommunications equipment and banned imports of combine harvesters and utility vehicles in 1994 while introducing customs duties for steel in 1997 (Kupchan, 1999: 104; Lozandic, 2001: 100). Moreover, CEFTA mechanisms at times exacerbated discrimination as preferential tariffs granted to each partner were often different and triggered counter-productive actions, such as safeguard measures and escape clauses. Plagued by many exceptions, CEFTA liberalisation also generated economic costs related to trade diversion in the absence of a convergence of regional and EC tariffs (Messerlin, 1999: 3).

In addition, the CEFTA did not encompass a central mechanism for eliminating non-tariff barriers (NTBs) which remain the main elements of protectionism of domestic industry and have not been removed by modifications to the Treaty (Kupich, 1999: 94). Moreover, although some members, such as the Czech Republic, were in favour of liberalising capital flows and trade in services, these steps were slow to materialise and were eventually put off the agenda (Dangerfield, 2000: 90). Finally, introduced in 1995, the liberalisation of trade in agricultural products was suspended in 1998 due to the sensitivity of certain items and the fear of Hungarian competition (Dangerfield, 2000: 42; Kearns, 1999).[148] During the nine-year transition period, therefore, intra-CEFTA trade was beset by traditional restrictions, lack of flexibility and disregard of partners while manufacturing trade with the West was gradually liberalised through the Europe Agreements (Kupich, 1999: 102).)

There is general academic agreement that CEFTA contributed to an effective rebuilding of trade ties within Central Europe (Lozandic, 2001: 99).[149] Since its accession, for example,

[148] The liberalisation of trade in agricultural products requires a comprehensive policy approach including subsidies and other financial supports, quality certification, health and sanitary regulations (Kupich, 1999: 106).

[149] The bulk of intra-COMECON trade comprised of bilateral exchanges with the Soviet Union. As a result, during the Cold War trade between Central European countries was limited and not conducive to complementary economic structures (Kupich, 1999: 91).

Romania experienced an expansion of its overall intra-CEFTA trade.[150] Despite the progress in implementing CEFTA, however, the big trend in the post-Cold War era was the massive reorientation of trade away from the former Soviet markets towards the West. Dominated by the Visegrad Group, intra-CEFTA trade amounts to only 10% of the signatories' total trade, a figure which is boosted by the high levels of commercial activity within former Czechoslovakia (Kearns, 1999: 39). For example, Slovakia's share in Czech foreign trade is around 15%, making the former one of the latter's most important trading partners (Kupich, 1999: 105). Trade with other CEFTA states, however, constitutes barely 6% of Polish and 4% of Hungarian foreign commercial activity (Kupich, 1999: 105). Slovenia's intra-CEFTA trade is minimal reflecting the country's small size. The impressive steps to free trade contained within CEFTA, therefore, affected only a small part of the region's overall economic activity (Kearns, 1999: 39).

Above all, CEFTA's importance has been related to its political role in facilitating the incorporation of the CEECs into the EU (Dangerfield, 2000: 76). In the early 1990s, the EU supported the implementation of free trade along the framework of the agreement believing that CEFTA yielded practical experience of multilateral cooperation (Dangerfield, 2001: 77). That CEFTA membership required signature of an AA, however, meant that the intention to go beyond a classic free trade area in Central and Eastern Europe predominated primarily in the aftermath of the 1993 Copenhagen Council which set the principle of enlarging the European Community (Dangerfield, 2001: 131).[151] Following the Essen European Council of December 1994 which established a pre-accession strategy for the

[150] Romania's intra-CEFTA trade is centred on Hungary. The large deficit which developed in agricultural trade with the latter in 1998, however, created political tension in Bucharest and even prompted calls for Romania's withdrawal from the agreement (Dangerfield, 2000: 125).

[151] Preconditions for CEFTA membership were a) WTO membership; b) EA with the EU and c) FTAs with each CEFTA member (Lozandic, 2001: 94)

CEECs, CEFTA states have been further engaged in the process of adopting the rules and regulations of the EU's Single Market. Thus, the EU pre-accession strategy formed part of CEFTA's deepening and extended regulatory alignment to Central and Eastern Europe (Dangerfield, 2000: 114). CEFTA therefore was not an end in itself, but rather a means to the strategic goal of EU integration.

In addition, the political role of CEFTA is related to its impact on the stability of Central and Eastern Europe and has been discussed in terms of its contribution to the various layers of the new system of security governance in the post-Cold War era (Cottey, 1999). In the early years after the end of the Cold War, Central European countries were not keen to cooperate and a lack of trust of neighbours predominated (Kearns, 1999: 31).[152] Despite the existence of certain factors conducive to economic cooperation such as territorial proximity, an affinity of economic systems and an existent network of communications and transport, in the early 1990s "*establishing a strong network of intra-regional orientation in investment and trade would require a contradiction of the historical and structural economic realities within which cooperation developed*" (Kearns, 1999: 33). Nevertheless, trade liberalisation eventually ameliorated regional relations because CEFTA acted as an important forum for top-level political dialogue. To illustrate, during the Visegrad Group's dormant years 1992-94 following the Slovak separatist policy and the Czechoslovak split of 1993, CEFTA acted as a platform for the resolution of disputes between members (Dangerfield, 2000: 81). According to Dangerfield, therefore, apart form acting as an indirect instrument to support EU accession, CEFTA's contribution in the political sense is related to the "*economic interdependence dimension of 'soft security*" (Dangerfield, 2000: 79).

[152] The Slovak-Hungarian bilateral relationship, for example, suffered from the long-standing dispute over the Gamcikovo-Nagymaros hydro-electric power project and disputes over the status of the large Hungarian minority living in Slovakia (Kearns, 1999: 31).

5.3 The Western Balkans [153]

The fragile security situation in the former Yugoslav space in the early 1990s did not, however, allow the development of advanced contractual relations with the warring parties until after the signing of the Dayton Accords in December 1995. Bosnia-Herzegovina and Croatia were thus only subjected to the enforcement of Autonomous Trade Preferences (ATPs) on an annual basis whereas FRY suffered a series of embargoes and bans such as on oil, arms, visa, export credit and investment.[154] Croatia in addition saw negotiations concerning the signing of a TCA. These were nevertheless suspended after the attack against the Serbs of Krajina in September 1995 (Lozandic, 1996: 31). Only Albania saw the signing of a TCA with the EC in 1992 whereas FYR Macedonia's application was put on hold because of a dispute with Greece over recognition of the state under the constitutional designation Republic of Macedonia (Papahadjopoulos, 1998: 16).

These agreements primarily governed trade relations between the EU and the Western Balkan countries and relied on European unilateral exemption from customs duties and the elimination of quantitative restrictions on many industrial products (TDI, 1999: 20). Therefore, a high degree of duty-free access to the EU market existed as approximately 80% of tariff lines were free (World Bank, 2000: 60). But trade concessions on the part of the EU, however, were subject to significant uncertainty and reversibility for the majority of exports from South East European Countries (SEECs). A large portion of 'managed' liberalisation annexes were included in these agreements. Tariff ceilings and quotas (managed trade) governed industrial products like textiles, coal, steel and chemicals which

[153] The Western Balkans are also referred to in the literature as South East European Countries (SEECs).

[154] The substance of these unilateral preferences was inherited from the 1980 TCA with former Yugoslavia which gave preferential treatment to Yugoslav exports to the EU without reciprocity. It was denounced, however, in 1991 when the EC introduced sanctions against the FRY (World Bank, 2000: 59).

were particularly important for Western Balkan countries.[155]

To illustrate, in the case of Albania although only 5% of products were subject to *managed trade,* they represented 62% of exports to the EU (World Bank, 2000: 60). Moreover, most products assumed into the annexes of the agreements were at times subject to anti-dumping actions by the EU (TDI, 1999: 21). Finally, all agricultural products were subject to a number of restrictions given the protective nature of the Common Agricultural Policy (CAP) (Daskalov et al, 2000: 5). Thus, during the early 1990s, the European Union was more liberal towards the Western Balkans on products that did not represent a significant share of the region's exports to its market while being more protective on major imports from the SEECs (Daskalov et al; 2000: 7).

In the aftermath of the Dayton Accords in December 1995, the EU presented a new policy towards the Western Balkans based on the principle of regionality. In early 1996, the European Commission reported to the Council that "*the need to foster a regional approach must be the fundamental principle informing the relationships that the Union is planning to develop with the countries of the region and must guarantee that the instruments available to the Union are used accordingly*" (SEC (96) 252: 2). On 26 February 1996 the EU General Affairs Council defined a Regional Approach with five countries of the region that did not at the time have Association Agreements with the EU. It stated that future agreements with each of these states "*will be subject, particularly where economic cooperation is concerned, to the readiness of each of the countries concerned to cooperate with its neighbours*" (COM, (96), 476: 1).

[155] A large proportion of 'managed' liberalisation annexes relating to textiles were drafted without reference to the EU commitment to eliminate all quantitative barriers in this sector by 2005 included in the WTO *Agreement on Textiles and Clothing* (TDI, 1999: 21).

The Regional Approach advocated the successful implementation of the Dayton Peace Agreements and the creation of an area of political stability and economic prosperity between Croatia, Bosnia-Herzegovina, FRY, FYR Macedonia and Albania (COM (96), 476: 1). It was accompanied by a detailed and explicit political and economic conditionality established by the General Affairs Council of 29 April 1997, compliance with which formed the basis for the development of bilateral relations with the Western Balkan countries in the fields of trade (autonomous trade preferences), financial and economic assistance (OBNOVA/Reconstruction and PHARE programmes) as well as contractual relations. Included among general conditions to all five countries were issues of democratisation and the rule of law, the development of a market economy, respect for human rights, the return of refugees and displaced persons as well as cooperation with neighbours (General Affairs Council, 1997). Among the specific conditions which referred to Bosnia-Herzegovina, Croatia and FRY were issues concerning respect of the Dayton and Erdut Accords (General Affairs Council, 1997).

Nevertheless, the long list of conditions imposed on Western Balkan countries made it difficult for aid and agreements to come through (SEC (98), 586). To illustrate, no TCAs were signed with any of the three signatories of Dayton in the aftermath of the implementation of the Regional Approach. ATPs were not renewed with the FRY after 1998 for political reasons related to the suppression of the rights of the Albanian population of Kosovo. In addition, after the attack against the Serbs of Krajina in August 1995, Croatia was not deemed eligible for receiving PHARE aid (Lozandic, 1996: 31). Only FYR Macedonia was found to be respecting the political and economic conditionalities and eventually signed a TCA with the EU in 1997 (COM (99) 235: Annex 2: 15) (EU, 1997).

It was the 1999 Kosovo war which gave a new dynamic and sense of urgency to Europe's

relations with the Western Balkans through the revision of its trade policy vis-a-vis the Western Balkan countries and the launching of the SAP. With respect to trade policy, in June 2000 the Commission drafted a radical proposal to the European Council to renew the ATPs by removing the ceilings and tariff quotas, including in the agricultural sector (Michalopoulos, 2001: 10). In late 2000, the EU established a uniform and generous ATP scheme, which provided duty and quota-free access for practically all exports of the five SEECs to EU markets (EU, 2000). Unilateral liberalisation covers most industrial goods and the exceptions in agriculture concern some meat, wine and fisheries products (Daskalov, 2000: 7). The scheme is even more generous in providing market access opportunities to SEECs than the preferences provided by the EU to candidates under the EAs, putting the five Western Balkan countries at the top of the EU preference pyramid (Michalopoulos, 2001: 11). At present, 95% of exports from the region enjoy duty-free access to the EU (CARDS, 2001: 13).[156]

The SAP is an ambitious policy seeking to promote stability within the region while also facilitating closer relations with the EU. Its main feature is the offer of enhanced contractual relations - the SAAs - which include the *perspective* of closer integration into EU structures in return for compliance with the relevant conditions expressed through the General Affairs Council of 29 April 1997 (COM (99) 235). SAAs constitute the main tool for the implementation of increased and reoriented assistance and support for democratisation, development of trade relations and political dialogue including at a regional level as well as cooperation in new fields such as justice and home affairs.[157] The one incentive that the SAP did not provide, however, was an explicit promise for membership. Rather, in the

[156] The above further unilateral liberalisation does not affect the EU market since Western Balkan countries accounted for only 0,6% of imports in 2000 (EU, 2000: 1).

[157] More limited cooperation in these fields, however, is also available to countries which are not yet eligible for SAAs (COM (99) 235: 7).

conclusions of the Feira European Council in June 2000 it was stressed that the five Western Balkan countries are 'potential candidates' for EU membership (Lopandic, 2001: 186). That conditionality in the Western Balkans is exogenous to the Union's relationship with these countries as no membership prospects accompany it, however, does not provide adequate incentives for its fulfillment locally (Anastasakis and Bechev, 2003).

With respect to trade, the SAA is a new type of measure which aims to establish a FTA between the EU and the signatories over a period of ten years. It involves asymmetric liberalisation based on improved preferences and is conditioned on individual countries' actions in support of structural adjustments. Western Balkan countries are, therefore, able to delay the opening of their markets to imports from the EU, rendering the SAA a useful tool for promoting bilateral integration while providing some space for restructuring (Michalopoulos, 2001: 11). SAAs also require signatories to start negotiations towards the conclusion of a FTA with any country with which the EU signs a similar agreement in the future so as to avoid a hub and spokes system that would favour investment in the EU at the expense of the SEECs (Baldwin, 1994).[158] As the EU signs individual SAAs with Western Balkan countries, therefore, over time the SEECs themselves should be linked through free trade arrangements with each other (World Bank, 2000: 61).[159]

To date, SAAs have been signed with FYR Macedonia and Croatia in February and October 2001 respectively and negotiations were opened with Albania in February 2003 (COM

[158] The FTA between FYROM and Croatia applied in June 1997 and revised through the Stability Pact Working Table II, for example, will form one of the pillars of the bilateral cooperation convention that as SAA signatories Skopje and Zagreb are required to agree with each other. It will also serve as a model while the network of conventions between SAA signatories expands (CARDS, 2001: 14).

[159] The European Institute in Sofia and the Centre for European Policy Studies in Brussels recommended that trade liberalisation between the EU and the Western Balkans should be promoted through CEFTA membership which could subsequently lead to a FTA between these countries, EFTA and Turkey (Daskalov et al, 2000).

(2001), 90; COM (2001), 371; COM 2001, 300). [160] Serbia-Montenegro and Bosnia-Herzegovina, however, have not yet been deemed ready to initiate negotiations due to their inability to meet the SAP criteria. Instead, Consultative Task Forces have been focusing on national and EU oriented reforms for these countries (COM, (2002) 163: 6). That the SAP is applicable on a country by country basis, however, stimulates jealousy and resentment among the signatories and further contributes to the region's heterogeneity.[161] In addition, it contradicts those elements of EU conditionality which promote a greater degree of regional cooperation (BeCei, 2003: 11). In practice, therefore, the regional strategic principle has had little influence on the SAP despite the fact that it was repeated at a summit between the EU and Western Balkan countries in Zagreb in November 2000.[162]

Finally, the SAP is supported by a substantial financial assistance programme through the Community Assistance for Reconstruction, Democratisation and Stabilisation (CARDS) which replaced the PHARE and OBNOVA programmes that were introduced in 1989 and 1996 respectively. The new community instrument is endowed with EURO 4,65 billion over the period 2002-2006 in order to accompany and support the democratic, economic and institutional reforms of the five countries concerned. As envisaged in the *Regional Strategy Paper* which complements the national support programmes, however, only 10% of the available funds will be directed to supporting regional cooperation (CARDS, 2001). Integrated border management, institutional capacity-building, democratic stabilisation and

[160] The SAA with FYR Macedonia, however, was signed as ethnic violence erupted in the country, thus failing to provide stability and discrediting Brussels' policy in the region (BeCei, 2003: 3).

[161] Croatia and FYR Macedonia also applied for membership of the EU in February 2003 and March 2004 respectively. The former was granted candidate status at the Brussels European Council in June 2004.

[162] It was at the Zagreb summit where Southeast European leaders stated that their basic aim was "*to establish between their countries regional cooperation conventions providing for a political dialogue, a regional free trade area and close cooperation in the field of justice and home affairs*" (EU, 2000: 2).

infrastructure development have been identified as the four areas where support can best be delivered at a regional level (CARDS, 2001).

5.4 Turkey

Turkey's contractual relations with the European Union date back to the 1964 Association Agreement – otherwise known as Ankara Agreement - which aimed at promoting Turkey's economic development as well as strengthening the country's commercial ties with Western Europe (EC, 1973a: 4 (Article 2)). The 1964 Ankara Agreement identified the Customs Union as the final of a three stage association with the EC.[163] It was a *sui generis* association as Turkey is one of the few countries in Europe - apart from Andorra, San Marino, Cyprus and Malta - that was expected to establish a Customs Union without being a member of the Community (Aybak, 1996: 64; Sapir, 2000: 154).[164] The significance and details pertaining to the agreement's implementation were adopted in the 1970 Additional Protocol which provided that the EU would unilaterally abolish all tariffs and quantitative restrictions on Turkish exports of manufactured products from 1973 onwards. In return, Turkey would abolish tariffs and quantitative restrictions on EU exports of manufactured products over a period of 22 years, that is to say by 1995 (EC, 1973b).

The relationship between the two parties, however, deteriorated after 1976 when Turkey suspended further tariff reductions as a result of financial problems and an increasing trade

[163] The three stages envisioned by the Association Agreement were: a) *preparatory* until 1969 granting Turkey unilateral advantages with regard to exports; b) *transitional* progressively establishing a Customs Union and c) *final* based on the Customs Union and requiring a strengthening of the coordination of both parties' economic policies (EC, 1973a: 4. (Articles 3,4,5)).

[164] Article 28 of the Ankara Agreement stated that when Turkey would undertake all the obligations mentioned in the relationship with the Community, it could become possible to investigate the question of full membership (EC, 1973a: 7).

deficit with the EC (Yigit, 1996: 55).[165] Despite the disharmony in EU-Turkey relations in the 1970s and 1980s also due to the political situation in Turkey, the Customs Union entered into force punctually in 1996 abolishing Turkey's tariff protection against the EU for all industrial and processed agricultural goods. It is also progressively aligning Turkey to the CET on imports from third countries and includes the adoption of free trade agreements with the EU's preferential partners including EFTA, the CEECs and Mediterranean states (EU, 1996: 9).[166]

The present scope of the Customs Union, however, is more comprehensive than originally foreseen by the Additional Protocol. Not restricted to tariffs and quotas, the final phase goes beyond conventional border controls into addressing new regulatory areas such as competition policy, technical barriers to trade (TBTs) and other administrative procedures (EU, 1996). That elements of *deep integration* are embraced in the final phase of the Customs Union is attributable to the fact that its implementation today requires measures dealing with such issues as intellectual property, patent rights and anti-monopoly laws (Lawrence, 1996). Since 1996, therefore, Turkey has been incorporating substantial Single Market legislation into its internal order (Aybak, 1996: 64).[167]

The usefulness of the Customs Union, therefore, *"stems from the fact that it possesses such a multitude of issues that are central to the further integration of Turkey into the EU"* (Yigit, 1996: 60). That the implications of the Customs Union are more political than

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[165] In sensitive products like textiles which dominated its exports to the EC, for example, Turkey was a vulnerable partner that was affected by the Community's export restraints (Aybak, 1996: 66).

[166] A Customs Union is a form of economic integration that removes all barriers to trade among members while harmonising commercial policies towards the rest of the world (Balassa, 1961: 2).

[167] Embodying elements of both old and new approaches to economic integration, the Customs Union is a clear example of the 'new regionalism'.

economic can also be demonstrated by the fact that in the aftermath of its implementation Turkish exports to the EU grew but not nearly as much as the imports. The poor performance of Turkey's export trade has been attributed to the fact that industrial goods, which constitute its majority, were already exported to the EC without tariffs from the 1970s (Neuwahl, 1999: 45). Nevertheless, agricultural products as well as the free movement of capital and labour are not covered by the agreements that guide EU-Turkish relations (Yigit, 1996: 52).

For Ankara, however, the Customs Union is a means that will lead to EU membership and the result of its long and persistent interest in European integration. Further to its first application for membership of the European Community in 1958, which led to the signing of the Ankara Agreement in 1964, Turkey reapplied in 1987. Its application, however, was turned down by the European Commission two years later due to still large gaps in the country's economic and political standards. Turkey's eligibility for membership, however, was confirmed and the Community's interest in closer ties with Ankara were underlined (Cameron, 1997). In addition, the 1997 Association Council reaffirmed Turkey's eligibility to join the EU and stated that Ankara would be judged according to the Copenhagen criteria set for Central and East European countries (CEECs).[168]

It was the 1999 Helsinki European Council which decided to convene bilateral inter-governmental conferences to begin negotiations with the second wave of CEECs, however, that granted Turkey candidate status on the basis of the Copenhagen criteria (Papadimitriou, 2001: 98). In Helsinki it was agreed that the EU would review reforms in

[168] The Copenhagen criteria are a) stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; b) a functioning market economy, as well as the capacity to cope with competitive pressure and market forces with the EU; c) the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union (European Council, 1993).

the end of 2004 in order to evaluate whether it can start accession negotiations with Ankara. At the Copenhagen summit of December 2002, the EU went as far as to decide to withdraw assistance for Turkey from the pre-accession budget even though it has not been decided whether accession negotiations can start (ESI, 2003: 10).

In recent years, many far-reaching reforms have been adopted by Turkey in an effort to persuade the EU that the country is eligible to start negotiations for membership. To illustrate, in October 2001 a significant constitutional reform was introduced aimed at strengthening guarantees in the field of human rights and fundamental freedoms and restricting the grounds for capital punishment and in November 2001 a new Civil Code was adopted (EU, 2003). August 2002 also saw the lifting of the death penalty and the state of emergency in two provinces in South East. Finally, in July 2003 the executive power of the National Security Council (NSC) was removed (Financial Times, 2003).

Although these reforms provide the ground for strengthening Turkish democracy and the protection of human rights, Turkey nevertheless does not fully meet the political criteria for membership as the reforms contain certain limitations, such as restrictions on the freedom of expression, peaceful assembly, association, religion and legal redress (EU, 2003). Until 2003, therefore, EU annual reports concluded that Turkey was not yet in a position to meet the economic and political criteria for membership and has not supported a firm commitment towards closer relations with view to Turkey's accession. Meanwhile, the strain of adapting Turkish law and industry to the requirements of the Single Market without a direct voice in the formulation of European legislation often creates tensions in EU-Turkish relations (Neuwahl, 1999: 61).[169]

[169] Such tensions were experienced, for example, between 1996-99 when Greece blocked the resumption of financial aid to Turkey aimed at alleviating the negative impact of the Customs Union (Neuwahl, 1996: 48).

5.5 Conclusions

Chapter 5 has examined the bilateral policies that the EU pursued with Southeastern European countries in the post-Cold War era which created distortions and divisions in the region exacerbating its heterogeneity and having a negative impact on the region-building attempt. Since the early 1990s, on the one hand, Bulgaria and Romania have been signatories to TCAs and subsequently AAs with the EU. Whereas TCAs provided for the establishment of new types of trade and economic relations with countries of Central and Eastern Europe, they kept a protectionist guard in sectors that would have benefited the CEECs and lacked a specific target for membership. Since February and March 1993, however, EAs provided for asymmetric free trade in manufactures and gradually established a free trade area with the EU while granting Sofia and Bucharest an accession prospect. They were a solid foundation for pan-european integration even though only cautious steps were taken towards the freedoms guaranteed by the Internal Market, namely the free movement of capital and services as well as labour (Lippert, 1994: 116).

In addition, Bulgaria and Romania were also included in the CEFTA in 1997 and 1999 respectively. Although CEFTA trade was beset by traditional restrictions and disregard of partners representing only a small part of economic activity of the CEECs while trade with the EU was gradually being liberalised through the EAs, it's contribution to EU accession lay in acting as an indirect instrument for encouraging the countries to adopt the rules and regulations of the Single Market as well as ameliorating regional relations (Dangerfield, 2001). As such, it has been facilitating the incorporation of the two countries in the EU expected to be achieved in 2007.

The Western Balkans, on the other hand, were in the mid-1990s subjected to a policy of regionality through the Regional Approach advocating the creation of an area of political stability and economic prosperity between Croatia, Bosnia-Herzegovina, FRY, FYR

Macedonia and Albania (COM (96), 476: 1). The detailed political and economic conditionality that accompanied the Regional Approach, however, made it difficult for aid and agreements to come through to the successor states of Yugoslavia which in the case of FRY even took the form of sanctions. Only FYR Macedonia was found to be respecting the political and economic conditionalities and eventually signed a TCA with the EU in 1997 (EU, 1997).

In the aftermath of the Kosovo crisis in 1999, the EU established a uniform ATP scheme which provided duty and quota-free access for practically all exports to the Western Balkans and introduced the SAP in order to facilitate closer relations with the region. The main feature of the SAP is the offer of enhanced contractual relations through SAAs which include increased and reoriented assistance for democratisation, asymmetric trade liberalisation within ten years as well as political dialogue and cooperation in new fields such as justice and home affairs, The SAP, however, did *not* provide an explicit promise for membership of the Western Balkan countries depriving its conditionality from the ability to create incentives for its fulfillment.

In addition, although some countries such as Croatia and FYR Macedonia signed a SAA with the EU in 2001 and the former was granted candidate status by the European Council of June 2004, others such as Bosnia-Herzegovina and Serbia-Montenegro have not yet been deemed capable to do so given their economic and political situation whereas Albania is still negotiating one with Brussels. Differentiation of EU contractual relations is, therefore, even greater within the SAP countries than between the rest of Southeastern Europe and the Western Balkans creating further distortions and spawning a climate of antagonism between those countries that have signed SAAs and those not yet deemed capable to do so.

Finally, Turkey has been a signatory to an AA with the EC since 1964. Since 1996, it has also been incorporating substantial Single Market legislation in its internal order through the establishment of a Customs Union with the EU. The Customs Union is the result of Turkey's long and persistent interest in European integration that goes back to the early years of the Community. It embodies elements of both *shallow* and *deep* integration despite the fact that agriculture is not yet covered by the agreement. At the same time, Turkey was granted candidate status and pre-accession aid by the EU at the Helsinki Council of December 1999. Until the 2003 Annual Report, however, Ankara was not deemed capable of initiating negotiations for membership given its lack of progress in satisfying the political criteria set out in Copenhagen in 1993.

Chapter 6

'Stateness' in the Yugoslav Successor States and Entities

6.1. Introduction

In the theoretical chapter it was shown that the viability of states is a prerequisite for the success of regionalism and that in the developing world the infancy of the states combined with the simultaneity of their state-making and democratisation processes contributed to the lack of cooperation (Ayoob, 1995). The complex relationship between state, nation and democratization has been called 'stateness' problem by political scientists (Linz and Stepan, 1996). The majority of successor states or entities of former Yugoslavia have experienced severe 'stateness' problems in the post-Cold War era. The double transition to market economies and democracies was, therefore, turned into a 'triple transition', adding the aspect of post-communist state and nation-building (Kopecky and Mudd, 2000: 58).[170]

Chapter 6 will examine the problem of 'stateness' in the Yugoslav successor states in the post-Cold War era – or else how state and nation-building proceeded - in order to demonstrate a significant barrier to regional cooperation. Although in the same period other Balkan countries such as Albania, Bulgaria, and Romania confronted 'stateness' problems, they will not be considered in the ensuing Chapter as their borders had already been finalised by the end of World War II and mechanisms to mitigate ethnic problems were successfully

[170] State and nation-building are closely related phenomena but they are not the same. While state-building focuses on the establishment of state institutions in a newly defined territory, nation-building is a longer process that concentrates on the emergence of a national identity, that is to say the creation of a positive identification of citizens with the state. The nation-state appears as the ultimate goal of the state and nation-building agenda (Kopecky and Mudd, 2000: 529).

applied in the 1990s preventing the outbreak of violence.[171] The analysis will include Bosnia-Herzegovina, Croatia, the FRY – renamed Serbia-Montenegro in 2003 - Kosovo and FYR Macedonia but will not consider Slovenia which was the only one of the former Yugoslav republics where nation-building was completed during communism before it sought independence from Belgrade (Woodward, 2001: 5).[172]

6.2 Bosnia-Herzegovina

Although its external sovereignty is *de jure* recognised by the international community and neighbouring states, Bosnia-Herzegovina is still at the early stages of establishing state structures and faces the greatest difficulties in nation-building of all Yugoslav successor states. Bosnia-Herzegovina was set up as an international protectorate by the Dayton Peace Accords which ended the three and a half year territorial conflict between Bosniaks, Croats

[171] To illustrate, in Albania hostility towards ethnic Greeks in the early 1990s was mitigated by the advent to power of the Socialists in 1997 who allowed minority representation in parliament (Psalidas, 1999). In Romania, although the ethnic concept of state is still reflected in the post-communist Constitution, ethnic Hungarians - who represent 7% of the country's population and constitute a majority in Transylvania and Banat - have successfully participated in coalition governments and state administration since 1996. The introduction of consociational democracy in Romania can be traced to the signing of the Treaty of Friendship between Bucharest and Budapest in 1996 (Mungiu-Pipidi, 2003: 264). In Bulgaria, although Article 11 of the 1991 Constitution banned autonomy and political parties founded on an ethnic basis, in 1992 a separately elected assembly ruled that the Movement of Rights and Freedoms (MRF) should not be excluded from the country's political life. Drawing its electoral support from the Turkish and Muslim minorities representing around 10% of Bulgaria's population, the MRF was consequently granted legitimate representation in the country's political order (Bell, 1999: 261). Finally, Turkey's serious 'stateness' problem, which led to the outbreak of violence in the country in the 1990s, relates to the Kurdish question which does not directly affect Ankara's relations with Southeastern European countries (Taspinar, 2003: 29-33).

[172] Slovenia, the population of which is 90% ethnic Slovene, is the only republic of former Yugoslavia where the state created the nation following the West European nineteenth century pattern of state-building (Woodward, 2001: 5). The Slovenian War of Independence in June-July 1991 lasted only 10 days and ended with the withdrawal of the Yugoslav Federal Army from the country at little human cost (Ripley, 2001).

and Serbs and patron states Croatia and Serbia in December 1995.[173] Formally known as the GFAP, the Dayton Agreement assigned 51% of the country's territory to the Croat-Bosniak dominated FBiH and 49% to the Bosnian-Serb controlled RS.[174] Its military provisions empowered a NATO-led Implementation Force (IFOR) to guarantee peace and mandated the parties to negotiate a series of CSBMs. IFOR successfully deployed 60.000 troops in Bosnia (20.000 US) and 5.000 in Eastern Slavonia which was to be returned to Croatia. It was succeeded in 1996 by SFOR (Ripley, 2001). The civilian provisions of the agreement representing the nation-building mandate, however, were not as stringent as the military ones and were more difficult to implement (Cousens and Cater, 2001).

The Constitution of the Republic of Bosnia-Herzegovina (Annex 4 of GFAP) created one state, two entities - the FBiH and the RS - and three nations (Croats, Serbs and Bosniaks) in order to satisfy all existing interests on the ground. The central government is responsible for foreign affairs, trade and monetary policies, immigration, international and inter-entity law enforcement, but the entities were granted defense, policing and judiciary powers and have their own constitution, parliament, army and government.[175] Both entities were granted their own citizenship in addition to a common one and both were allowed to establish *'special parallel relationships with neighbouring states'* (Constitution of

[173] Socialist Bosnia-Herzegovina had the most complex ethnic and religious configuration in former Yugoslavia (44% Muslim, 31% Serb and 17% Croat). Once internationally recognised in April 1992, the constitutional relationships guaranteed by the SFRY were called into question. The ensuing conflict over the restructuring of the republic saw the most violent fighting and ethnic cleansing in Europe since World War II. It is estimated that over 200.000 people were killed and more than 2.000.000 were rendered homeless (Cviic, 1995: 87; Cousens and Cater, 2001: 25)

[174] The Dayton Agreement is a voluminous international document with which several different actors are involved, namely states, sub-state entities and international organisations (UN, NATO, OSCE, EU). All have been assigned different roles such as contracting parties, guarantors and witnesses. It contains 11 articles, 11 annexes, numerous appendices and 102 maps (GFAP, 1995).

[175] A complicated state structure includes four major assemblies with legislative authority: a) the State-level Parliamentary Assembly; b) the bicameral parliament of the FBiH; c) the unicameral National Assembly of the RS and d) the Brcko District Assembly. In addition, legislative authority is granted to the cantonal parliaments of the FBiH (SEC, (2002) 340: 5).

Bosnia-Herzegovina: Article I, Paragraph 7; Article III, Paragraph 2). Effective sovereignty, therefore, was reserved for the entities.[176] To illustrate, the national government does not have its own revenue but has to rely on transfers from the entities (Talentino, 2002: 34). In the words of Cousens and Cater, therefore, *"Dayton's mediators crafted an accord based on a fundamental ambivalence between its partitionist and integrative elements*" (Cousens and Cater, 2001: 44)

In addition, Dayton reaffirmed ethnic as opposed to civic principles of political organisation reinforcing the values that sustained the war and institutionalising ethnicity (Einagel, 1997: 245).[177] That the preamble of the Constitution of Bosnia-Herzegovina, for example, defines only Bosniaks, Croats and Serbs as 'constituent people' of the republic did not allow the Jewish, Roma, Czech and Albanian population of the country the right to hold public office (Caplan, 2000: 224). In addition, the rights of all constituent peoples were not initially guaranteed throughout Bosnia-Herzegovina given that the Constitutions of the RS and the FBiH referred to the '*State of the Serb* people' and to '*Bosniaks and Croats along with others*' respectively (Perry, 2002: 2).[178] Finally, although the consociational multi-tiered model can be detected in the institutional framework of the Bosnian state, such as in the chambers of Parliament and the Presidency, most political decisions can be blocked by one of the three

[176] Although the state is not officially defined in the constitution, some analysts have called post-Dayton Bosnia-Herzegovina an 'asymmetric confederation' as one entity is a bi-cameral federal structure (FBiH) and the other a unicameral body (RS) and legislation has to be translated internally in each state in order to be binding to its citizens (Malesevic, 2000: 161).

[177] 'Civic' principles of political organisation define citizenship through a particular territory whereas 'ethnic' ones by common ethnicity. Nevertheless, the distinction between the two variations, often referred to as the 'French' and 'German' models of nationalism respectively, is complex and modern constitutions usually consist of both civic and ethnic elements. Civic nationalism is overall considered to be more inclusive but it is harder to achieve as it requires well developed political institutions that distribute power across ethnic boundaries (Taspinar, 2003: 27).

[178] In July 2000, however, the Constitutional Court of Bosnia-Herzegovina concluded that these references were unconstitutional (Perry, 2002: 2).

ethnic groups if their vital interests are at stake (Bieber, 2001: 115; Bieber, 2003: 1).[179]

Above all, however, the Dayton structure established a protectorate. *De facto* the country is not sovereign as it does not have the monopoly of legitimate coercion, such as a Bosnian army. The structure of the state is guaranteed by the presence of an international army - SFOR - and at the few joint institutions, such as the Central Bank and the Constitutional Court, foreign nationals were appointed. For example, out of the nine members of the Constitutional Court three cannot be citizens of Bosnia-Herzegovina and are appointed by the President of the European Court of Human Rights (Constitution of Bosnia-Herzegovina, 1995. Article VI, Paragraph I). In addition, the UN High Representative was granted authority over the civilian regulation of the economy, judiciary and political institutions under the guidance of the Peace Implementation Council (PIC). Finally, the OSCE was granted a special role in election monitoring and media regulation. Dayton, therefore, contained significant powers for international institutions in the governance of the Bosnian state.

In the first years after the end of the war, joint institutions were hardly functioning and Bosnian society was deeply divided. The 1996 and 1998 elections witnessed the emergence of nationalist politicians and ethnic politics opposing state institutions. The representatives of the tripartite presidency and national legislature were not able to agree on policies. Little progress was achieved on consensual decisions and entity authorities obstructed the unification of institutions, minority return and war crimes indictments (Cousens and Cater, 2001: 129-30). In addition, *de facto* the FBiH was divided in two territories with

[179] Consociational democracy, or else "*government by elite cartel designed to turn a democracy with a fragmented political culture into a stable democracy*" has been defined by Lijphart as a combination of the following elements: mutual veto rights of the societal or political segments, segmental autonomy, grand coalitions and proportional representation (Lijphart, 1969: 216). In the 1990s, consociational models are more commonly referred to as 'power-sharing'.

Bosniak-controlled Sarajevo and Croat-controlled Mostar as their respective centres (Gligorov, 2002: 133). That Dayton was interpreted differently by each side also hindered the functioning of the main institutions.[180]

The response of the international community to the continuing polarisation in the country was the expansion of its role in the reconstruction of a common Bosnian state. In 1997, the High Representative's mandate was widened through the 'Bonn Powers' including authority to develop and enact laws that the Bosnian leadership was blocking and to take action against those parties who were not abiding by the Dayton agreement (Cousens and Cater, 2001: 131). Since the 1997 PIC, almost all significant decisions such as the selection of the new flag and state symbols, joint currency and passports as well as joint car plates, were decided solely by the Office of the UN High Representative (OHR) (Malesevic, 2000: 163). In his first term of office, for example, High Representative Carlos Westendorp dismissed the President of the Serb Republic Nikola Poplasen with the excuse that he was supporting partition (Bugajski, 2000: 10).

The trusteeship that was established in the country, however, has been viewed by many analysts as a model that undermined the objective of fostering institutions and a culture of democratic accountability (Cousens and Cater, 2001: 134). In the words of David Chandler, "*instead of strengthening the central institutions of the new state and facilitating*

[180] Having been the largest group of Socialist Bosnia-Herzegovina (44% of the population), Bosniaks, for example, were dissatisfied with the outcome of the war which obliged them to cede almost half the country for the sake of a decentralised federal state. They were in favour of strong integrationist policies for Bosnia-Herzegovina and expected and Western support for their agenda (Cousens and Cater, 2001: 43). Bosnian Croats, who had constituted a minority population of 17% before the war, fared well in Dayton by sharing power and land within the FBiH. But their leadership was more committed to the Croat parallel state that was set up during the war than real integration with the Bosniaks and would welcome a change in the constitution that would divide the country in three ethnically defined territories. Finally, Bosnian Serbs who were granted proportionately more territory (49%) than their percentage to Bosnia's pre-war population (31%) but saw their entity divided at Brcko anticipated external commitment to wane so that their eventual unification with Serbia would become possible (Talentino, 2002: 34).

compromise and negotiation, the international administration has removed policy-making capacity from all popularly accountable Bosnian institutions. This has weakened the state and entity bodies that are central to unifying society and has reinforced ethnic identification" (Chandler, 2001: 118). The two-entity protectorate system, therefore, may have outlived its usefulness in pacifying all three national groups in the early stages of peace-making and may actually be undermining the efforts at institution-building, fostering division and delay. Many analysts have consequently argued that the original internationally imposed peace agreement requires restructuring (Bugajski, 2000: 190; Dassu and Whyte, 2001: 127).

Other analysts, nevertheless, have argued that the problems related to the structural weaknesses of the agreement can be overcome by reinterpreting its terms, from the pursuit of war criminals and general enhancement of public safety to the conditioning of aid and inter-party cooperation (Caplan, 2000: 230). In support of this view is the fact that in recent years some progress has been reported with respect to the implementation of the Dayton Accord on such issues as human rights (Annex 6), refugee returns (Annex 7) and police reform (Annex 11) (SEC, (2003): 340: 13).[181] The fact that the international military presence has been downsized considerably and that SFOR is expected to be fully replaced by an EU-led peace-keeping force (EUROR) at the end 2004 also attests to the growing stability of the country.[182] In addition, in light of the EU conditionality for the opening of negotiations for an SAA, in 2003 the RS and the FBiH agreed to cede taxation and defense to the central state (Noutcheva, 2004: 1). Many, therefore, are arguing in favour of

[181] By the end of 2002, almost one million refugees and displaced persons had returned to their homes. Estimates put the number of remaining displaced persons registered in Bosnia-Herzegovina at 367.000 (SEC, (2003): 340: 12).

[182] In 2003, SFOR was downsized to 12,900 troops from the original 60,000 and the *European Union Police Mission* (EUPM) - the first crisis management operation under the *European Security and Defense Policy* (ESDP) - assumed security responsibilities in Bosnia-Herzegovina (SEC, (2003): 340: 9).

'consolidating a functioning central state without reopening other issues' (Bertelsmann Foundation, 2002).[183]

6.3 Croatia

Croatia was internationally recognised as a sovereign state for the first time in its history in January 1992. International recognition followed the June 1991 declaration of independence from the former Yugoslavia, an event which sparked the rebellion of the Serbian population of Krajina and the subsequent war with Belgrade between 1992-95.[184] During the so-called "homeland war", large parts of Croatian territory came under Serb control including some natural gas and oil deposits in Eastern Slavonia. Although most territories were recovered by Franjo Tudjman's offensive in the summer of 1995 which saw the exodus of 600.000 Serbs from Krajina in less than a month, the fragmentation and economic disruption of Croatia resulting from the Serbian rebellion shaped the country's post-communist political developments during the next decade. Coupled with the imperatives of military defense, the new regime's insecurity encouraged the formation of a defensive world view and a siege mentality in Croatia including a tendency to mythologise the war against the Serbs (Cohen, 1997: 84).

The fact that Croatia was initially a garrison state motivated and provided justification for the regime's adoption of many illiberal practices. One of the most pronounced features of the semi-authoritarian modes of government was the concentration of power in the hands of President Tudjman and the executive branch of the Croatian Democratic Community's

[183] According to the European Commission, "*all communities must build constructively on foundations laid at Dayton. Sustainability and integration into European structures must consider that a strong state is compatible with a strong entity*"(SEC, 2002: 340).

[184] Constituting 12% of the population of Croatia, the large Serbian minority was a majority in the region of Krajina and declared independence from Zagreb in December 1991 (Cviic, 1995: 83).

(HDZ) paternalistic government (Cohen, 1997: 84). The 'democratic deficit' that prevailed saw the establishment of state interference in the workings of the judiciary, firm control of the military by hardliners which served as officers in the Croat Herzegovinian army, violations of human rights towards the Serb community as well as Croat population, manipulation of state-controlled media and the absence of freedom of association (Cviic, 1996: 211). According to Vesna Pusic, Tudjman created a *"dictatorship with democratic legitimacy*" (Pusic, 1994: 397).

In addition, the early phase of nation-building undermined the entire process of democratisation in Croatia (Agh, 1998: 200). In its concept of statehood, for example, the 1990 Croatian Constitution envisaged a constituent nation reinforcing the ethnic idea of the nation-state: "*The Republic of Croatia is hereby established as the national state of the Croatian nation and the state of members of other nations and minorities who are its citizens*" (Constitution of the Republic of Croatia: 2).[185] Although a Constitutional Law of Human Rights and Freedoms and the Rights of National and Ethnic Communities was also adopted in 1991, in practice minorities were not represented in State administration and were relegated to the status of second class citizens. In the late 1990s, minority rights remained an area of concern for the international community (COM, 99 (235): 14).

Tudjman's death in 1999, nevertheless, coupled with the war in Kosovo, which triggered an enhanced interest on the part of the international community towards Southeastern Europe and the introduction of the EU's SAP, sparked the beginning of a transition process towards

[185] In addition, under the 1990 Constitution it was expected that "*Parts of the Croatian nation in other states shall be guaranteed special concern and protection by the republic of Croatia*" (Constitution of the Republic of Croatia: Article 10).

liberal democracy in Croatia.[186] The coalition of parties that won the elections in January 2000 represented a deep resentment within public opinion against many of President Tudjman's policies. Constitutional reform was therefore introduced in November 2000 and March 2001 changing a semi-presidential bicameral system into a parliamentary mono-cameral one (Vucadinovic, 2003: 1997).

Much of the progress towards liberal democracy was achieved due to the requirements of the SAA with the EU signed in October 2001. In December 2002, for example, the rights of minorities were eventually guaranteed with the adoption of the Constitutional Law on National Minorities (CLNM) which had been overdue since the postponement of Croatia's accession to the Council of Europe in 1996 in light of the expulsion of Serbs from Krajina in August 1995. The law provides guarantees for minority representation not only in national and local-level bodies, but also in the judiciary and other state institutions (SEC, 2003, 341: 10).[187] Moreover, under pressure from the international community, Croatia lay down the basis for two autonomous regions with a Serbian majority, namely Knin and Glina, which to date have only been guaranteed cultural rights.[188] Finally, the election of minorities in Parliament as well as the redefinition of the role of Diaspora Croats, has been regulated by the new Election Law (SEC, 2003, 341: 5).[189]

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[186] Liberal democracy or else constitutional liberalism "*is a political system marked not only by free elections but also by the rule of law, a separation of powers and protection of basic liberties of speech, assembly, religion and property*" (Zakaria, 1997: 22).

[187] According to the 2001 Census, minorities take up 7,47% of the population of Croatia. These include in descending order: Serbs (4.5%), Bosnians (0,47%), Italians (0,44%), Hungarians (0,37%), Albanians (0,34%) and Slovenes (0,3%) (SEC (2003) 341: 10).

[188] In addition, the new state faces increasing demands for autonomy from regions with a distinct identity such as Dalmatia, Slavonia and Istria (Malesevic, 2000: 166).

[189] Until the late 1990s, only three seats were guaranteed for the Serbian minority in parliament (Malesevic, 2000: 166).

Despite guarantees granted to minorities by the CLNM as well as the requirements of the 1995 Dayton and Paris Peace Agreements, the return of Serb refugees and displaced persons to Croatia has been proceeding slowly. According to the European Commission, 108.000 out of 550.000 Croatian Serb refugees had returned to Croatia by the end of 2003. Figures from the United Nations High Commissioner for Refugees (UNHCR), however, show that 189,500 refugees from Croatia remain displaced in Serbia-Montenegro and approximately 19.500 in Bosnia-Herzegovina (COM, 2004, 257: 27).[190] Despite the fact that physical obstacles no longer obstruct the return of refugees to Croatia at the borders, the difficulty of obtaining housing as well as the lack of economic opportunities still constitute significant barriers to their social re-integration in the country (SEC, 2003, 341: 10-11).[191]

In addition, Croatia's borders are still undergoing clarification. Under the 1995 Dayton Peace Agreement, for example, Serb-held territories in Eastern Slavonia (4,5% of Croatian territory) were scheduled to be returned to Zagreb in 1996. But the accelerated relocation in the area of Serb refugees from other parts of Croatia and Bosnia-Herzegovina, rendered the settlement difficult to apply (Cviic, 1996: 211). In 2002, therefore, Zagreb maintained that a small slice of Croatian territory in the Baranja county was still under Serbian control (Southeast European Times, 2002). In addition, the border demarcation of the Danube river with Serbia-Montenegro made only modest progress since the establishment of the Inter-State Border Commission in December 2001 (SEC, 2003) 341: 13).[192] Finally, a

[190] It is estimated that 150,000 refugees previously obtained Croatian citizenship thus loosing their refugee status (SEC, 2003: 341: 10).

[191] The Law on the Areas of Special Concern amended in July 2002 is, nevertheless, expected to address these problems.

[192] Relations between Croatia and FRY were normalised by the 1996 Agreement on Normalisation of Relations (Vucadinovic, 1999: 8).

remaining bilateral issue of land and sea border definition also remains with Slovenia (SEC, (2003) 341: 13).[193]

Subsequent to applying to be a member in February 2003, however, the EU awarded Croatia candidate status in June 2004 arguing that it has satisfied the political and economic conditions for membership. Although cooperation with the International Tribunal for the Former Yugoslavia (ITFY) has improved significantly, the Commission's Opinion also made it explicit that Croatia's institutions require substantial strengthening. The judiciary, for example, remains an area of concern suffering from organisational problems, long delays and the lack of expertise. These weaknesses directly impact on the rule of law which remains problematic. Finally, certain issues of state and nation-building require further clarification, such as the delimitation of borders and the rights of minorities and refugees (COM, 2004: 257).

6.4 FRY/ Serbia-Montenegro

The FRY was founded on 27 April 1992 as a result of the dissolution of the former Yugoslavia subsequent to the secessions of Slovenia, Croatia, Bosnia-Herzegovina and FYR Macedonia between 1991-92. It consisted of the two remaining republics of the SFRY, Serbia and Montenegro. That there was no ethnic antagonism between Serbs and Montenegrins as well as the initial alliance between leaderships of the two republics explain why Belgrade and Podgorica remained together during the 1990s (Coppieters et al, 2003: 4). Although the 1992 constitution was loosely defined allowing the republics to conduct their

[193] Nevertheless, an agreement for a temporary border regime of the Prevlaka peninsula on the Adriatic coast - which since the end of the war had been under the authority of the UN Mission of Observers (UNMOP) - was signed in December 2002. A permanent regime is expected to be agreed upon subsequent to the establishment of a final demarcation line (SEC, 2003: 341: 13).

own foreign policy, join international organizations and enter into agreements with other states, the Serbian leadership gradually attempted to integrate the federation and strengthen the powers of Belgrade and the President in particular (Malesevic, 2000: 164).

The advent to power of Milo Djuganovic in Montenegro in October 1997 exacerbated relations between the two republics as Podgorica requested seccession from Belgrade. Engaging more intensively in privatisation, Montenegro increasingly came to operate as a *de facto* separate state adopting the Deutsche mark - and later the euro - as its currency and low tariff protection in its trade policy and striving for economic integration with Europe (CEPS, 2002). The narrow victory of Djuganovic's coalition in the parliamentary elections of April 2001, albeit with only a margin of 10%, prepared the ground for a referendum on independence in Podgorica (Rupnik, 2001: 22). Fearing that early Montenegrin independence would bring about the so-called 'domino effect' in Bosnia-Herzegovina, Kosovo and FYR Macedonia, the EU intervened pressuring Montenegro into retaining a joint state with Serbia (Coppieters et al, 2003; IGC, 2003).

Subsequent to the signing of the Belgrade Agreement in March 2002 which put an end to the existence of the FRY as well as cumbersome negotiations between November 2001 and December 2002, the Constitutional Charter of the State Union of Serbia and Montenegro was eventually adopted in February 2003. It established a loose federal structure in which the common state was granted limited competences. Serbia-Montenegro has a single international representation and a number of joint institutions, namely a unicameral Parliament, a President and Ministerial Council seated in Belgrade and a Court with its base in Podgorica (Constitutional Charter of the State Union: Article 6). Federal government is responsible for defense, foreign affairs, human rights and international economic policies whereas a Single Market was established between the two republics (Constitutional Charter

of the State Union: Article 12).

Although the Belgrade Agreement and the adoption of the Constitutional Charter temporarily alleviated the potential for a renewed crisis in Southeastern Europe, the formation of the State Union of Serbia and Montenegro failed to resolve the future relationship of the two republics. Since the majority of the Montenegrin electorate was in favour of independence, the Constitutional Charter of the State Union allows for a referendum on the future status of the republic three years after its establishment (Constitutional Charter, Article 60).[194] In addition, the fact that the republic is over-represented in the bipolar structure of the federation may create further future conflicts.[195] Finally, within Serbia there are some who believe that Belgrade would reform faster independently (Coppieters, 2003: 5; Janjic, 2003: 291).

The State Union of Serbia-Montenegro, therefore, lacks popular legitimacy and the artificial entity survives under pressure from the international community. The delay in implementation of reforms in many important sectors is indicative of its problematic nature (COM, 2003, 139 final). To illustrate, the refusal of Podgorica to recognise the new federal institutions obstructed the implementation of new legislation, such as the Law on Minorities and the Criminal Procedure Law, throughout 2003. In addition, the country is still split into two economic systems despite the establishment of a Common Market as required by the

[194] As stated in Article 60 of the Charter *'Upon the expiry of a three-year period the member states shall have the right to initiate the procedure for a change of the state status, that is to say for the withdrawal from the State Union of Serbia and Montenegro'* (Constitutional Charter, Article 60). The interim solution was the result of a compromise between EU officials who preferred relations between Serbia and Montenegro to be tested after five years and President Djuganovic who requested a referendum after one year from the signing of the agreement (Pop, 2003: 118).

[195] Although the population of Montenegro is less than one tenth that of Serbia - 650.000 out of 8 million - the Court of Serbia and Montenegro has been granted an equal number of judges from both member states (Constitutional Charter, Article 47). This numerical balance is further complicated by the fact that there are many in Montenegro who consider themselves to be Serbs (Woodward, 2001: 22).

constitution (COM, 2003, 139 final).[196] These delays have also obstructed the Union's international aspirations such as accession to PfP and the signing of a SAA with the European Union.

Above all, however, the Constitutional Charter of the State Union does not provide a stable solution for Belgrade's territorial question as it fails to take into account the status of Kosovo which the Serbs still consider an autonomous province of Serbia but in practice has been a UN protectorate since the end of the bombing campaign against the FRY in June 1999. Although it has legally detached the Kosovo issue from the future of the FRY by defining Serbia as successor state regarding UNSC Resolution 1244, the Constitutional Charter is nevertheless unclear with respect to how the issue will be resolved (Bertelsmann, 2002: 3; Coppieters, 2003: 5).[197] So long as Kosovo's future remains unclear, however, the territory and constitutional make up of Serbia-Montenegro will remain undefined (IGC, 2003: 1). In addition, uncertainty over the borders of the country led Albanian guerillas to contest southern Serbia's Presevo Valley, an area which links Belgrade to FYR Macedonia and the Mediterranean.[198]

Finally, the Constitutional Charter did not clarify the relationship between the federal and

[196] Miroljub Labus, one of the signatories of the agreement, has gone so far as to describe the text of the law on the Charter's implementation as 'grotesque' (www.invest-in-serbia.com accessed on 18/1103).

[197] "*If Montenegro withdraws from the State Union of Serbia and Montenegro, the international documents related to the Federal Republic of Yugoslavia, particularly UNSC Resolution 1244, shall pertain and apply fully to Serbia as its successor*" (Constitutional Charter, Article 60).

[198] The Presevo valley bordering FYR Macedonia is inhabited by 70.000 Albanians who in the 1992 referendum declared 'peaceful attachment' to their ethnic kin in Kosovo. In 1999, the *Kumanovo Agreement* established a 'ground security zone' inside the Serbian side of the border where the presence of the Yugoslav Army is prohibited, triggering the establishment of an Albanian rebel base. Subsequent to international involvement, negotiations were held between the two sides and political measures established the return of the Serbian army to the Kosovo border. Existing legislation on local self-government passed by the Serbian Assembly in March 2002, however, is obstructing full implementation of the negotiated plans so that a reactivation of violence cannot be ruled out (Janjic, 2003: 100-102).

the republican levels within Serbia which constitute a source of continuous conflict for Belgrade. The assertiveness of Montenegrin President Milo Djuganovic over the past few years led politicians in Vojvodina, the northern multi-ethnic province bordering Hungary, to demand immediate attention to their constitutional autonomy and status.[199] In addition, in the Sanjak - an area of overwhelmingly Muslim population divided by the Serbia-Montenegro border - the leading political party declared in 1994 its voters to be Bosniaks and has thereafter advocated the right to self-determination despite the current absence of a separate administrative status (Woodward, 2001: 22). The regional dimension of Serbian politics, therefore, which at present exists only in programmatic form, needs to be redefined and constitutionally guaranteed (Janjic, 2003).

6.4.1 Kosovo

Inhabited primarily by Albanians, Kosovo was granted 'extended autonomy' within former Yugoslavia by the 1974 Federal Constitution.[200] The revocation of this special status by Slobodan Milosevic in 1989 led the Kosovar Albanian authorities to declare the province a republic within Yugoslavia in 1990 and full independence in 1991. The declaration of independence was accompanied by the development of a unique parallel state apparatus under the leadership of Ibrahim Rugova. Intensified Serb repression, however, led to the discrediting of Rugova's non-violent resistance movement in the second half of the decade and the emergence in 1997 of the Kosovo Liberation Army (KLA) which engaged in a

[199] Although Vojivodina has its own Assembly since together with Kosovo it constituted one of the two semi-autonomous provinces linked to Serbia under the SFRY, its competences were significantly diminished under the Milosevic regime (Janjic, 2003: 274).

[200] Representing a symbol of national aspirations for both Albanians and Serbs, Kosovo was granted to Serbia in 1913 by the Treaty of Bucharest which ended the Balkan Wars of 1912-13. In 1945, it became a semi-autonomous province linked to Serbia in the newly founded SFRY. 'Extended autonomy' granted in 1974 accelerated Albanian political activities and demands for their recognition as a constituent nationality within the SFRY.

limited guerilla campaign. Subsequent to the escalation of the internal war between the KLA and the Serb security forces 1998, the international community intervened at Rambouillet with the aim of reaching an Interim Agreement for Peace and Self-Government of Kosovo. It was the failure of negotiations to reach the interim settlement between February and March 1999 that led to NATO's bombing campaign against Yugoslav forces between March and June of the same year (Allin, 2001: 7).[201]

Since the end of the bombing campaign against the FRY in June 1999, Kosovo has been *de facto* an international protectorate under UN administration. Resolution 1244, into which was written the Interim Agreement for Peace and Self-Government of Kosovo, established UN civil administration of the province - UNMIK - and a security presence on the ground under NATO command - the Kosovo Force (KFOR) - consisting of 35.000 troops (6.000 US) (IICK, 2000: 103).[202] The Resolution also envisaged the appointment of a Special Representative of the Secretary General (SRSG) to administer Kosovo and to ensure that UNMIK and KFOR would work towards the same goals (Resolution 1244 (1999). It mandated UNMIK to establish a functioning interim administration, develop provisional institutions for democratic and autonomous self-government and facilitate a political process designed to determine Kosovo's future status (Resolution 1244 (1999) paragraphs 10 and 11).

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[201] Operation Allied Force was the biggest wartime deployment in Europe since World War II and represents the only case in modern history of the reversal of a systematic removal of ethnic groups (Triantaphylou, 2001). The stated aim of the 79-day bombing campaign, which destroyed Serbia's infrastructure and industrial capacity, was to stop the organised oppression of Kosovar Albanians and prevent massive ethnic cleansing by the Serb security forces, thus introducing the doctrine of *humanitarian intervention* (Roberts, 1999: 103).

[202] UNMIK is an unprecedented experiment for the United Nations as it was granted more authority than any of its previous missions, even that delegated to the High Representative in Bosnia-Herzegovina (IICK, 2000: 114). Similarly, its structure was a novelty for the organisation given that it has been divided in four pillars headed by different international institutions. Humanitarian assistance is led by the UNHCR; civil administration by the UN, democratisation and institution-building by the OSCE and reconstruction and economic development by the EU (Yannis, 2001).

Implementation of Resolution 1244, however, has been difficult. The uncertainty over the status of Kosovo is one of the major reasons that crippled UNMIK's initial efforts to create a *modus vivendi* in the province. Resolution 1244 is based on an *intentional ambiguity* aimed at satisfying the diametrically opposed goals of Kosovo Albanians and Serbs (Whyte and Dassu, 2001: 126). By stating the goal of *"substantial self-government for Kosovo, taking full account of the Rambouillet accords and the principles of sovereignty and territorial integrity of the Federal Republic of Yugoslavia and the other countries of the region*", the international community intervened militarily in support of Albanian claims while refusing to satisfy them politically (UN Resolution 1244: Annex 1). The UN Resolution, therefore, allowed for the continuation of the conflict by other means since the Kosovars continued to promote their cause for independence whereas the Serbs wanted to remain part of Serbia thus *"leaving Kosovo in limbo"* (Yannis, 2001: 36).

In addition, the dualism at the top of the international administration created friction on the ground. As UNMIK was slow to arrive in Kosovo, in the summer of 1999 KFOR found itself entirely responsible for administering the province, maintaining law and order and repairing physical infrastructure (IICK, 2000: 105).[203] When UNMIK eventually arrived in the province, overlap and duplication arose and made the civilian effort look less impressive than KFOR's operations (IICK, 2000: 101). Coupled with the departure of Yugoslav security forces, the deployment of NATO troops allowed more than a million refugees who had fled the province during the bombing campaign to return to Kosovo. Nevertheless, KFOR was unable to prevent widespread attacks by Kosovar Albanians on Serb civilians and their exodus to Serbia proper (Roberts, 1999). Thus, although the military campaign

[203] The responsibilities of the international security presence were to maintain and enforce peace, deter renewed hostilities, demilitarise the KLA and establish a secure environment in Kosovo (Resolution 1244 (1999) paragraph 9).

averted ethnic cleansing of Albanians from the province it failed to prevent the persecution of Kosovar Serbs and other minorities.[204]

In light of these developments and the questions raised with respect to the wisdom of transforming the KLA into the Kosovo Protection Corps (KPC), the intransigence of the Serbian side became one of the major problems during the first year of implementation of UN Resolution 1244 (1999) (Yannis, 2001: 39). The fall of the Milosevic regime in October 2000, however, and the positive relationship established by the new government in Belgrade with the major external actors in Kosovo eased the Serbian unwillingness to cooperate with the international presence. A year after their arrival in Kosovo, UNMIK and KFOR eventually managed to achieve the cooperation of both Kosovar Albanians and Serbs (Yannis, 2001: 43). Negotiations were therefore initiated over the conclusion of an interim legal framework for the province.

In May 2001 and subsequent to a difficult negotiation process, the SRSG Hans Haekkerup signed the Constitutional Framework for Provisional Self-Government in Kosovo. It foresees the creation of a 120-seat Parliament or Assembly with 10 seats reserved for Serbs and 10 for other minorities such as Roma, Ashkali, Bosniak, Turkish and Gorani (Constitutional Framework, Chapter 9).[205] Competences ceded to local institutions include economics and finance, trade, education, culture and sports, social policy, the development of infrastructure, justice and general civil administration. In addition, the new constitution provides a prominent list of human rights and the imposition of Ombudsman institutions

[204] The expulsion of Serbs and other non-Albanians such as Roma, Gorans, Turks and Bosniacs from Kosovo was aimed at reducing the minority population so that it would not be possible to grant them constitutional rights (Woodward, 2001: 17).

[205] The Constitutional Framework for Provisional Self-Government in Kosovo does not define the people enacting the legal text and refrains from clearly dividing institutions between Kosovar Serbs and Albanians. The term used throughout the text is 'communities' which avoids ascribing the status of majority or minority to either of the two principal national groups in Kosovo (Constitutional Framework; Chapters 4 and 9).

(Chapters 3 and 10). UNMIK, however, retains responsibility for justice and law enforcement as well as defense and security and will have the right to veto any law not in conformity with Resolution 1244 (Constitutional Framework: Chapter 8).

As with Resolution 1244, therefore, the final legal status of Kosovo has been left open in the hope that democratic consolidation within the province will ease tensions and allow a new relationship to emerge between Belgrade and Pristina. The leaders of the Albanian community criticised the provisional constitution for ignoring the Rambouillet Accord's provision for a revision of Kosovo's status after three years on the basis of a referendum (Veremis, 2001: 93).[206] They have taken a pro-independence stance despite the victory of moderate forces in the parliamentary elections of November 2001.[207] Similarly, the Kosovar Serb leadership initially rejected the Constitutional Framework arguing that the document did not provide Serbian members of the Assembly with a veto or mention the state sovereignty of Yugoslavia and called for refugee returns to the province and its reintegration into Serbia (Judah, 2001: 61). The Constitutional Framework, therefore, "*is not an imaginative document taking Resolution 1244 forward but rather a proposal born out of the lack of a viable alternative*" (Judah, 2001: 67).

Meanwhile, in April 2002 SRSG Michael Steiner introduced a complicated delaying mechanism - the *standards before status* policy - which focuses on the transfer of power to

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[206] In the Interim Agreement for Peace and Self-Government of Kosovo, it is stated that "*Three years after the entry into force of this Agreement, an international meeting shall be convened to determine a mechanism for a final settlement for Kosovo, on the basis of the will of the people, opinions of relevant authorities, each party's efforts regarding the implementation of this Agreement and the Helsinki Final Act and to undertake a comprehensive assessment of the implementation of this Agreement to consider proposals by any Party for additional measures*" (Interim Agreement for Peace and Self-Government of Kosovo: Chapter 8-Article I:3).

[207] In November 2001, the first Kosovo-wide Parliamentary Assembly elections saw the victory of Ibrahim Rugova's moderate party with 58% of the votes cast. Whereas a Bosnian representative joined Prime Minister Rexhepi's government, the Serb coalition *Povratak* did not (Pop, 2003: 119).

local government, establishing direct dialogue between Pristina and Belgrade and preparing Kosovo for European integration (Pop, 2003: 121).[208] In October 2002, he publicised his plan for decentralisation of Kosovo to be administered by the international community (Pop, 2003: 120). Incidents against minorities, however, continue to take place as was witnessed by the outbreak of violence in the province in March 2004, the northern city of Mitrovica - where UNMIK and KFOR have not been able to fulfill their mandate - is divided into two sections and parallel courts continue to exist in municipalities with a Serbian majority (IGC, 2003: 3). In addition, privatisation of previously socially owned entreprises is being blocked for fear of prejudicing the final status and criminalisation of economic activities has become endemic (IGC, 2003: 3).

The stalemate over the question of Kosovo's status has wider regional and international repercussions and has provoked significant academic debate (Triantaphyllou, 2001). Some policymakers adhere to the argument that *de jure* independence would destabilise the Balkans by undermining efforts to hold together multi-ethnic states like Bosnia-Herzegovina and FYR Macedonia (Altman, 2001; Dassu, 2001). Those analysts in favour of independence, however, argue that statehood is needed in order to solidify the political, institutional and economic reconstruction of Kosovo (Bugajski, 2000: 185; Triantaphyllou, 2001; Allin, 2001; Rupnik, 2001). The debate, therefore, has progressed to analysing the impact of an independent Kosovo on regional stability and the kind of measures that need to be introduced in order to prevent further secessions in Southeastern Europe (Triantaphyllou, 2001: 3).

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[208] The 'standards before status' approach is based on eight benchmarks: a) functioning democratic institutions; b) rule of law (police/judiciary); c) freedom of movement; d) returns and integration; e) economy (legislation, balanced budget and privatisation); f) respect for property rights; g) dialogue with Belgrade and h) Kosovo Protection Corps (http://usinfo.state.gov/topical/pol/usandum/03052105.htm).

The decision on Kosovo's status will have far reaching implications for the conduct of International Law, repeating the precedent set during the 1992 recognition process of former Yugoslav republics without the consent of central government on the basis of concern for human rights and wider regional security (Redman, 2002: 338).[209] Given that the province is an international protectorate established by the UN Security Council, only a new Resolution can decide its final status (Judah, 2001: 66). Having intervened on an uncertain legal basis, therefore, the international community is "*struggling to deal with the Kosovo exception*" (Triantaphyllou, 2001: 1).[210]

6.5 FYR Macedonia

Established as a unitary state in September 1991, in the post-Cold War era FYR Macedonia experienced a severe 'stateness' problem given the strained inter-ethnic relations between the Slav Macedonian majority and the ethnic Albanian minority.[211] Considering themselves in relative deprivation in comparison to their position under the former Yugoslav Constitution, ethnic Albanians felt discriminated by the Macedonian state which practiced less than inclusive citizenship and language policies (Pop, 2003: 122). To illustrate, the

[209] In light of the absence of any internationally agreed provisions with respect to the creation of new borders or the establishment of new independent states, the dissolution of Yugoslavia took place in a legal vacuum. For instance, no mechanisms exist for negotiations between a federal state and its constituent republics, or for the voluntary separation of ethno-cultural communities that have unilaterally opted for national independence through elections or a referendum (Bugajski, 1993: 215).

[210] Although it expressed the purpose of implementing UN resolutions, the military intervention in Kosovo between March-June 1999 did not, nevertheless, receive prior approval by the Security Council because of anticipated Chinese and Russian opposition, thus provoking a controversy in International Law. NATO's intervention highlighted a tension between two principles enshrined in the UN Charter, namely state sovereignty and the defense of human rights (Guicherd, 1999).

[211] According to the 1994 census, 66% of FYR Macedonia's 2,2 million inhabitants are Slav Macedonian and 22,7% are ethnic Albanian, living mainly in the north western parts of the country and the capital Skopje. Ethnic Albanians claim that the census is incorrect and that in reality they constitute 40% of the population. Given current demographic trends, however, the Albanian minority could become a majority in the future (Judah, 2001: 12).

preamble of the 1991 Constitution contained the statement "*Macedonia is established as a national state of the Macedonian people, in which full equality as citizens and permanent coexistence with the Macedonian people is provided for Albanians, Turks, Vlacks, Romanies and other nationalities living in the Republic of Macedonia*" (Constitution of the Republic of Macedonia). In addition, Macedonian was designated as the official language of the republic (Constitution of the Republic of Macedonia, Article 7).

Although since its establishment the new state was ruled by a coalition of moderate Macedonian and Albanian parties, power-sharing between the two communities was not sufficient and was the result of necessity rather than a genuine determination to develop a pluralist democracy. The application of a majoritarian electoral system, the resistance to any form of territorial autonomy and local self-government to the Tetovo and Kumanovo regions inhabited primarily by ethnic Albanians and the lack of a mutual veto in relation to the vital interests of the two communities indicate that the Macedonian case was far from being a true consociational democracy (Malesevic, 2000: 167). Deep ethnic divisions existed and society was *de facto* segregated. As as result, ethnic Albanians constantly demanded equal constitutional status and the establishment of a bi-national federal state. In 1992, for example, minority politicians went as far as to call for autonomy of 'Illirida', the self-proclaimed Albanian dominated region (Judah, 2001).

In addition to its internal problems, in the post-Cold War era FYR Macedonia's external position also contributed to the radicalisation of the 'national question'. Greece, for example, argued that the use of the term Macedonia implied an usurpation of Greek identity and cultural heritage and opposed international recognition of the republic with its constitutional

name.[212] In addition, Bulgaria did not recognise the existence of a separate Macedonian language and nationality although it accepted the existence of a Macedonian state and the FRY engaged in a territorial dispute with Skopje over the demarcation of their common border (Sijl and Succoni, 2002: 2). That neighbours had different claims on various aspects of FYR Macedonian statehood, therefore, had a significant impact on the predominance of ethnic discourse in the country (Malesevic, 2000: 167). So long as their definition of the nation was challenged, leaders of the major Macedonian parties in Skopje did not feel secure to grant significant concessions to ethnic Albanians and pursued neo-patrimonial tactics of corruption (Woodward, 2001: 20).

It was the influence of developments in Kosovo, however, that led to the outbreak of inter-ethnic fighting between the National Liberation Army (NLA) and government forces in the republic in February 2001 confirming pessimistic fears of a 'domino effect' created by the spillover of crises in the Balkans (Allin, 2001 (b): 20).[213] Catalysts for the crisis were the agreement on the demarcation of the border between Skopje and Belgrade and the defeat of the Albanian rebellion in the Presevo Valley spilling over the conflict into the northern areas of the republic as well as the message delivered to Albanian militant groups by the West's support of Kosovar Albanians (Sijl and Zucconi, 2002).[214] The guerilla activities

[212] Greece went as far as to impose a unilateral trade embargo on its northern neighbour between 1993-95 arguing that the name, flag and constitution of the republic implied territorial claims on its northern Macedonian province. Relations between the two countries were normalised with the signing of the Interim Agreement in 1995 but the name of the new state is still being negotiated within the framework of the United Nations (Papahadjopoulos, 1998: 18).

[213] As early as December 1992, the UN Security Council had authorised the deployment of peacekeepers in the republic out of fear that the conflict in Bosnia-Herzegovina might spread south. The 750-strong Prevention Deployment Force (UNPREDEP) was the first preventive mission in the history of the United Nations directed more against a potential international destabilitsation of FYR Macedonia by outside forces than against domestic turmoil (Clement, 1997: 27).

[214] No mainstream Albanian political party whether in Kosovo, Albania or FYR Macedonia publicly espouses the idea of Greater Albania. The KLA, however, interpreted the international community's support of Kosovar Albanian case in 1999 as legitimation for a change of borders in the Southern Balkans (Judah, 2001).

penetrating FYR Macedonian territory radicalised the inter-ethnic agenda and obstructed the peaceful dialogue carried out within the legitimate political institutions. The Macedonian state, therefore, entered a period of crisis and its political model of democratic coexistence was cast into doubt.

Fighting was eventually contained short of full-scale war in light of international mediation which culminated in the Framework Agreement of August 2001 requiring constitutional changes in the republic and the deployment of a NATO force aimed at disarming ethnic Albanian fighters through Operation Essential Harvest. Under the terms of the *Ohrid Agreement*, NLA fighters handed 4.000 weapons to NATO and an amnesty was declared. Although tensions eventually ensued between NATO and the EU over the management of the international peace-keeping force, the 2001 Macedonian crisis was the first Balkan conflict to have seen a role played by the CFSP (Whyte, 2001). *De facto*, therefore, FYR Macedonia became the third international protectorate in the region after Bosnia-Herzegovina and Kosovo (Framework Agreement: Annex C).[215]

The Framework Agreement, signed by the Macedonian President and leaders of the four major political parties, initiated a process of inter-ethnic cooperation. Although the unitary character of the state was preserved, the constitutional amendments agreed upon improved the individual and collective rights of the ethnic communities that are larger than 20% of the country's population and ensured a more efficient parliamentary procedure that excludes the simple majority voting (Framework Agreement: Annex A). The Framework Agreement also provided for a significant increase - from 5% to 25% - in Albanian participation in

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[215] In Annex C of the Ohrid Accord it is stipulated that "*The parties invite the international community to facilitate, monitor and assist in the implementation of the provisions of the Framework Agreement and its Annexes and request such efforts to be coordinated by the EU in cooperation with the Stabilisation and Association Agreement*" (Framework Agreement: Annex C).

public offices including the police as well as the extensive use of the Albanian language in public institutions. In addition, references in the preamble suggesting minorities as second class citizen were removed (Framework Agreement; Annex A). Finally, in July 2001 the Macedonian government passed laws related to the Albanian community's long-standing request regarding university education in their ethnic tongue (Janjic, 2003: 107).

The successful application of the accord and the viability of the Macedonian state, however, remain uncertain (Triantaphyllou, 2001). Although steps have been made towards the legalisation of Tetovo University and the use of the Albanian language in Parliament and on passports, many key components of the agreement such as security sector reform, decentralisation and efforts to boost Albanian employment in public institutions have lagged. In addition, the institutions of the state were given strong ethnic qualifiers, institutionalizing ethnicity (Bieber, 2003: 1). Tensions have also emerged between Albanians and Turks who fear that the Ohrid Agreement is producing a bi-national state dominated by Albanians and Slav Macedonians (IGC, 2003; 1-2). Moreover, the NLA - which has made the unification of all Albanian territories its strategic aim - has not recognised the agreement, undermining attempts to appease former members by granting them an amnesty law. Whereas, therefore, a process of political consolidation of ethnic Albanians is under way which even allowed the country to apply for EU membership in March 2004, many challenges lie ahead with respect to implementing SAP reforms (Sijl and Zucconi, 2002: 2).[216]

[216] In June 2003, Prime Minister Ljubco Georgievski even advocated the partition of the country along ethnic lines (Pop, 2003: 123; IGC, 2003: 2).

6. 6 Conclusions

This chapter has shown that a major political barrier to regional cooperation in the Balkans in the post-Cold War period has been related to the delayed state-making in the former Yugoslav space further complicated by the simultaneous democratisation of the successor states. All successor states or entities of former Yugoslavia except Slovenia have been internally divided over questions of national identity and/or the delimitation of their borders (Woodward, 2001). The 'stateness' problem has been so acute that violence often erupted threatening their internal and external security (Gligorov, 2003).

Bosnia-Herzegovina faces the greatest difficulties of all Yugoslav successor states in state and nation-building. Created by the Dayton Peace Agreement which ended the 3,5 year conflict between Bosniaks, Serbs and Croats and patron states Croatia and Serbia in December 1995, Bosnia-Herzegovina was set up as an 'asymmetric confederation' between two entities - the FBiH and the RS - and three nations (Croats, Serbs and Bosniaks). Effective sovereignty, however, rested with the entities and common decisions were difficult to implement. In addition, the Dayton Agreement institutionalised ethnicity blocking beneficial reforms for all Bosnians and preventing the emergence of a common national identity for Bosnia-Herzegovina (Bieber, 2001).

Above all, however, Bosnia-Herzegovina is a protectorate. Although internationally recognised, *de facto* the country is not sovereign as it does not have the monopoly of legitimate coercion such as a Bosnian army and the structure of the state has been constitutionally guaranteed by the presence of an international army - SFOR. At the few joint institutions, such as the Central Bank and the Constitutional Court, foreign nationals are appointed. In addition, the expansion of the role of the international community after

1997 through the OHR's Bonn Powers disempowered Bosnian institutions, weakening state and entity bodies central to unifying society (Chandler, 2001). Although recent years have seen progress with respect to the implementation of the civilian parts of the Dayton Agreement, the objective of a multi-ethnic sovereign Bosnia-Herzegovina is being implemented due to the requirements of negotiating an SAA with the European Union.

In the early years of its state and nation-building process, Croatia alienated its minority populations pursuing ethnic nationalist policies. The Serb population of Krajina in particular - representing 12% of the country's population before the war - was obliged to flee the country during the military campaign of August 1995. Although President Tudjman's death and the Kosovo war in 1999 sparked the beginning of a transition process towards liberal democracy in the country which even applied for EU membership in October 2003 and was granted candidate status in June 2004, many issues regarding the definition of citizenship, however, still remain unsettled. As was recognised by the European Commission's Opinion of April 2004, for example, Croatia still needs to make substantial improvements in ensuring the return of refugees from Serbia-Montenegro and Bosnia-Herzegovina and to resolve border issues with neighbouring countries (COM, 2004: 257).

In the post-Cold War era, constitutional and legal uncertainty also characterised the FRY. Founded in 1992 between Serbia and Montenegro as a loosely defined bi-federal state, the FRY gradually came to be dominated by Belgrade in light of Milosevic's centralising policies. Attempts by the Serbian leadership to strengthen the powers of the federal state, however, coupled with the fact that Podgorica was also subjected to economic sanctions aimed at Milosevic's regime, triggered Montenegrin separatism. Subsequent to the coming to power of Milo Djuganovic in October 1997, Montenegro increasingly came to operate as

a *de facto* separate state adopting the Deutsche mark - and later the euro - as its currency and low tariff protection in its trade policy and striving for economic integration with Europe. The victory of the separatist party in the elections of 2001 prepared the ground for a referendum on independence.

Under pressure by the international community fearing further balkanisation of the region, however, the FRY was dissolved by the Belgrade Agreement of March 2002 and the State Union of Serbia and Montenegro was formed in March 2003. It is a loose federal structure in which the common state has limited competences such as foreign affairs. The implementation of the Constitutional Charter for the State Union of Serbia and Montenegro, however, has been problematic and many delays have become apparent in important reforms such as the Law on Minorities. Above all, however, state borders have remained an issue of open dispute for Serbia-Montenegro. The Charter has failed to resolve the future relationship of the two countries which will be decided by a referendum in 2006 as well as that between the federal and republican levels within Serbia, especially the status of Vojvodina and the Sanjak. Finally, although the Constitutional Charter legally detached the status of Kosovo from the future of the FRY by defining Serbia as successor state regarding UNSC Resolution 1244, the new constitution does not provide a roadmap for resolving the problem.

Since the end of the bombing campaign against Yugoslavia in June 1999, Kosovo has been *de facto* a protectorate of the international community under UNMIK. That UN Resolution 1299 - upon which UNMIK's mandate is based - introduced an intentional ambiguity supporting both *substantial self-government* for Kosovo and the *territorial integrity* of the Federal Republic of Yugoslavia (now Serbia-Montenegro), has rendered resolution of the status question a zero-sum game for both Kosovar Albanians who will accept nothing less

of independence and Kosovar Serbs who do not want to see the secession of their former autonomous province. Kosovo's 'stateness' problem, therefore, primarily revolves around the fact that there are still profound and irreconcilable differences over its territorial boundaries.

In addition, although the Constitutional Framework for Self-Government in Kosovo signed in May 2001 granted many competences to local institutions in an attempt to render the province a self-administered political unit, it has failed to make power-sharing a reality or provide for a revision of the status problem. Meanwhile, incidents against minorities continue to take place culminating in the outbreak of violence in the whole province in March 2004. In addition, many aspects of the *standards before status* policy introduced by the international community in April 2002, such as the privatisation of previously state-owned property, remain blocked and UNMIK still retains responsibility for justice and law enforcement as well as defense and security.

Finally, established in 1991 as a unitary state, in the post-Cold war era FYR Macedonia experienced a severe 'stateness' problem given the strained inter-ethnic relations between the Slav Macedonian majority and the ethnic Albanian minority as a result of the less than inclusive citizenship and language policies of the Macedonian state. Although moderate forces prevailed throughout the 1990s, the Kosovo conundrum radicalised the inter-ethnic agenda in FYR Macedonia by spilling over the conflict into the north of the country. The outbreak of violence in 2001 led to international intervention and the signing of the Framework Agreement through which constitutional changes were agreed upon promoting the collective and individual rights of the ethnic Albanian community.

Although, however, a process of political consolidation of ethnic Albanians is under way

that allowed to country to apply for EU membership in March 2004, the viability of the state is uncertain as an ongoing partition between the two communities is also taking place. Many of the components of the Ohrid Accord, such as ethnic Albanian employment in public institutions and security sector reform, have lagged whereas extremists continue to present a threat to law and order. In addition, the institutions of the state have been given strong ethnic qualifiers. Meanwhile, FYR Macedonia has become the third protectorate in the region given the role ascribed to international institutions by the Framework Agreement.

Chapter 7

Delayed Economic Transition

7.1 Introduction

Early theorists of integration such as Schmitter and Haas argued that economic size and power, which they defined as *"the relative weight of industrial capacity in the specific functional context of the union"*, was one of nine conditions for successful regionalism (Schmitter and Haas, 1964: 711). Barrera and Haas expanded on the argument by stating that the more homogeneous the countries are in per capita GNP, the greater the chance of a successful union (Barrera and Haas, 1969: 155). Similarly, Joseph Nye argued that the more equal the level of development measured by per capita GNP, the higher the regional trade integration (Nye, 1971: 79).

Although the relationship between economic development and regionalism has to date been underdeveloped and the necessity of economic homogeneity for the success of regional cooperation has been treated by schemes such as the European Union through policies of redistribution, national economic performance was shown in Chapter 2 to be a precondition for regionalism. Post-war European integration, for example, was based on the growth experienced in the continent after World War II and matured in conditions of economic liberalisation and stable macro-economic and institutional environments (Tsoukalis, 1997). More recently, Bjorn Hettne defined sustained economic dynamics together with political stability as the two basic criteria of core regions, a category in

which he included Europe, North America and East Asia (Hettne, 2001: 3).[217]

In the post-Cold War era, however, economic development in post-communist Southeastern Europe was characterised by a negative output performance (Tables 1-8).[218] The lack of growth in the peninsula in the 1990s has been attributed to a painful and uneven transition to market economies that has seen a number of internal macro-economic and micro-economic constraints, such as trade, current account and fiscal deficits, high unemployment, incomplete privatisation and a protracted process of de-industrialisation as well as inappropriate international assistance policies (Uvalic, 2003).[219] Chapter 7, therefore, will trace the process of economic reform in the post-communist countries of the region, namely Albania, Bulgaria, Bosnia-Herzegovina, Croatia, FRY, FYR Macedonia, Romania as well as Kosovo, in order to demonstrate that in the post-Cold War era the delayed and multi-speed transition experience that sapped growth in the peninsula has been another barrier to regional cooperation in Southeastern Europe.

7.2 Albania

Albania entered the 1990s with a serious macro-economic imbalance rooted in its self-sufficient economic practice and the rigorously centralised economy of the Cold War

[217] Similarly, Sheila Page has found that these regions, which have institutionalised their activities through the EU, NAFTA and APEC, have the highest average income per capita rates in the world at Purchasing Power Parity (Page, 2000: 67).

[218] In 2003, for example, none of the countries in the region except Albania which had high growth rates in the 1990s, reached its 1989 GDP level. Whereas Croatia and Romania approached it, Bosnia-Herzegovina and Serbia Montenegro are still at slightly above half those rates (EBRD, 2004: 16).

[219] The failed transition experience in the Balkans has been attributed by analysts to initial conditions, such as the economic backwardness thesis and the communist legacy, systemic weaknesses such as deficient institutions, policy failures as well as transition traps and the impact of the wars in former Yugoslavia (Dobrinsky, 2000: 69-71).

period. As elsewhere in Eastern Europe, a significant decline in production characterised the initial phase of transition and the country's macro-economic situation worsened. Output declined by more than 50% from the end of 1990 to mid-1992. External debt became dangerously large at 30% of GDP and foreign exchange reserves were completely exhausted. The budget deficit reached 44% of GDP by the end of 1991 and widened to more than 50% in the first half of 1992. It was financed by monetary expansion and inflation rose to 104,1% in 1991 and 237% in 1992. Unemployment reached 30.3% in 1992 (EBRD, 1997: 185) (Table 1).

Short and medium-term reforms were introduced in mid-1992 through an IMF standby emergency programme and an all inclusive Enhanced Structural Adjustment Facility (ESAF) aimed at stabilising the economy, liberalising prices and trade as well as privatising and restructuring state properties. Macro-economic stability was achieved in a relatively short time. Inflation and the budget deficit were brought under control to 31% and 16% of GDP in 1993 respectively. Subsequent to a large privatisation strategy for small and medium-sized enterprises including auction, tender, a buy-out process, direct sale and joint ventures with foreign capital, unemployment slowly decreased (Muco, 2001: 122).

Despite these successes, however, many real economy problems plagued the transition. These were primarily related to the micro-economic development of the country. Private governance and the restructuring of the newly privatised firms did not follow the same path as macro-economic reform and the largest number of private entities operated in trade. Under mass privatisation with voucher schemes, few of the large scale enterprises were privatised and industry and manufacturing sectors remained problematic. Financial sector reform and the strengthening of institutions remained minimal (Muco, 2001: 122).

During the first half of 1997, Albania entered a deep crisis. The budget deficit had reached 12.1% by the end of 1996. Data on the current account and trade balance situation show an even greater deficit. Popular discontent over the government's ability to stop corruption and the collapse of pyramid schemes led to an eruption of violence. The ensuing anarchy and collapse of state which saw the arrival of a multi-national force and new parliamentary elections in June 1997 has subsequently been interpreted as a rebellion against management (Vaughan-Whitehead, 1999). The year ended with a drop of 7% in GDP, 42% inflation, a budget deficit that accounted for 12.9 % of GDP and the highest current account deficit since 1991 (EBRD, 2004: 27) (Table 1).

A new ESAF programme was introduced in 1998 and due to substantial efforts the year ended with a more positive macro-economic performance. GDP growth reached 8% and inflation dropped to 8.7% whereas the budget deficit returned to pre-crisis levels of –10.4% of GDP. Unemployment, however, rose to 17.5 % and macro-economic performance remained unstable in subsequent years so that Albania did not achieve sustainable growth. Real GDP growth fell from 7.8% in 2001 to 4.7% in 2002. In 2003 macroeconomic performance remained strong with a growth rate of 4% owing to a gradual recovery from an energy crisis, improved government revenue collection and revived large scale privatisation (EBRD, 2004: 27).

Although in 2003 Albania surpassed its 1989 GDP levels, however, poverty is increasing and in some areas of the country it has reached levels that are characteristic of the underdeveloped world (EBRD, 2004: 17). Distorted deregulation and the weak functioning of market mechanisms which promoted and facilitated the thriving of the new small business during the initial phase of transition, have subsequently been turned into

obstacles for development. Various monopolies, the lack of supervisory mechanisms and the informal economy are barriers to foreign as well as domestic investment. The level of cumulative FDI is one of the lowest among transition countries (Ruli, 2003: 157).

In addition, agriculture that became the main engine for growth after the collapse of the industrial sector has been showing signs of slowing down because of structural deficiencies linked to the small size of farms and the embryonic status of the land market (Ruli, 2003: 157).[220] Finally, technical and financial assistance by donors have concentrated more on drafting laws and establishing agencies rather than at training and supervising them (Ruli, 2003: 157). Ongoing SAA negotiations with the EU have not yet led to the expected consolidation of reforms. Political instability and the slow pace of reforms are significant sources of risk. The present economy is almost entirely import-oriented and the external deficit remains huge (EBRD, 2004: 26).

7. 3 Bosnia-Herzegovina

As a result of the three and a half year war between Croats, Bosniaks and Serbs and patron states Croatia and FRY between 1992-95, Bosnia-Herzegovina's economy shrunk to 30% of its pre-war size while industrial output was a little more than 1/10 of Yugoslav era capacity by the end of the conflict. In 1995 GDP per head had fallen to $600 from $2.400 in 1990. The current account deficit was at 10% of GDP and the budget deficit at 0.3% whereas external debt was 180%. Inflation had reached 12.9% in RS (EBRD, 1997: 218; 2004: 35) (Table 2).

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[220] Albania has one of the highest shares of agriculture and lowest shares of industry and services in the world (Petrakos and Totev, 2001: 12).

The transition package that was implemented in the aftermath of Dayton was based on the Washington Consensus led by the IMF, the World Bank and USAID. Priority was given to macroeconomic stability to stimulate the private sector and attract investment. The governance of the official economy was to be dominated by the presence of international agencies wielding economic resources and executive power over monetary policy and economic development. Donor support primarily through bilateral donations averaged $1 billion a year in the first five years (Pugh, 2002 473).[221]

Although the economy of Bosnia-Herzegovina reached an output of 80% in 1996 and 37% in 1997, growth was due to a boom in services and public consumption depending on the inflow of money form abroad and was more evident in the FBiH than the RS (EBRD, 2004: 35). Local industrial production failed to recover and FDI was almost non-existent. Unemployment rose to around 50% and in 1997 the country was importing close to four times more than it was exporting. Inflation remained around 10%. A CBA and a Central Bank, however, were established in August 1997. Under the CBA inflation fell to around zero while reserve coverage was boosted by the conversion of German marks to local currency (Lewis and Sevic, 2000).

Constitutional arrangements in Bosnia-Herzegovina proved to be an impediment to reconstruction and development. While the Dayton Accord placed banking and customs regulation at the central state level, fiscal policy was transferred to the entities and cantons and no instruments were provided for shaping country-wide macro-economic policy. The hands of the central state were therefore tied with respect to the formulation of a uniform strategy for economic development, including industrial, incomes and social welfare

[221] The World Bank lent $860 form July 1996 to June 2001 mainly for infrastructure, agricultural recovery and jump-start projects (Pugh, 2002: 473).

policies. Until June 1998, inter-entity trade was regulated by FBiH and RS and the country was not even a firm Customs Union. According to Stojanov, Bosnia-Herzegovina's constitutional arrangements led to a 'Frankestein' economy (Stojanov, 2001: 66).

In addition, privatisation was only seriously initiated at the end of 2000 when the High Representative introduced wide ranging laws and amendments designed to maintain market reforms that would meet the demands of the IFIs (Pugh, 2002: 467). The process, however, was heavily politicised and focused on SMEs rather than large industrial enterprises which were the main source of employment and output before the war (Gligorov et al, 1999: 25).[222] To illustrate, in 2001 the private sector accounted for only 40% of GDP (EBRD, 2001: 12). According to Pugh "*Entrepreneurs in Bosnia-Herzegovina secured the spoils of peace by transferring the clientist system into the post-conflict political economies and by accommodating the conditionalities imposed by external "protectors" within the process of privatisation and deregulation*" (Pugh, 2002: 477).

In 2001, the economic situation was officially described as 'dire'. A grey economy enabled the majority of the population to subsist on diaspora remittances, foreign aid, barter, back pay for demobilised soldiers and undeclared earnings (Pugh, 2002: 472). It deprived the government of revenue that could have been used for social protection. In May 2000, however, the World Bank's country assistance strategy for Bosnia-Herzegovina included the strengthening of the social safety net through $14.6 million credit repayable over thirty-five years for educational development and welfare

[222] Privatisation of strategic industries was particularly difficult in the RS.

policies for the most vulnerable (Pugh, 2002: 476).[223]

In 2003, the economic base was still at 50% of pre-war levels, less than half the IMF projections. Growth decreased due to the effects of declining foreign aid and a drought in the agricultural sector.[224] Official unemployment remained at around 40% and although many found jobs in the informal sector the actual rate is still high around 20%. Macroeconomic policy continued to be constrained by the strict currency board but fiscal performance improved significantly, notably in the areas of tax collection and spending control. As a result, overall fiscal balance moved from a deficit 5,7% of GDP in 2000 to an estimated small surplus in 2003 (EBRD, 2004).

In late 2003, plans for a comprehensive settlement of domestic debt to around 10% of GDP claims were approved by governments at all levels. Other economic issues include a further reduction in the size of government, moves towards a single economic space between the two entities and the conduct of the currency board (EBRD, 2004: 34). The European Commission has issued a partially positive feasibility study and presented conditions on Bosnian authorities to keep them focused on reforms. Introduction of VAT at state level and customs unification are core elements of its conditionality (Noutcheva, 2004: 1). The difficult business environment and persistent external deficits, however, cast doubts over medium-term growth and investment including FDI (EBRD, 2004: 34).

[223] This amount, however, represents only a third of the sum committed to managing the privatisation process.

[224] The IMF standby credit of $119 million expired in May 2001 and there was a shift away from assistance for emergency projects conditional on adherence to Dayton towards development assistance conditional on adherence to structural adjustment (Pugh, 2002: 473).

7.4 Bulgaria

After 1989, Bulgaria faced a post-socialist recession registering negative growth until 1994. In 1991, for example, growth was –11,7%, inflation rose to 333% and the budget deficit accounted for 3.2% of GDP (EBRD, 1997: 189). The decline resulted from the loss of former CMEA markets and the official foreign debt restricting the economy's investment capacity. Attempts to launch economic reforms in 1992-93 were inconsistent especially regarding privatisation and led to a policy limbo. Until 1996, privatisation was almost suspended, signs of renewed central planning emerged and attempts to restore the socialist cooperatives system in agriculture led to an acute clash between the National Assembly and the Constitutional Court (Popov, 2003: 185).

By 1997 the country faced a hyperinflation shock of 1000% combined with a steady decline of GDP by 5,6% (Table 3). The mass protests that followed saw the collapse of the socialist government. The new centre-right Union of Democratic Forces introduced of a CBA anchoring the Bulgarian lev to the Deutschmark and restoring monetary stability. The CBA allowed authorities to practice prudent fiscal policies. In 1998 Bulgaria successfully concluded a three year contract with the IMF and developed a programme with the World Bank for supporting crucial socio-economic sectors such as public health, the transportation system, education and infrastructure.

Growth recovered 4% in 1998 and inflation dropped to 22% (EBRD, 2004: 37). Furthermore, significant steps were taken towards mass privatisation such as distributions to Management Employee Buyout (MEBO) companies. In 1999, all loss-making state-owned enterprises were closed or sold except for the railway, the state gas company and the National Electric Company (NEC) (Stanchev, 2001: 151). By the end of the

government's mandate in 2001, 65-70% of the economy was already private although the institutional environment remained unpredictable (Popov, 2003: 185).

Subsequent to being invited to initiate negotiations with the EU at the European Council of Helsinki in December 1999, Bulgaria accelerated its reform programme. It achieved a high degree of macroeconomic stability and market mechanisms working to allow for a better allocation of resources. Progress was also made in structural reforms, especially as regards procedures for market entry, the restructuring of the financial sector and privatisation, thus setting the microeconomic basis for sustained growth. In 2003, the European Commission found that Bulgaria should be able to cope with competitive pressures and market forces within the Union in the medium term provided it continues implementing reforms (Commission Strategy Paper, 2003).

Although growth was at 4,2% in 2003, however, external deficits widened due to higher imports fuelled by increased bank lending (EBRD: 2004: 35) (Table 3). In addition, the flexibility of markets remains unsatisfactory. In particular, the administrative and judicial system is inefficient and procedures affecting the enterprise sector, such as bankruptcy, have not been streamlined.[225] Specific deficiencies in the land market also affect the economy's performance. Finally, pension reform and public health management are also crucial areas that need to be addressed (Popov, 2003: 186).

7.5 Croatia

After declaring independence from SFRY in June 1991, Croatia confronted war with

[225] According to Manolova, the institutional environment in Bulgaria is corrupt and detrimental to the growth of entrepreneurial firms which react through informal networking, opportunism and surplus extraction (Manolova, 2002).

Belgrade which lasted until 1995. The combination of the war impact and economic transition initially led to significant imbalances such as declining growth which reached –20% in 1991, –10% in 1992 and –3.7% in 1993, high inflation of 249%, 937% and 1.150% in the same years and external and fiscal imbalances. The budget deficit, for example, was 5%, 4% and 1% for 1991, 1992 and 1993 respectively (EBRD, 1997: 190) (Table 4).

Subsequent to the establishment of a successful stabilisation programme implemented in October 1993, Croatia achieved price and exchange rate stability. Modest growth of 0.8% resumed in 1994 which reached 5% by 1995 and the budget was balanced while inflation declined to negative rates in 1993 and 3.7% in 1995 (EBRD, 1997: 190). The mix of price and exchange rate stability together with accommodating policies and rising balanced budgets remained the foundation of economic policy except for a brief period in 1999 when the currency depreciated. Average inflation between 1994-98 was 3.6% and average growth was around 6%.

Price and exchange rate stability, however, were not enough to produce a sustainable economy and growth without changes in the real sector. Financial sector instability began in 1998 and negative growth started in the second half of the year and continued through 1999 to reach –0.9%. Unemployment increased to 11% together with the current account deficit that was –7% in 1999. The second banking crisis of 1998/99 was attributable to a combination of tight monetary policy, a drop in domestic demand and deteriorating loan portfolios of banks. Mounting structural problems also emerged, for example, from the failed privatisation process (Bicanic, 2001: 170).

To illustrate, whereas the 1991 privatisation legislation replaced the laws inherited from

Yugoslavia whereby firms were socially owned, insider by-outs did not allow the modernisation of corporate governance and corruption was rampant in the way prospective buyers gained funds (Bicanic, 2001: 170).[226] The state kept many firms outside privatisation, especially public enterprises. In addition, until the late 1990s,Croatia's banking system was dominated by state-owned banks operating in an insufficient regulatory framework with weak supervision and vulnerability to political influence (COM, 2004, 237: 42).

Subsequent to the change of regime in 2000, however, the Croatian economy achieved a considerable degree of macroeconomic stability and some structural reforms. After 2000, fiscal policy, for example, gradually contributed to a stable macro-economic environment with expenditure cuts including the reduction of the public wage bill. The banking sector was consolidated and supervision and capital requirements were strengthened (COM, 2004: 237: 42). Consequently, Croatia saw sustainable growth of 5.2% and 4.5% in 2002 and 2003 respectively and low inflation of around 2% although fiscal and current account deficits continued to be large (Table 4). Subsequent to applying for membership of the EU in February 2003, the European Commission found that Croatia satisfied the economic criteria set out by the Copenhagen Council of June 1993 (COM, 2004: 237).

The working of market mechanisms, however, still needs to be improved and progress in restructuring the business sector and increasing competitiveness has been modest. The performance of the judicial sector as well as the cadastre and land registry systems, for example, are inadequate. Privatisation has been slower than expected and some large state-owned enterprises still play an important role in the economy. Reforms of the public

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[226] The Yugoslav system of self-management involved collective ownership often generated by workers savings.

administration, social security and fiscal systems are delayed and the agriculture and shipbuilding sectors have not yet been modernised (COM, 2004, 257).

7. 6 FRY/ Serbia-Montenegro

After the break up of former Yugoslavia in 1991, FRY's economy virtually collapsed. It was affected by the state of emergency dictated by the war, the burden of financing the Serb-held territories in Croatia and Bosnia-Herzegovina as well as the international sanctions and bans on oil, arms, trade, export credit and investment.[227] By the end of 1993, GDP had fallen to 43% of its 1989 level and growth was at –30.8%, whereas expansionary monetary and fiscal policies necessary to finance the war triggered one of the highest hyperinflations ever recorded in world history (Table 5). To illustrate, the average inflation in 1993 reached 32.700.700% annually or 1.880% a month (Pashko, 1998: 336).

The monetary reconstruction programme implemented in early 1994 by the governor of the Central Bank Dragoslav Avramovic initially succeeded in halting hyperinflation, introducing a convertible dinar and reversing the trend of declining output to 2.5% (Uvalic, 2001: 178). These positive results, however, were soon undermined by problems caused by the absence of systemic change. Growth rates were higher than in other Southeastern European countries at 6.1% in 1995 and 7.8% in 1996 but so was inflation that reached 78.6% and 94.3% for the same years. Official unemployment was at around 25% for the period 1995-1997 (EBRD, 2003: 145). Due to the country's status in

[227] The UN imposed its first embargo in late 1991 because of Serbia's involvement in the war in Croatia. Sanctions were re-inforced in May 1992 after the war had spread to Bosnia-Herzegovina and were partially removed after the signing of the Dayton Accords in December 1995. An outer force of sanctions, however, preventing the country from joining international organisations remained throughout the 1990s (Uvalic, 2001: 177-78).

international financial institutions and its high political risk, there was a very limited inflow of foreign finance. From 1990 to 1998, for example, FDI amounted to a bit over $1 billion, almost entirely due to the privatisation of Serbian Telecom of which 49% was sold to Italian and Greek partners (Uvalic, 2001: 178).

Progress in institutional reforms was also unsatisfactory. Although many privatisation laws were passed in the pre-1999 period, their implementation was slow and many enterprises were excluded from the process. At the end of 2000, only 40% of Yugoslav GDP was from the private sector (EBRD, 2001: 12). In addition, some of the most profitable Serbian enterprises were excluded from privatisation and came to be dominated by the political elites close to the Milosevic regime. According to Vladimir Gligorov, the Yugoslav government's economic policy in the 1990s was aimed at avoiding transition with centralisation, nationalisation, anti-liberalisation, anti-stabilisation and corruption as its main features (Gligorov, 1999).[228]

After the Kosovo conflict, all economic indicators worsened. Real GDP declined by 18% in 1999 and inflation increased to 37.1%. The government decreed a price freeze thus provoking shortages and repressing inflationary pressures. Sluggish export performance determined a large current account deficit, which remained above the high level of $1.2 billion in 1999 corresponding to 7.5% of GDP. Foreign exchange reserves were only around $300 million while the country's gross external debt in 1999 was $14,1 billion (EBRD, 2004: 67). According to the G17 group's initial calculations, the 1999 war costs for Serbia amounted to $30 billion. Estimates, however, vary significantly and were

[228] Montenegro, however, tried to implement more radical measures in areas that were under its own competence and not those of the federation. As was shown in Chapter 6, Podgorica came to operate as a *de facto* separate state adopting the Deutschemark as its currency and low tariff protection in its trade policy and engaging more intensely in privatisation (CEPS, 2002).

subsequently lowered to $2 billion.[229]

Since 2000, the authorities have operated strict monetary and fiscal policies. The efforts to stabilise the economy after the excesses of the Milosevic years have met some successes. In Serbia, monetary policy continues to be based on a stable dinar, although the dinar/euro rate depreciated gradually during 2003. Annual inflation was in single digits for both Serbia and Montenegro where the euro is the sole legal currency. Recent fiscal performance has improved with increased revenue collection and hardened budget constraints for public enterprises. Trade and current account deficits, however, are large, the latter being at 11.6% of GDP in 2003 (EBRD, 2004: 66) (Table 5).

Macroeconomic stability, therefore, was achieved without transformation in the real sector, that is micro-economic stabilisation. Strong anti-reform forces remained influential in the country and vested interests impeded radical change. A new privatisation law was adopted in Serbia in June 2001 but few companies have been privatised and the process is particularly slow with respect to the large state-owned entrerprises. Little progress was also made in reforming banks and other financial institutions which faced a liquidity crisis (Prokopijevic, 2002).[230] In addition, the pace of structural reforms has slowed considerably due to the political disputes between Serbia and Montenegro (Country Report, 2004). To illustrate, whereas under the Constitutional Charter of the State Union of Serbia-Montenegro that came into force in 2003 Belgrade is expected to

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[229] The bombing campaign against FRY between March and June 1999 included targets in the military-industrial infrastructure of the country. Fifty nine bridges, nine major highways and seven ports were destroyed. Most of the telecommunications transmitters were damaged and two thirds of the main industrial plants were seriously damaged. According to NATO, 70% of the country's electricity production and 80% of oil refinery capacities were also destroyed (IICK, 2000: 93).

[230] To illustrate, in the end of 1999, the merger of 22 banks within BEOBANKA was imposed (Uvalic, 2001: 181).

"*coordinate and harmonise the economic systems of the member states*", in practice Podgorica has retained competence over taxation and economic policy (Constitutional Charter, Article 11).

7.6.1 Kosovo

In the 1990s, Kosovo faced economic crisis and industrial collapse as a result of the sharp fall of the federal funds that had sustained it during the Cold War for political reasons.[231] In 1990, for example, Kosovo's official GDP per capita was 22% that of former Yugoslavia. The revocation of autonomy by the Milosevic regime in 1989 saw the emergence of a parallel state and economy by Albanian Kosovar authorities who as was shown in Chapter 6 declared full independence in 1991. Little progress was subsequently made in the field of privatisation and many industries remained under inefficient control (Korovilas, 2002: 110). Unemployment rose significantly during the decade and emigration was estimated to be the highest in former Yugoslavia (Pashko, 1998: 345).

Subsequent to the outbreak of violence in the province in 1998 and NATO's bombing campaign against Belgrade in 1999, Kosovo's economy entered a period of reconstruction of infrastructure. It was the inflows of international assistance under the UN protectorate that provided Kosovo with the level of economic support needed to ensure its survival. In 1999, two donor conferences were held during which the international community pledged to contribute $2.3 billion for reconstruction for the period 1999-2003 (Mustafa, 2001: 16). Large investments were subsequently made in the rebuilding of houses as well

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[231] During the Cold War, Kosovo's economy was an 'appendix' of Serbia. Its industrial output depended on the Yugoslav market and operated primarily as a supplier for manufacturing industries in other Yugoslav republics (Pashko, 1998: 342).

as the rehabilitation of the energy sector and the reparation of roads and bridges that had been destroyed (Mustafa, 2001: 17).[232]

The international organisations that assumed the civil administration of Kosovo in 1999 also set the conditions for the province's sustainable development. They aimed to reform the province into an open market economy with particular emphasis on privatising state-owned enterprises, removing restrictions on the free flow of capital and trade and establishing the Deutschmark, and subsequently the Euro, as its official currency. As part of UNMIK, the EU assumed responsibility for the departments of reconstruction, trade and industry, public utilities and finance. It established the Customs Assistance Mission (CAM-K), a service providing Kosovo with its first self-generated income and put into place the institutional and legislative framework for public sector finance allowing for the collection of domestic revenues (europa.eu.int, 2004). In 2001, the Constitutional Framework for Provisional Self-Government in Kosovo prepared by UNMIK granted to provisional institutions competences in areas such as economic and financial policy, fiscal and budgetary issues, domestic and foreign trade, industry and investments as well as labour and social welfare (Constitutional Framework, Chapter 5).

Since the arrival of UNMIK, Kosovo's economy has been growing strongly, with a growth rate of 26% in 2000, 16% in 2001 and 10.4% in 2002 (Gligorov, 2002) (Table 6). Growth has primarily been driven by the service sector boosted by the inflow of aid and reconstruction activities in the construction sector. As a result of the decline of the industrial and agricultural sectors, however, exports virtually collapsed.[233] The current account deficit was equivalent to over a third of national income for 2002. GDP per capita

[232] During the war, for example, 130.000 houses are estimated to have been damaged (Mustafa, 2001: 17).
[233] In the absence of processing and package plants, agricultural production, for example, has turned into subsistence farming (Korovilas, 2002: 114).

is the lowest in Europe estimated at around $1000 for the same year and unemployment at around 50% (Gligorov, 2002). Although the international administration carried out intense activity for economic transformation, the privatisation programme was not implemented successfully and the financial infrastructure is underdeveloped.[234]

The unresolved question of Kosovo's status impacts negatively on economic development perpetuating insecurity and uncertainty. To illustrate, privatisation of previously socially-owned enterprises is being blocked for fear of prejudicing the final status (IGC, 2003: 3). Criminalisation of economic activity has consequently become endemic. Finally, the disruption of economic links with Serbia also raise questions with respect to the sustainability of Kosovo as an independent economic unit given its previous significant dependence on the FRY (Korovilas, 2002).[235]

7.7 FYR Macedonia

After the declaration of independence in 1991, FYR Macedonia's reforms were initially concentrated in attaining macro-economic stability. The country faced high inflation rates of 115% in 1991 and 1.690% in 1992 due to a large budget deficit that was monetised (EBRD, 1997: 193). Under an IMF programme, the government tightened both fiscal and monetary policy in 1994. Inflation gradually fell to 16% in 1995 and 2.6% in 1996. Expenditure cuts also helped lower the budget deficit from 14% in 1993 to 3% in 1994 and 1% in 1995 (EBRD, 1997: 193) (Table 7).

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[234] A new banking system is still being built in Kosovo. Following licencing of the first bank with foreign capital (MEB) in February 2000, six other banks started operations in 2001 (Mustafa, 2001: 22).

[235] Despite the official disruption of economic activity with Serbia, Belgrade is still expected to repay Kosovo's dept of $1 billion.

Structural reforms, however, did not advance at the same pace. A new privatisation law was not adopted until June 1993 and its implementation was delayed until late 1994. In addition, most enterprises were privatised on the basis of MEBOs which were criticised for creating little extra capital and solidifying insider control (Kekic, 2001: 192).[236] Expected gains from privatisation were limited by the lack of transparency, institutional weaknesses such as unsatisfactory legal protection and an inefficient financial sector. Finally, criminalisation of large parts of the economy was promoted by the various sanctions and embargoes that affected the country in the period 1992-1995.[237]

In 1997, the IMF granted FYR Macedonia a three-year ESAF to support structural reforms. Growth picked up to 3.4% in 1998, 4,3% in 1999 and 4,5% in 2000 and inflation fell to insignificant rates (Table 7). Little progress, however, was achieved in liquidating large-scale industries and the sale of the public telecommunications operator was delayed. A new bankruptcy law was passed in 1998 but its application was slow. Banks continued to lend to loss-making enterprises and financial reform did not proceed rapidly. As a result of stagnating exports, the current account deficit rose to 10% in 1998 and unemployment to over 30% (EBRD, 2003: 59).[238]

It was the armed conflict that erupted in the country in 2001 between government forces

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[236] According to Kekic, however, "*nomenclature privatisation tapped into valuable social capital and know-how preserved from the previous quasi market under former Yugoslavia*" (Kekic, 2001: 199).

[237] The imposition of UN sanctions on FRY in 1992 meant that FYR Macedonia could not trade legally with Belgrade which had been its largest market during the Cold War. In addition, as has been shown in Chapter 6 between February 1994 and September 1995 Greece imposed a unilateral trade embargo on the country arguing that the name, flag and constitution of the republic implied territorial claims on its own Macedonian province (Papahadjopoulos, 1998: 18).

[238] Unemployment is higher among the ethnic Albanian community than among Slav Macedonians and reservations are often voiced about official data.

and the NLA, however, that caused a significant deviation in macro-economic policy. GDP fell to –4.5%, inflation rose to 3.7% and the budget deficit to 7.2%. An IMF staff monitoring programme from January to June 2002 aimed to provide a basis for financial support. As a result of disagreements with the government for raising wages of employees in the public sector, however, Euro 300 million was received in pledges at the donors meeting of March 2002. These aimed to be used for debt servicing, reconstruction and rehabilitation of areas affected by the conflict and for the implementation of the Framework Agreement signed in August 2001(Donev, 2003: 232).

Macro-economic stability was subsequently re-established. Growth rose to 0.7% in 2002 and 2.8% in 2003 and inflation fell to 2.4% and 1.1% respectively (EBRD, 2004: 45). An IMF Standby Arrangement was approved in April 2003 after which a significant part of the funds committed at the donor conference of March 2002 were released. Although the budget deficit was reduced, however, FYR Macedonia continues to run large trade and current account deficits, the latter being 10% for 2002 and 8% for 2003 due to a continuous fall in industrial output. Reported unemployment continues to be one of the highest in the region at over 30% and the pace of structural reform is slow. Large loss-making companies are still owned by the state and the fact that their employees are mostly ethnic Macedonians has further politicised economic problems in the country (Donev, 2003: 232)

7.8 Romania

The early years of transition in Romania were marked by severe economic difficulties including a serious fall in output which reached –12% of GDP in 1991, a collapse of the old institutional structures and policy incoherence. Confronted with the economy's rapid

deterioration and unable to contain growing disequilibria such as unsustainable trade deficits, rising prices and the lack of investment, the government introduced a stabilisation plan supported by the IMF at the start of 1991. It included a tightening of fiscal and monetary policy, a tax based incomes policy, a new devaluation and the introduction of a two-tier exchange rate system (Daianu, 2001: 201).

Rising inflation of over 200% in 1992 and 1993 and a persistent trade imbalance forced the government to reconsider its policies. A breakthrough occurred during the last quarter of 1993 when several key decisions were made to contain and reverse the dynamics of inflationary expectations, to start remonetisation of the economy and create a transparent foreign exchange market. Romania enjoyed positive growth of 3,9% and 6.9% in 1994 and 1995 respectively but at the same time inflation declined to unsustainable levels of 61,7% and 27,8% (Table 8). A clearer definition of property rights and privatisation did not accompany the government's reform programme (EBRD, 1997: 202).

The new government that came into power in 1996 liberalised the foreign exchange market and prices that were still regulated. Although the current account shrank in 1997, GDP fell by 6.1% and the budget deficit rose to 4.6%, inflation to 154.8% and unemployment to 8.9% (EBRD, 2003: 77) (Table 8). Many opportunities to sell state-owned companies to strategic investors were lost. Poor and confusing legislation in the field of property restitution as well as the ineffectiveness of the judiciary in handling property proceedings prevented the creation of a land market until late in the transition, hindering the emergence of farmers as a distinct category (Mungiu-Pipidi, 2003: 257). By 1999, the country faced the risk of external payments default, the danger of a banking crisis due to low foreign exchange reserves as well as a possible financial crisis as a result of high interest rates.

Romania's experience is a glaring example of the importance of structural reforms and of reducing an economy's distortions for durable macro-economic stabilisation (Daianu, 2002: 202). At the same time, it is proof of the pains of such reforms. Unless financial discipline is imposed, pressure on the central bank and the banking sector becomes a general constant feature of the way the system functions and leads to widespread rent-seeking. An erroneous consensus also emerged in Bucharest over the causes of inflation which were viewed as an acceptable alternative to reform (Mungiu-Pipidi, 2003: 257). According to Daianu, it was the absence of institutional frameworks of society that led to erroneous policy making (Daianu, 2002: 216).[239]

In August 1999, however, a standby agreement was signed with the IMF validating a deficit of 3.8% and including privatisation revenues of 1% (Daianu, 2001: 212). Significant gains in macro-economic stabilisation were subsequently achieved. In 2001, for example, the country recorded significant progress and its 4,9% growth rate was the highest in the region. A more appropriate policy-mix helped decrease inflation while the external position remained sustainable. The ongoing overhaul of the banking sector, the successive improvements in the supervisory and regulatory framework for financial markets and the advances in privatisation progressively tightened entrerprises financial discipline. Price and trade liberalisation coupled with a significant adjustment of energy tariffs and important reforms of the tax system set the stage for a more efficient allocation of resources (Strategy Paper and Report, 2003).

Inflation, however, still remained at 14% in 2003 and structural reforms of unviable state-owned companies were postponed. Although growth remains strong, the current account deficit has widened with real wage increases and fast credit growth. The

[239] According to the World Bank, institutions are defined as "*the rules of the game that emerge from formal laws, informal norms and practices and organisations' structures*" (World Bank, 2000: 94).

privatisation of the banking sector has not been completed and regulatory frameworks require improvement. Fiscal relaxation and a slowdown in privatisation ahead of the 2004 elections are risks to stability and EU accession (EBRD, 2004).

7. 9 Conclusions

The above analysis has shown that in the post-Cold War era, Southeastern European countries were laggards in transition to market economies and confronted serious developmental problems that sapped growth and negatively affected prospects for successful regionalism. Although some analysts have focused on the role of initial conditions, such as economic backwardness and the communist legacy, for explaining the failed transition experience, policy failures had a significant impact on economic performance in the region. In Romania, for example, there was a tacit acceptance of inflation and the absence of systemic change and restructuring.

Whereas macro-economic stabilisation was achieved by the mid-1990s in most Balkan countries, micro-economic performance was neglected and all states faced serious institutional problems. Privatisation of publicly owned companies in particular proceeded badly for all post-communist states in the region and failed to produce a strong and competitive sector early on in the transition. In all countries, ruling elites were initially able to preserve positions of power in relation to ownership and control of economic assets which had negative consequences for corporate governance. In addition, banking sectors were plagued by lack of competition and state interference.

Furthermore, international actors often worsened external indebtedness by covering imbalances through capital inflows from abroad such as foreign aid often granted in

commercial terms. The problem of aid dependency was particularly acute in the case of Bosnia-Herzegovina. Unsustainable external deficits, however, also led to exchange rate or banking crises as in the cases of Bulgaria and Albania in 1996 and 1997 respectively. Finally, in the post-Cold War Southeastern Europe also faced serious developmental problems related to the collapse of industrial output and the increased dependence on the agricultural sector through subsistence farming. Albania was particularly affected by the process of de-industrialisation affecting the entire Balkan peninsula.

Since the late 1990s, however, many countries in the region experienced a 'second transition' after a breakthrough with structural change. Bulgaria and Romania accelerated their reform programmes subsequent to being invited to initiate negotiations for EU membership in 1999. Croatia also saw improved growth rates and macro-economic stability after the change of regime in 2000 and the signing of an SAA with the EU in March 2001. Subsequent to applying for EU membership in February 2003, Croatia was invited to become a candidate by the Brussels European Council in June 2004.

Most of the Western Balkans countries, however, still face significant macro-economic imbalances. The social cost of transition has been significant so that in 2002, for example, unemployment rates are much higher than in other transition countries, especially in the FYR Macedonia (31.9%), Bosnia-Herzegovina (40.6%) and Serbia-Montenegro (28.9%). Their external sectors are also highly unbalanced given that they import three to four times more than they export and run large trade and current account deficits. In 2003, for example, Albania had a current account deficit of 8.4%, FYR Macedonia of 8.1%, Bosnia-Herzegovina of 17.8% and Serbia-Montenegro of 11.6 %. Finally, Western Balkan countries have also been plagued by fiscal imbalances and in 2003 faced large budget deficits equivalent to 5.6% for Albania, 4.5% for Bosnia-Herzegovina, 2.5% for

Serbia-Montenegro, 1.6% for FYR Macedonia.

The impact of the wars in former Yugoslavia contributed significantly to a continuing fragile economic situation in the Western Balkans. FRY's economy, for example, was particularly damaged by the effects of sanctions and bans on oil, trade, export credit and investment throughout the 1990s. In addition, Bosnia-Herzegovina has not yet fully moved into a single economic space whereas Serbia-Montenegro officially encompasses two economic systems while also still responsible for repaying Kosovo's external debt. Finally, FYR Macedonia's macro-economic performance also deviated significantly from its reform path during the outbreak of violence between government forces and the NLA in the spring of 2001.

Table 1

Albania: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-10	-27.7	-9.7	11.0	9.4	8.6	9.1
Unemployment (%)	7.6	11.7	30.3	22.4	19.2	13	9.3
Consumer prices	0	104	237	31	16	6	20
Government Balance	-3.7	-44	-22	-16	-14	-9.4	-12.1
Current Account (% GDP)				-30.1	-14.4	-7.2	-9.1
Industry (% GDP)	37	32	17	14	13	13	12.2
Agriculture (%GDP)	40	44	54	56	56	54.6	51.5
Merch. Exports ($ mil)						205	229
Merch. Imports ($ mil)						680	921

	1997	1998	1999	2000	2001	2002	2003
GDP % change	-7.0	12.7	8.9	7.7	6.8	4.7	6.0
Unemployment	14.9	17.8	18.0	16.8	14.6	15.8	15.0
Consumer prices	42.1	8.7	-1.0	4.2	3.5	5.4	3.3
Government Balance	-12.9	-11.4	-12.1	-9.1	-8.2	-6.9	-5.6
Current Account	-12.3	-6.8	-7.7	-7.4	-6.2	-9.0	-8.4
Industry	12.4	11.9	11.9	11.5	11.7	11.4	na
Agriculture	56.0	54.4	52.6	51.0	49.0	48.1	na
Merch. Exports ($ mil)	167	205	275	256	305	309	341
Merch. Imports ($ mil)	685	826	1.121	1.070	1.332	1.405	1.470

Source: EBRD (1997): 185; EBRD (2004): 27

Table 2

Bosnia-Herzegovina: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-9	-20	na	na	na	8	50
Unemployment (%)						na	na
Consumer prices							
FBiH	na	na	na	na	na	na	7.7
RS	na	na	na	na	na	na	-17.7
Government Balance						0.3	-4.4
Current Account	na	na	na	na	na	-10.3	-27.3
Industry						23.9	21.4
Agriculture						24.6	20.5
Merch. Exports ($ mil)				7	91	152	336
Merch. Imports ($ mil)				60	894	1.082	1.882

	1997	1998	1999	2000	2001	2002	2003
GDP % change	37	15.6	9.6	5.6	4.5	3.8	4.0
Unemployment	na	38.0	38.5	39.7	39.7	na	na
Consumer prices							
FBiH	13.6	1.8	-1.0	4.0	2.4	-0.7	-0.3
RS	-10	5.6	14.0	16.0	6.2	2.3	0.2
Government Balance	-0.5	-8	-9.1	-9.9	-6.0	-4.1	-4.5
Current Account	-31	-16.2	-15.5	-10.1	-14.8	-18.9	-17.8
Industry	22.6	22.5	na	na	na	na	na
Agriculture	17.5	16.0	na	na	na	na	na
Merch. Exports ($ mil)	575	697	831	932	975	1.059	1.273
Merch. Imports ($ mil)	2.333	3.780	4.126	2.610	2.750	3.148	3.700

Source: EBRD, (1997): 218 and EBRD, (2004): 35

Table 3

Bulgaria: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-9.1	-11.7	-7.3	-2.4	1.8	2.6	-9.4
Unemployment	1.5	11.5	15.6	16.4	12.8	10.5	13.0
Consumer prices	72.5	338.9	9.4	63.9	121.9	32.9	310.8
Government Balance	na	na	-13.0	-10.9	-5.8	-5.7	-10.3
Current Account						-0.2	0.2
Industry	43	47	45	39	33	31	29
Agriculture	18	15	12	10	11	13	14.2
Merch. Exports ($ mil)						5.345	4.890
Merch. Imports ($ mil)						5.224	4.703

	1997	1998	1999	2000	2001	2002	2003
GDP % change	-5.6	4.0	2.3	5.4	4.0	4.8	4.5
Unemployment	14.5	15.0	15.7	16.1	19.7	18.2	13.2
Consumer prices	578.6	0.9	6.2	11.4	4.8	3.9	5.6
Government Balance	-2.0	1.3	0.2	-0.6	-0.6	-0.8	-0.7
Current Account	4.1	-0.5	-5.3	-5.6	-6.5	-4.3	-5.1
Industry	25.0	22.3	25.1	25.8	25.2	24.5	na
Agriculture	23.4	16.8	14.5	12.3	12.1	na	na
Merch. Exports ($ mil)	4.940	4.193	4.006	4.812	5.099	5.578	7.439
Merch. Imports ($ mil)	4.559	4.574	5.087	5.988	6.665	7.197	9.912

Source: EBRD, (1997): 189 and EBRD, (2004): 37

Table 4

Croatia: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-8.6	-20	-10	-3.7	0.8	5	6.8
Unemployment	na	na	12.9	12.8	12.8	13.4	10.0
Consumer prices	136	249	937	1.150	-3	3.7	3.4
Government Balance	na	-5	-4	-1.0	1.7	-0.9	-1.0
Current Account						-7.7	-5.5
Industry	31.3	30.7	28.3	28.5	25.7	23.8	21.6
Agriculture	10.4	10.8	14.1	12.9	13.3	12.4	8.4
Merch. Exports ($ mil)						4.633	4.546
Merch. Imports ($ mil)						7.892	8.169

	1997	1998	1999	2000	2001	2002	2003
GDP % change	6.5	2.5	-0.9	2.9	3.8	5.2	4.0
Unemployment	9.9	11.4	13.6	16.1	15.8	na	na
Consumer prices	3.8	5.4	4.4	7.4	2.6	2.9	3.7
Government Balance	-1.9	-1.0	-6.5	-6.9	-6.8	-6.2	-5.0
Current Account	-11.6	-7.1	-7.0	-2.3	-3.8	-4.9	-3.9
Industry	21.9	21.1	21.1	20.7	20.7	na	na
Agriculture	7.8	7.9	8.1	7.4	7.1	na	na
Merch. Exports ($ mil)	4.210	4.605	4.395	4.567	4.759	4.995	5.369
Merch. Imports ($ mil)	9.407	8.652	7.693	7.771	8.860	10.274	11.610

Source: EBRD (1997): 190 and EBRD (2004): 39

Table 5

FRY/Serbia-Montenegro: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change				-30.8	2.5	6.1	7.8
Unemployment				23.1	23.1	24.6	25.8
Consumer prices					120.4	58.6	
Government Balance				na	na	-4.3	-3.8
Current Account							-11.6
Industry				43.1	41.1	40.1	38.6
Agriculture				32.3	31.4	31.1	29.4
Merch Exports ($ mil)						1.531	1.842
Merch. Imports ($ mil)						2.666	4.102

	1997	1998	1999	2000	2001	2002	2003
GDP % change	10.1	1.9	-15.7	5.0	5.5	4.0	2.0
Unemployment	25.9	26.8	25.5	25.6	26.8	28.9	na
Consumer prices	9.5	44.5	36.5	113.5	39.3	14.3	7.7
Government Balance	-7.6	-5.4	-8.3	-1.0	-1.3	-4.5	-2.5
Current Account	-9.4	-4.8	-7.5	-8.4	-9.7	-12.3	-11.6
Industry	39.3	39.7	38.2	na	na	na	na
Agriculture	29.4	19.0	25.1	na	na	na	na
Merch. Exports ($ mil)	2.756	3.033	1.676	1.923	2.003	2.075	2.477
Merch. Imports ($ mil)	4.826	4.849	3.295	3.711	4.837	5.614	7.324

Source: EBRD, 2002: 145 and EBRD, 2004: 67

Table 6

Kosovo: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-19.8	-11.0	-25.3	-24.8	0.0	8.1	
Unemployment		49.1					
Consumer prices							
Government Balance							
Current Account							
Industry							
Agriculture							
Merch. Exports ($mil)	171.0						
Merch. Imports ($mil)	191.0						

	1997	1998	1999	2000	2001	2002	2003
GDP % change					16.0	10.4	
Unemployment	64.7		74.0	51.0			
Consumer prices					11.1	6.5	
Government Balance				-6.1	-0.7		
Current Account				0.2	-3.6		
Industry							
Agriculture							
Merch. Exports ($mil)			10	20			
Merch. Imports ($mil)			1140	1314			

Source: Gligorov, (2002): 12

Table 7

FYR Macedonia: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	-9.9	-12.1	-21.1	-8.4	-4.0	-1.5	1.2
Unemployment	na	19.2	19.8	20.0	23.7	37.7	31.9
Consumer prices	606	115	1.935	230	55	9	-0.6
Government Balance	na	na	-10.0	-14.0	-3.0	-1	-1.4
Current Account						-5.0	-6.5
Industry						19.6	19.5
Agriculture						10.6	10.7
Merch. Exports ($ mil)	1.113	1.150	1.199	1.056	1.086	1.204	912
Merch. Imports ($ mil)	1.531	1.375	1.206	1.227	1.272	1.439	1.435

	1997	1998	1999	2000	2001	2002	2003
GDP % change	1.4	3.4	4.3	4.6	-4.1	0.7	2.8
Unemployment	36.0	34.5	32.4	32.2	28.9	31.9	na
Consumer prices	2.6	0.8	2.3	6.0	3.7	1.1	2.5
Government Balance	-0.4	-1.7	0.0	1.8	-7.2	-5.7	-1.6
Current Account	-7.7	-10.1	-3.4	-3.1	-9.8	-10.5	-8.1
Industry	20.7	21.8	20.7	18.1	17.5	na	na
Agriculture	10.7	10.0	9.2	10.0	9.8	na	na
Merch. Exports ($ mil)	1.237	1.292	1.190	1.321	1.155	1.113	1.354
Merch. Imports ($ mil)	1.623	1.807	1.686	2.011	1.677	1.877	2.123

Source: EBRD, (1997): 193 and EBRD, (2004): 44

Table 8

Romania: Selected Economic Indicators

	1990	1991	1992	1993	1994	1995	1996
GDP % change	8.1	-16.2	-9.2	-2.1	3.9	6.9	4.0
Unemployment	na	3.0	8.1	10.2	11	8.9	6.6
Consumer prices	37.7	222.8	199.2	295.5	61.7	27.8	56.9
Government Balance	na	-1.7	-4.4	-2.7	-3.0	-4.1	-3.9
Current Account						-5.0	-7.3
Industry	40.6	37.9	38.3	32.4	32.3	na	34.2
Agriculture	21.8	18.9	19.0	21.0	20.1	19.8	19.1
Merch. Exports ($ mil)						7.910	8.061
Merch. Imports ($mil)						9.478	10.555

	1997	1998	1999	2000	2001	2002	2003
GDP % change	-6.1	-4.8	-1.2	1.8	5.3	4.9	4.5
Unemployment	8.9	10.3	11.8	10.5	8.6	8.1	7.2
Consumer prices	151.4	40.6	54.8	40.7	30.2	17.9	14.1
Government Balance	-4.6	-5.0	-3.5	-3.7	-3.5	-2.7	-2.4
Current Account	-6.1	-6.9	-3.6	-3.7	-6.0	-3.6	-4.2
Industry	35.6	26.3	24.8	27.3	28.2	na	na
Agriculture	18.8	14.5	13.9	11.4	13.2	na	na
Merch. Exports ($ mil)	8.431	8.302	8.503	10.366	11.385	13.869	14.650
Merch. Imports ($ mil)	10.411	10.927	9.595	12.050	14.354	16.482	17.740

Source: EBRD (1997): 202 and EBRD, (2004): 63

Chapter 8

General Conclusions

8.1 Findings

The main argument of the thesis is that in the post-Cold War period there has been a lack of appropriate extra-regional and intra-regional environment conducive to regionalism in Southeastern Europe.[240] Although the international community has promoted regional coopearation through externally driven schemes such as the Royaumont Process, SECI, the MPFSEE, the SPSEE and the SEEI and has supported the development of the indigenous SEECP, these initiatives have not had significant practical results. The absence of visible results of regional cooperation schemes has been attributed to the lack of clear mechanisms of implementation as well as some degree of institutionalisation. In addition, their activities have often been duplicated as they were initially badly coordinated and competition often emerged between them. Finally, most initiatives do not have independent budgets and depend primarily on loans from IFIs.

Moreover, although it was explicitly stated by Brussels that subregionalism and integration were not incompatible, some countries in the region did not want to be part of regional cooperation schemes for fear that they would become an excuse to delay their European membership (Bailes, 1999). Croatia in particular showed scepticism towards joining

[240] As Chapter 3 has shown, throughout the nineteenth and twentieth centuries regional cooperation in the Balkans was also obstructed by factors external and internal to the region, namely nationalisms and foreign intervention.

initiatives that linked it to the region and remained an observer to SECI, the MPFSEE and the SEECP, while requesting to join the latter only after the EU granted it candidacy in June 2004. Similarly, in May 2001, Bulgaria threatened to withdraw from the Stability Pact for fear that it would become an obstacle to its relations with Brussels (Bechev, 2001: 15-16).[241] External obstacles to regionalism have therefore primarily been caused by the systemic pressures on the Balkans by the European integration process. [242]

In addition, by pursuing policies based on bilateral agreements with Balkan countries at the same time as promoting regionalism, the EU also created distortions and divisions in the region which had a negative impact on the region-building attempt (pull-out effect).[243] To illustrate, whereas Bulgaria and Romania were involved in the enlargement process since the mid-1990s through EAs and their participation in the CEFTA, the Western Balkan countries were only included in the SAP in 1999 in the aftermath of the bombing campaign against the FRY. In addition, whereas Croatia and FYR Macedonia signed SAAs with the EU in 2001 and the former was granted candidate status in June 2004, Bosnia-Herzegovina and Serbia-Montenegro have not yet been deemed capable of doing so and Albania has not yet completed SAA negotiations. Finally, despite establishing a Customs Union with the EU in 1996 and being granted candidate status by the European Council of Helsinki in December 1999, Turkey had not been allowed to initiate negotiations for membership until 2003.

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239 According to the European Commission, "*Experience has shown that a pre-requisite for successful regional cooperation is a clear will by participants to support such cooperation politically, administratively and where appropriate, financially. The setting of concrete and realistic objectives with a clear added value is another condition*" (European Commission, 1997: 5)

[242] According to Sophia Clement, "*the efforts to create subregionalism in Southeast Europe, therefore, create a basic paradox: the EU subsystem aims at enhancing subregionalism in its immediate periphery while its very existence contributes at the same time to weakening the former*" (Clement, 2000: 89).

[243] Similarly, NATO promoted regional cooperation through the SEEI and the MPFSEE but its contractual relations with the region were based on the bilateral PfP agreements.

Domestic preconditions for successful regional cooperation in Southeastern Europe have also been lacking. In the post-Cold War era, all Yugoslav successor states except Slovenia faced significant 'stateness' problems regarding the definition of their national identities and borders. The retarded state and nation-building process of former Yugoslav states left unsettled questions over the status of Kosovo and relations between Serbia and Montenegro which represent areas of potential conflict (Janjic, 2003: 115). In addition, regardless of whether they were shaped as unitary states (Croatia and FYR Macedonia), federations (Serbia-Montenegro) or confederations (Bosnia-Herzegovina), the successor states of former Yugoslavia were unfinished entities whose political elites relied on democratisation as the last available resource in the internal power struggles and only under external pressure.[244] Consequently, they were unstable entities and faced the same problems with ethnicity that drove Yugoslavia to its end (Malesevic, 2000).[245]

Finally, the post-Cold War era also witnessed delayed transition to market economies in Southeastern European countries, a fact that sapped growth and had an adverse effect on regional cooperation. In the early 1990s, all Balkan countries confronted serious structural problems at the macro and micro-economic levels. Macro-economic imbalances included trade, current account and fiscal deficits as well as high unemployment rates (BeCEI, 2003: 5). Microeconomic problems were related to a process of de-industrialisation, incomplete

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[244] Reviewing power-sharing arrangements in the cases of Bosnia-Herzegovina, FRY Macedonia and Kosovo, Florian Bieber concluded that most institutional systems present a high degree of consociationalism on paper. In practice, however, little power-sharing takes place and inclusion has proved easier to achieve than cooperation between ethnic communities. Only in FYR Macedonia some aspects of the Ohrid Agreement have moved away from institutionalising ethnicity. Even here, however, the move away is at the symbolic level, such as in the preamble of the constitution, while the institutions of state are given strong ethnic qualifiers (Gosselin, 2002: 14; Bieber, 2003).

6 An expanding literature on the disintegration of Yugoslavia has underlined the crisis of state and its catalytic impact on the country's final disintegration. According to most analysts, Yugoslavia did not collapse because it was a multi-ethnic country of mutually antagonistic groups organised in a federal way but because it was an undemocratic state where political institutions failed to regulate relations between the different ethnic groups (Woodward, 1995; Schopflin, 1998; Malesevic, 2000).

privatisation and inadequate restructuring. In addition, Western aid directed towards the region created a culture of dependency (Kekic, 2001).

Although the late 1990s and early 21st century witnessed a 'second transition' and improved macroeconomic performance for Bulgaria and Romania which were invited to initiate negotiations with the EU in December 1999 and Croatia which was granted EU candidateship in June 2004, the rest of the countries in the region still confront significant macro-economic and micro-economic imbalances and have been left out of the enlargement agenda. High unemployment rates, current account and budget deficits as well as industrial and agricultural collapse are problems facing Albania, Bosnia-Herzegovina, Serbia-Montenegro, Kosovo and FYR Macedonia. In the post-Cold War era, therefore, the majority of the Western Balkans confronted not just transition to market economies but development at the same time.

According to Dimitar Bechev, therefore, "*The internal distinctions and the specific role played by Brussels certainly put a question mark to the extent that the Southeast European region-building project has the potential of bringing forth deeper integration and proceed on a more intensified scale*" (Bechev, 2001: 16). They also call into question the ability of constructivism to explain the emergence of regional cooperation in the Balkans since many Southeastern European states in fact wanted to deconstruct the region and align themselves with mainstream Europe, much as Central and East European states had in the 1990s. Regional cooperation in the Balkans, therefore, has no chance of being effective unless the problem of 'stateness' and economic backwardness are addressed and the relationship between regionalism and integration is clarified.

8.2 Policy Implications

Linz and Stepan conclude that simultaneous state-making and democratisation will be compatible if the state is defined in non-nation-state terms. This means that citizenship must be inclusive, that there must be a combination of collective and individual rights and that certain institutional arrangements, ranging from the right electoral sequencing to consociational democracy or federalism, must be applied (Linz and Stepan, 1996: 33-34).[246] Consociational democracy requires that all groups be represented in parliament, major groups be included in coalition governments and minorities are represented in state administration and have the possibility to veto/or autonomy at the local/regional levels (Gosselin, 2002: 14).[247] Federalism, on the other hand, is a type of autonomy where all regions enjoy equal powers and have an identical relationship to the central government.[248]

In Western Europe, for example, state and nation-building are completed processes and where they are challenged political mechanisms have been put into place in order to mitigate separatist demands. In Spain, for example, 'regional autonomy/federacy' is granted by the constitution to the 'historic communities', such as Catalonia and the Basque region, which

[246] "*If the goal is democratic consolidation, a democratising strategy would require that less majoritarian and more consensual policies be crafted in each of the above arenas, namely civil society and mass media, citizenship laws, state bureaucracy, legal system and economic society*" (Linz and Stepan, 1996: 37).

[247] Consociationalism, however, recognises some collective identities to the exclusion of others and institutionally entrenches those cleavages. It carries risks of friezing shifting identities and fragmenting social and political life into enclaves. Its success, therefore, depends significantly on elite will. There may, however, be no better alternative in deeply divided societies emerging from war, as shown by the examples of Northern Ireland or Lebanon (Bose, 2002: 249).

[248] Two distinct types of federalist philosophies exist. A nationalising or mono-national, which aims to make the sovereign polity congruent with one culture. The US is a paradigmatic case of this type whereas other examples include the Netherlands and the German-speaking Swiss lands. The multi-ethnic or multi-national model *'seeks to express, institutionalise and protect at least two national or ethnic cultures'*. It has influenced the making of post-colonial federations in Canada, South Africa, India, Malaysia, the post-communist Russian Federation and the FRY. Recent reconstructions of Spain and Belgium are also influenced by the notion of multinational federalism (Bose, 2002: 92).

have significant powers but play little role in national government and institutions (Ghai, 2000: 9).[249] Belgium was gradually turned from a unitary state to a highly decentralised federation or confederation. Competences have been divided between the national government, the Regions (Flanders, Wallonia and Brussels Capital) and the so-called Communities derived from cultural identity (French, Flemish and German) (Lewis, 2001: 130).[250] In Italy and France, central government authority remains dominant through arrangements referred to as regionalism or decentralisation respectively (Ghai, 2000: 9).

The main characteristic of the Yugoslav transition which has seen the creation of smaller multi-ethnic countries is the need to create stable states with political institutions able to define the terrritorial borders of their polities and the boundaries of their national identities. According to Susan Woodward, a precondition for self-sustaining democracies in Southeastern Europe is a "*domestically grounded sense of national identity defining borders, members, constitutional tradition and citizenship rights, which must in each of the new states be constructed if a new Balkans is to emerge*" (Woodward, 2001: 25). Similarly, Bugajksi has argued that "*the only legitimate and durable form of Balkan stability and reconstruction has to be based on indigenous democratic development, the self-determination of new states and voluntary international integration*" (Bugajski, 2000: 192).

For Kosovo creating a viable state means above all the resolution of the 'status' problem. As the status question relates to the broader conflict of interests between Albanians and Serbs

[249] The 'stateness' problem could have disrupted the Spanish transition, but the success of the leadership in handling the transformation of the unitary state into the multi-lingual and multi-national *estado de la autonomias* approved by referendum in 1978 demonstrates that even new democracies can deal with complex constitutional change (Linz and Stepan, 1996(b): 140).

[250] The Belgian case has been a relative success due to common history and culture, consensus-building and a constitutional compromise, namely the split between the functions of the Regions and those of the Communities (unique feature of the functional and cultural/linguistic axes) (Lewis, 2001: 133).

affecting Kosovo, Serbia-Montenegro and the international community, there will not be stable peace unless Pristina, Belgrade and the UN Security Council reach a political accord. A true peace accord for Kosovo will have to be within the jurisdiction of the United Nations and accepted by all the countries of the region as was the case with Dayton (Janjic, 2003: 114). It could revolve around endorsing 'conditional independence' whereby sovereignty would be subject to certain criteria and could be made subject to the exercise of veto rights by the international community (IGC, 2003: 3). The prospect of independence would also commit local actors into building the rule of law and promoting the development of civilian and minority institutions by Serbs and other non-Albanian Kosovars (Triantaphyllou, 2002).

For the State Union of Serbia and Montenegro, it is questionable whether the Constitutional Charter can offer a clear legal framework or mandate for reform. Consequently, the international community has to accept the result of the referendum in Montenegro in 2006. Meanwhile, given that Serbia is a weak political entity in search of its constitutional set up, the negotiations between Serbia and Montenegro and the process of creating a new Serbian constitution should be taking place at the same time. Serbia should be defined constitutionally as a democratic, multi-ethnic state that can but does not necessarily have to be in union with Montenegro.[251] Some of the priorities involve the removal of the presidential system, development of the institutions of parliamentarianism, democratic control of the army and the police as well as decentralisation and regionalism with respect to Voijvodina and the Sanjak (Janjic, 2003: 289-291).

Given that the Dayton settlement is becoming a permanent framework, the issue for the future is how to make Bosnia-Herzegovina a more centralised state with multi-ethnic

[251] The establishment of new relations between Serbia and Montenegro on the basis of two independent states that coordinate fields of joint interest, such as access to university education, could be an interesting model for other former Yugoslav countries (Janjic, 2003: 291).

institutions where its people have a closer relationship to decision-making processes (Bugajki, 2000: 190; Dassu and Whyte, 2001: 127). As Chandler has written *"as long as Bosnian people have little relationship to decision-making processes, it is unlikely that any broader sense of common interest will emerge"* (Chandler, 1999: 197). An exit strategy for the High Representative and the international organisations should, therefore, be devised and the transfer of politics to national politicians be on the agenda (Gligorov, 2002: 2). The FBiH, however, fears that if the international presence were to be discontinued without constitutional change, the RS would secede. Domestic institutional redesign is also needed that would make power-sharing arrangements a full operational reality (Gosselin, 2002: 14).[252] Meanwhile, it has been argued that devolution of power to the municipalities is the best way of making the nation-building experiment more credible (Triantaphyllou, 2002).

For Croatia, a consociational model could help accommodate the insecurities of the Serbian minority many of which are still refugees. Although autonomy for Knin and Glina that will allow the further return of Serbs to their original settlements has been initiated and the CLNM has been adopted providing guarantees for minorities in national and local-level bodies, further constitutional change to allow proportional representation in parliament as well as the participation of the minority in coalition governments would greatly enhance Serbian feelings of security in the country. Finally, for FYR Macedonia the application of key components of the Framework Agreement, such as the further promotion of Albanians in public office, is of key importance for resolving its 'stateness' problem.

The successor states of Yugoslavia, however, have not been capable of constitutional change without considerable use of force (Gligorov, 2001: 94). In the absence of indigenous

[252] To date, most of the constitutional debate on reform in Bosnia-Herzegovina concerned the extent to which equal treatment throughout the country could be guaranteed by symmetrical mechanisms instituted in each entity (Perry, 2002: 3).

democratic development, it is political conditionality by the European Union that can contribute towards creating viable inclusive states. Involving the EU in state and nation-building, however, can be more credible if the country is a candidate for membership and state-building is made endogenous to integration.[253] In Romania, for example, inter-ethnic relations between the Romanian majority and the ethnic Hungarian minority were normalised under pressure to abide by the Copenhagen criteria for EU accession (Mungiu-Pipidi, 2003: 263). A change in strategy in Southeastern Europe, therefore, should be "*to support the process of nation and state-building within the credible, structured and enhanced procedure of accession of the Western Balkans into the European Union*" (BeCEI, 2003: 15).[254] As stated by Stefano Bianchini, "*state-building, security and inclusion are part of the same coin*" (Bianchini, 2003: 212).

Granting concrete EU accession prospects to the Western Balkans would also contribute to tackling the economic underdevelopment of the region. According to Milica Uvalic "*a key challenge for all Southeastern Europe is finding ways of creating sound conditions for self sustaining economic growth while trying to avoid or reduce excessive dependence on externally provided resources*" (Uvalic, 2003: 100). Export led-growth is the key to development in the Balkans and it requires industrial restructuring and the spread of modern technology as well as supply side increase in productivity.[255] This can be facilitated

[253] According to Vucadinovic "*Unless a high level of democratisation and Europeanisation of the Balkans in achieved, territorial and minority issues will continue to present a significant problem in these areas and a constant challenge to security*" (Vucadinovic, 2002: 140).

[254] Given that military reform and democratic control of the army are integral parts of the state-building process, NATO's association to the region is equally important and should be further clarified. But no consensus has emerged to date with respect to the larger strategic purpose of NATO enlargement. Meanwhile, "*competition between the region's fragile new democracies for a position in the inside track leading towards inclusion has become a constant, with damaging consequences for subregional association and reconciliation*" (Nation, 2003: 40).

[255] In the medium term, however, employment will have to come from SMEs specialising in services also with view to increasing the tertiary sector share in GDP so as to deal with demands of integration without forming a new European periphery. Financial facilities that would promote these activities, such as forms of

through the EU's cohesion policy and the development of appropriate assistance programmes (Noutcheva, 2003: 2). In addition, through the use of its economic conditionality, the EU can help Western Balkan countries prepare for assuming the competitive pressures of membership.[256]

Regional Policy seeks to improve long-term growth performance of recipient countries by targeting assistance to the supply side, with the bulk of interventions focused on infrastructure and vocational training. Introduced to address industrial decline and rural under-development in countries of the European periphery, the structural funds methodology adopted the principle of additionality which ensures that European funds do not distort domestic spending patterns. It also requires substantive input from local and regional governments in setting development priorities thus contributing to improving the effectiveness of public administration as well as to Europeanisation.[257] Ireland's high growth rates in the post-Cold War era, for example, were underpinned by the 17 billion pounds received in total EU support, most of which came from the Structural and Cohesion Funds (ESI, 2003: 5).[258]

At the moment, however, the EU is scaling down financial support to the Western Balkans

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micro-credit, should be further promoted (Gligorov et al, 1999: 42-43).

[256] Bulgaria and Romania, for example, accelerated their economic reform programmes after being invited to start negotiations for membership in 1999.

[257] According to Radaelli "*Europeanisation refers to the processes of a) construction, b) diffusion, and c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures and public choices*" (Featherstone and Radaelli, 2003: 17).

[258] The lesson from the Greek experience is that structural funds had a higher impact on growth in the late 1990s when they were combined with sound macro-economic policies and a supply-side competitiveness strategy (Petrakos and Pitelis, 2001: 311).

unsure of what sort of a relationship to promote in the region. The SAP, for example, did not grant development aid to the region as was the case with the enhanced pre-accession for Bulgaria and Romania prepared both by Agenda 2000 in 1997 and the Copenhagen European Council in December 2002 (Van Meurs, 2003: 14). In addition, the Thessaloniki European Council of June 2003 did not adopt the proposals for additional funding for economic and social cohesion made by the ESI.[259] In the absence of a concrete enlargement prospect for the Western Balkans, introducing forms of pre-accession assistance into the SAP would also strengthen reform processes and governance capacity in the region and place the EU in a stronger position to request a credible commitment for the other pillars of its policy, such as responsible fiscal policies (ESI, 2003: 11).[260]

According to the Belgrade Centre for European Integration (BeCEI), the EU can also support policy coordination in the Western Balkans via its own monetary instruments, namely euroisation (BeCEI, 2003). Calls for euroisation were first made in the aftermath of the NATO bombing campaign against Yugoslavia in 1999. According to Daniel Gros, for example, euroisation would have a systemic impact in transforming the political economy of Balkan countries by providing full access to international capital markets, lower interest rates and certainty over future monetary stability. For the more unstable countries, it would also improve debt service capacity by lowering the risk premium (Gros, 1999: 11).[261] According to an early assessment by Gligorov et al, however, currency boards were seen as a better means of macroeconomic monitoring than euroisation (Gligorov et al, 1999). The currency board experiment has generally

[259] ESI recommended that the *'pre-accession status without negotiations'* granted to Turkey in 1999 should be extended to the Western Balkans (ESI, 2003)

[260] More effective tax collection and enforcement of laws that widen the tax base and introduce VAT is crucial in addressing the fiscal deficits of Balkan countries (Gligorov et al, 1999: 38).

[261] Risks, however, include overvalued real wage rates that would negatively affect export capacity (Emerson, 1999: 7).

succeeded in the Balkans. To illustrate, in the first of operation in Bulgaria, inflation fell to 1% and GDP turned from a negative to a positive trend while foreign exchange reserves tripled (Lewis and Sevic, 2000: 300). The advantages of euroisation, therefore, need to be carefully weighed for each country separately especially in light of the decreasing rates of inflation in the region and should be accompanied by labour market reforms.[262]

Finally, as suggested in section 8.1 and demonstrated by the Croatian example, the enlargement door should also be kept open for regional cooperation to be taken seriously by Southeastern European countries. The commitment of Balkan countries to the deepening of subregional cooperation should not be taken for granted and will depend on whether their leadership will perceive such a process as a contributing factor, not a substitute to their aspirations of full membership. At present, for example, regional cooperation is explicitly built in the SAAs as a condition to be fulfilled both before they are signed and during their implementation and is seen as a prerequisite for 'potential candidacy'. Only when regional cooperation becomes a stepping stone to accession, however, will compliance with the SAP conditions become likely and regional cooperation be reconciled with integration (Anastasakis and Bechev, 2003). In addition, the EU should clarify the Stability Pact's linkage to the broader integration process.[263]

The complexity of the problems facing Southeastern Europe call for the reconsideration of some of the available instruments for conflict prevention, reform assistance and regional cooperation in the direction of strengthening the European perspective of the Western

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[262] Labour market reforms include bringing down barriers to employment, upgrading training and reducing unemployment.

[263] According to Sophia Clement, "*as shown by the Nordic example, regional cooperation far from being a natural development can be created as a consequence of enlargement*" (Clement, 2000: 90).

Balkan countries (van Meurs, 2003: 4).[264] When the political and economic preconditions for EU candidacy, however, are met subregional cooperation in itself may seem unnecessary. Balkan regionalism, therefore, is a temporary arrangement and as such the level of expectations from the projects should be lowered. As Joseph Nye wrote in 1968 "*it is important that the analyst preserve an open, yet skeptical attitude toward regionalism and that he try to formulate explicit propositions about its role and limits in local peacekeeping, economic development and community-building*" (Nye, 1968: xvi).

[264] "*A longer process of integration, organised along the lines of functionality and conditionality rather than on a regional basis might be the golden mean between the abstract vocation for EU membership and unrealistic breakthrough models, while at the same time constituting an improvement in the management of expectations and apprehensions*" (Van Meurs, 2000: 7).

APPENDIX: MAP OF BALKANS

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