

THESIS

**THE EUROPEAN UNION'S STABILISATION
AND ASSOCIATION PROCESS (SAP) AS THE
CORNERSTONE OF ITS POLICY TO THE
WESTERN BALKAN REGION**

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To all interested

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I. INTRODUCTION

The Western Balkan denotes mainly the states of former Yugoslavia: Croatia, Bosnia-Herzegovina, Macedonia, and the present Yugoslavia comprising Montenegro, and Serbia, of which Kosovo remains formally a province. Albania is also included within the term, but in current discussions of European Union (EU) policy, Slovenia is not because though it was also one of the former Yugoslav republics, it has qualified to become an associate and a candidate for membership.

Before it disintegrated, the former Yugoslavia had been closer to the Community than any other Central or East European state. Then came the disintegration and the wars. The EU has since been the biggest supplier of aid, contributing around 1 billion euro a year. It has also helped with civilian peace-keeping, such as monitoring elections, deploying and training police, clearing mines, counter-terrorism, and assistance for institution-building.¹

After the war, the EU has initiated a Stability Pact for South-East Europe of 10 June 1991 that has become the linchpin for short-term peacekeeping and long-term stability in the Balkans.² The Stability Pact for South-Eastern Europe than to be followed by Stability and Association Agreement between the Union and each of West Balkan states, including the present Yugoslavia provided that democracy is firmly established there. This is backed by an aid programme for the

¹ See John Pinder, 'The European Union A Very Short Introduction', Oxford University Press Inc., New York, 2001, pp. 134.

² For the text of the Stability Pact and further information about its functioning, see the Website of the Special Co-ordinator for the Stability Pact (SCSP): <http://www.stabilitypact.org>

West Balkans envisaged at some 5.5 billion euro for the years 2000-2006. Half is to come from the Union's budget and half from the member states; and two-fifths is reserved for a democratic Serbia.

The EU's fundamental aim for South East Europe is to create a situation where military conflict is unthinkable - expanding to the region peace, stability, prosperity and freedom established over the last 50 years by the EU and its Member States. The EU is by far the single largest assistance donor to the Western Balkans as a whole, and this via the different aid programmes aimed at increasing economic, political and social co-operation between the EU and these countries: PHARE, OBNOVA and Community Assistance for Reconstruction, Democratisation and Stabilisation (CARDS).

The PHARE Programme is one of the three pre-accession instruments financed by the EU to assist the applicant countries of Central and Eastern Europe in their preparation for joining the EU. Originally created in 1989 to assist Poland and Hungary, the PHARE programme currently covers 10 countries – the 8 new member states: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, as well as Bulgaria and Romania, assisting them in a period of massive economic restructuring and political change. Until 2000, the countries of the Western Balkans (Albania, Bosnia-Herzegovina and The Former Yugoslav Republic of Macedonia) were also beneficiaries of PHARE. However,

as of 2001 the CARDS Programme has provided financial assistance to these countries.³

The OBNOVA Programme was set up in 1996 by the EU Council Regulation (EC) 1628/96, and amended by (EC) 851/98 and (EC) 2454/99. The value of the package for the period 1996-1999 was ECU 400 million. The package was open to Bosnia-Herzegovina, Croatia, SR Yugoslavia and FYROM. The programme was subsequently extended to the year 2000, and starting from the budget year 2001 it was replaced by the CARDS Programme.⁴

At the Thessaloniki Summit in June 2003, the Stabilisation and Association Process (SAP) was confirmed as the overall policy framework for the European course of the Western Balkan countries, all the way to their future accession. At Thessaloniki it was determined that the SAP should be bolstered by methods based the experience of previous enlargements of the EU. The chief of these is the introduction of European Partnerships. The European Partnerships are submitted to the Council for approval. Based on the assessments made in the 2004 report, the European Partnerships identify priority measures for the short and medium term, and are designed to help the countries with their reforms and preparations for future EU membership.

The SAP is underpinned by substantial EU financial assistance: over € 5 billion for the period 2000-2006. The EU will deploy all means at its disposal –

³ For the further information about the PHARE Programme, see 'European Union PHARE Programme':
[www.cnv.cz/.../01A7537D7910CC39C125696F004ACF25/19B361D5E42E7C04C1256CDA002F2855/\\$file/Internet%2099AT.doc](http://www.cnv.cz/.../01A7537D7910CC39C125696F004ACF25/19B361D5E42E7C04C1256CDA002F2855/$file/Internet%2099AT.doc)

⁴ For the further information about the OBNOVA Programme, see 'EU Assistance Programme',
[http://www.auswaertiges-
amt.de/www/en/aussepolitik/aussewirtschaft/transform/eu_programme_html](http://www.auswaertiges-amt.de/www/en/aussepolitik/aussewirtschaft/transform/eu_programme_html)

political, technical, financials – to support reform in the Western Balkans. However, the rate of progress within the SAP will depend on the sense of political ownership for the reform process which the Western Balkan countries will show, and on the performance of the countries themselves in a wide range of reforms.

Consequently, in my analysis of the SAP as the cornerstone of the EU's Western Balkan policy, the following question will be addressed: what are the main interest of the EU's Western Balkan policy, what are problems facing the EU's Western Balkan policy, what are the short and long term prospects of the Union's regional role and how does the Western Balkan policy relate to the wider integration framework. This paper tries to sum up why EU has special policy to the Western Balkan region – in another word, what is the meaning of the Western Balkan region to the EU – and how far this policy can achieve benefit for the EU and the Western Balkan region.

II. THE STABILISATION AND ASSOCIATION PROCESS (SAP)

2.1. The Framework of SAP

The Stabilisation and Association Process (SAP) is a term that stands for the universal, strategic approach of the EU towards the so-called Western Balkan countries (namely, Albania, Bosnia-Herzegovina, Croatia, The Former Yugoslav Republic of Macedonia / FYROM and Serbia-Montenegro). The SAP as the cornerstone of the EU's policy in this region is an ambitious strategy that helps the region to secure political and economic stabilisation while also developing a closer association with the EU, opening a road towards eventual EU membership once the conditions have been met. Regional cooperation is a critical component within the SAP, essentially extending the EU's own philosophy to the western Balkan region that deeper cooperation with neighbouring countries is a route to national as well as regional stability and growth that such cooperation serves the mutual interests of all countries concerned.⁵

The novelty concerning this EU approach, as opposed to its prior liaisons with third countries, is in its emphasis on stabilisation, considering that this is the way to reduce the instability that has sprung from this region in the past ten years. Insisting on the mutual, regional cooperation among countries aspiring to join the EU is an integral part of the SAP.

⁵ For the further information, see <http://europa.eu.int/scadplus/leg/en/lvb/r118003.htm>

The SAP involves a number of activities and relations between the interested Western Balkan country and the European Union, as well as a gradual adoption of the EU legislation (*acquis communautaire*) by the signatory. Essentially, this process involves the establishment of a series of bilateral agreements between the signatory and the EU regarding industrial and agricultural tariffs, intellectual property rights, standardisation and certification procedures, etc.

The SAP is a flexible instrument, adaptable to the needs and conditions of individual countries in order for them to progress according to their own possibilities of fulfilling the required commitments. The principles features of the SAP are:

Equal conditions for all – All SAP countries must meet the same conditions if they want to approach the EU, and these are stable democratic institutions, the rule of law, respect and protection of human rights, respect and protection of minority rights, regional co-operation and building market economy.

Clear perspective of the EU membership – According to the EU, the only way to maintain the stability in the region is to offer those countries a closer co-operation and association with the EU, including a clear perspective of the EU membership. Through the Stabilisation and Association Process, the EU encourages the countries in the region as potential candidate countries to continue strengthening their relations in every field possible – from trade and investment,

to infrastructure and return of refugees, to battle against organised crime. The conditions for EU membership are the same for the SAP countries as they were for the current candidate countries. Prospects of EU membership are determined by the speed and size of changes within each of the SAP countries.

Individual approach – The speed at which different countries go through various stages of the Stabilisation and Association Process depends on their ability to take on and fulfil the commitments that arise from the association with the EU. Each country approaches the EU based on its own success in meeting these commitments. If one country fails to meet these conditions, it will not affect other countries.

Importance of regional co-operation – Regional co-operation is the most important aspect of the Stabilisation and Association Process. EU documents state that regional co-operation is not intended to create a unique territory in the Balkans, but to encourage development of work methods and practices that are integral to the EU membership. The Stabilisation and Association Process forms strong bonds between the SAP countries and the EU and encourages co-operation between these countries, as well as their co-operation with the neighbours. The EU closely monitors and analyses the Stabilisation and Association Process in order to objectively evaluate its effects and give advice to the SAP countries on how to meet the conditions and criteria of the EU.

2.2. The Evolution of the SAP

The SAP typically includes three stages. The first one consists in granting autonomous trade measures to Western Balkan countries. The second stage comprises financial assistance through the CARDS Programme. Now all countries of the region enjoy these two sets of Community privileges. The third and more advanced stage is the conclusion of a Stabilisation and Association Agreement (SAA). For the time being, only Croatia and FYROM have signed their respective SAA with the EU; negotiations for a SAA with the EU have already begun with Albania.

(Community Assistance for Reconstruction, Development and Stabilisation)

CARDS Programme

Community Assistance for Reconstruction, Development and Stabilisation (CARDS) Programme is the main programme for organising and distributing the Union's assistance to Albania, Bosnia-Herzegovina, Croatia, FYROM and Serbia-Montenegro. The CARDS Programme is awarded by the European Agency for Reconstruction under mutual agreement. It is to replace the former PHARE and OBNOVA Programmes for the financing of EU assistance to the region.⁶

It is foreseen that it will spend EURO 5.5 billion in the period 2000-2006, although the Council seems hesitant to agree to that sum due to the

⁶For the further information about the CARDS Programme, see the Website http://europa.eu.int/comm/europeaid/projects/cards/foreword_en.htm

imponderability of Serbian development. With this amount of aid, the Union would again underline its position as the largest single donor for the region, especially if one takes also into account the bilateral aid from various EU member states. It is estimated that the EU and its member states have made a contribution of about EURO 9 billion to international assistance for the region since 1991.⁷

The objectives of the CARDS are clearly laid out in the Regional Strategy Paper 2002-2006:

"a key external relations priority for the European Union is to promote stability and peace in the Western Balkan region, not only on humanitarian grounds but also because the region's conflicts are at odds with the wider objective of security and prosperity across the continent of Europe and because they place a substantial military and financial burden on the EU Member States".⁸

Stabilisation and Association Agreement (SAA)

In May 1999, the European Commission suggested that the countries in the region that had not been a part of any other mechanism for the institutionalisation of the relations with the EU (Albania, Bosnia-Herzegovina, Croatia, FYROM and Serbia-Montenegro) adopt the long term policy of the EU called the Stabilisation and Association Agreement for South Eastern Europe (SAA), that was designed to improve the existing policy towards that part of Europe

⁷ This figure is mentioned in 'Report on Western Balkans Presented to the Lisbon European Council by the Secretary General/High Representative together with the Commission' in CEPS (ed.), *Europe South-East Monitor*, Issue 9, Brussels, March 2000.

⁸ CARDS Assistance Programme to the Western Balkans: *Regional Strategy paper 2002-2006* (European Commission, External Relations Directorate General) p 4.

The conclusion of a SAA with a country of the region is made conditional upon the achievement of considerable progress towards a democratic system, substantial results in the field of economic reforms, and proven co-operation with neighbouring states. Although the agreements would share a common substantial and institutional framework, each single one would be designed according to the specific situation of the respective partner country. Two countries have negotiated Stabilisation and Association Agreements (SAA) with the EU. FYROM's Agreement came into force on 1st April 2004, while ratification of Croatia's Agreement is still on-going. The Commission has begun negotiations for a SAA with Albania. A Feasibility Study into opening negotiations for a SAA with Bosnia-Herzegovina has been carried out, and Bosnia-Herzegovina is working on implementing the priority areas identified in that report. Serbia and Montenegro has made progress towards a closer relationship with the EU through the adoption of a Constitutional Charter and an internal market and trade Action Plan.⁹

The SAAs intend to further the classic goals of the EU's policy towards European transformation societies:

- Offering the prospect of full integration with EU structures;
- Establishing a functioning framework for a continuous political dialogue;

⁹ Cf. European Parliament, Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, 'Report on the Commission Recommendation for a Council Decision Authorising the Commission to Negotiate a Stabilisation and Association Agreement with the Former Yugoslav Republic of Macedonia, rapporteur: Johannes Swoboda, Brussels, 3 February 2000, (Doc. A5-0031/200 fin.) and European Commission, 'Report on the Feasibility of Negotiating a Stabilisation and Association Agreement with Albania', Brussels, 24 November 1999, COM 599 final (1999), (http://europa.eu.int/comm/external-relations/sec/docs/com_599_final.htm).

- Supporting the consolidation of a democratic regime and a state of law;
- Furthering economic reforms and the development of market structures;
- Establishing the administrative and economic pre-requisites for the later conclusion of a bilateral free trade agreement;
- Laying the foundations for extensive co-operation in justice and home affairs;
- Establishing broad co-operation on all issues that would contribute to reaching these goals.

Financing this co-operation would largely rely on the CARDS programme.

However, participation in CARDS is possible without the conclusion of a SAA.

III. THE INDIVIDUAL SAP WITH EACH COUNTRY

3.1. Albania

In 1992, after close to fifty years of communist-imposed isolation following five centuries of Ottoman domination, the Albanian people had little awareness of the outside world and possessed Europe's least developed trade network. The Albanians faced the daunting task of reviving their moribund factories and workshops and learning the realities of modern capitalism while building a market economy from scratch. Burgeoning unemployment, falling output, acute food shortages, and widespread lawlessness eroded most grounds for optimism in the prospects for rapid success.

Individual Albanian factories could not switch on assembly lines because idled plants, farms, mines, and generators elsewhere in the production chain were not supplying essential inputs. For most enterprises, importing these inputs was impossible because Albania's nascent foreign-exchange market was not yet fully operative. Despite Albania's dire circumstances, World Bank and European Community economists projected that the country's resource base and labor force could provide the basis for an escape from poverty if the government, with the international community's financial help, took urgent steps to establish the institutions and infrastructure needed to support a market economy and stimulate small-scale private entrepreneurship in the farm sector.

The government's immediate objective was to restore a secure food supply for the general population and provide income and employment for rural inhabitants. Albanian leaders turned to the international community for direct food aid and technical and material assistance for the farm sector. Boosting agricultural output was also a prerequisite for resuming industrial production because many factories needed inputs of raw materials produced in the farm sector.

Overall resumption of production had to be coordinated between state enterprises so as to create economic demand and establish a smooth flow of supplies. In 1992, despite the country's inability to pay its international creditors, Albania looked to the IMF, World Bank, and individual Western countries to lend the money needed to jump start and stabilize the economy. Over the longer term, the Albanian economy's fate depended on the country's political leadership restoring law and order, attracting private investors from abroad, and obtaining credits and aid from Western governments for the modernization of industry and agriculture.

The last task was especially important because the lack of expertise in international trade and poor quality of Albania's exports precluded the country's earning the foreign exchange necessary to improve infrastructure and increase production. Chronic unemployment was almost certain to be a reality in Albania until urbanization significantly slackened population growth.

Specifically, the relation between Albania and the EU are through the SAP. The overall objective of the EU's assistance is to support the participation of Albania in the SAP, notably:

- To bring Albania closer to EU standards and principles, and to prepare the country for gradual integration into EU structures in the framework of the SAP;
- To help the Albanian authorities in consolidating democracy and implementing the rule of law;
- To assist the government of Albania in its efforts to achieve a comprehensive administrative and institutional reform;
- To facilitate the process of economic and social transformation towards an efficient market economy.

The EU is currently involved in: strengthening of public administration and judiciary, police and public order, customs, statistics, development of infrastructures, local community development, agriculture, cross-border co-operation, environment, education and democracy and human rights.¹⁰

3.2. Croatia

During the last decade, Croatia's international position was affected by the countries involvement in the Yugoslav wars and by the Croatian Democratic

¹⁰ For details see, 'The EU's Relations With Albania', Last update: June 2003, http://www.europa.eu.int/comm/external_relations/sec/albania/index.htm

Union / *Hrvatska Demokratska Zajednica* (HDZ)'s¹¹ reluctance to meet certain demands of international organizations. The main reasons for Croatia's pariah status in the second half of the 1990s were in the previous government's slow progress in the return of ethnic Serbian refugees who were expelled from Croatia during 1995 police and military operations, the HDZ's tendency to treat Bosnia-Herzegovina as an extension of the Croatian state rather than as an independent entity, and the country's lack of cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) in The Hague.

Because of these and other HDZ policies, Croatia fell into a different regional category than those countries in Central and Eastern Europe that started the EU integration process during the early 1990s. This fact continues to influence Croatia's standing today, and as a result, the country's EU integration process will likely be more complicated than that of many other states in the region. Instead of an EU Association Agreement, Croatia will be eligible for a newly-designed SAA, and instead of PHARE, the country will get assistance from an alternative program that has yet to officially be launched.

The OBNOVA 2000 Programme was the first one to provide EU technical assistance to the Croatian state administration bodies. Eight technical assistance projects were defined totalling 3 million euro. The projects were coordinated with the relevant ministries and the Croatian Bureau of Statistics. The Croatian Government and the European Commission signed the Financing Memorandum for the package on 24 October 2000, thus formally opening the funds for the

¹¹ HDZ (*Hrvatska Demokratska Zajednica* / The Croatian Democratic Union) is a Croatian political party. For further information, see 'Definition of Croatian Democratic Union', in the Website http://www.wordiq.com/definition/Croatian_Democratic_Union

implementation. The EC delegation have been monitoring the implementation of the projects. Most of them finished in 2001 and 2002. Their results were used as a basis for the development of new projects.

Croatia signed a SAA in October 2001, a far-reaching framework with mutual rights and obligations. As a signatory, Croatia will gradually take on board the core obligations of membership, start aligning its legal and economic framework with that of the EU, strengthen cooperation with its neighbours and co-operate with the EU on a number of issues. An Interim Agreement is in force since March 2002 and provides near-total free access to the EU-market.

The SAA initialled with Croatia is the second one, since a similar type of agreement has already been signed with the FYROM. The output of the negotiations with Croatia takes fully into account the precedent framework while certain parts of the agreement are tailor-made for the individual situation of the Republic of Croatia.

The establishment of contractual relations with Croatia in the form of SAA, will provide for a wide-ranging co-operation and will take forward the process of its integration into European structures. The agreement focuses on the following elements:

- The establishment of formalised framework for political dialogue with Croatia, both a bilateral and regional level;
- Enhanced regional co-operation;

- The promotion of economic and trade relations with the perspective of establishing a free trade area covering goods and services after a transitional period of six years from the entry into force of the agreement;
- The regulation of movement of workers, freedom of establishment, supply of services, current payments and movement of capital;
- The commitment by the Republic of Croatia to progressively harmonise its legislation with that of the European Community, notably in key areas of the internal market;
- The establishment of wide-ranging relations covering all the fields of Community interest and including co-operation in the field of justice and home affairs;
- The complete liberalisation of road transit traffic across the Republic of Croatia and the Community as a whole and the development of the associated infrastructure, within a specific protocol on land transport which takes into account the absence of a pre-existing Transport agreement;
- The formalisation of Community financial and technical assistance to the Republic of Croatia as a support to the implementation of certain aspects of the agreement;
- The establishment of a specific institutional framework in the form of a Stabilisation and Association Council which supervises the implementation of the agreement, a Stabilisation and Association Committee and a Stabilisation and Association Parliamentary Committee.

In generally, the EU's assistance for Croatia focuses on: democratic stabilisation, economic and social development, justice and home affairs, assistance for public administrative reform and implementation of the SAA, and environment and natural resources.¹²

3.3. The Former Yugoslav Republic of Macedonia (FYROM)

Macedonia (recognized by the EU under the name of FYROM, Former Yugoslav Republic of Macedonia) is still characterised by the antagonism between the ethnic-Macedonian and the ethnic-Albanian groups. However, since the termination of the armed conflicts and the signing of the Ohrid Framework Agreement (the peace agreement between the two ethnic groups) on 13 August 2001, these differences have been settled peacefully at the negotiating table.

Of particular significance in this context is the participation in the government of the largest ethnic-Albanian party, which represents almost two thirds of the ethnic-Albanian electorate. Especially important in this respect is the implementation of the Ohrid Agreement itself, which contains numerous provisions on the equal status of both ethnic groups which in turn need to be embodied in laws. Two prominent examples are the implementation of wider municipal autonomy and the employment of more public officials from the Albanian ethnic group.

¹² For details, see "The EU's Relations with Croatia", last update: June 2003, in the Website http://www.europa.eu.int/comm/external_relations/sec/croatia/index.htm

The representatives of the international community in Macedonia (EU Special Representative, The Organization for Security and Co-operation in Europe/OSCE¹³, Council of Europe, NATO) are playing a significant role in this implementation process since there is a constant need for active mediation between the two ethnic groups. Further problems still facing the small country are the re-establishment of an adequate security situation in the ethnic-Albanian areas as well as coping with the bleak economic situation and the resulting precarious social situation in the country, particularly the high rate of unemployment.

The EU, through the CARDS Programme allocated assistance for FYROM for the period 2002-2004 is € 110.5 under the National Programme and € 20 million under the Regional Programme for measures which will be implemented in the former Yugoslav Republic of Macedonia. In addition, the FYROM will also participate in other measures under the Regional Programme.

On 9 April 2001 the FYROM became the first country of the region to sign a SAA. This was an event of major symbolic and practical significance which marked an important step in the establishment of ever-closer relations with the country. However, if the SAA offers major incentives and opportunities to the country it also sets political and economic conditions which will have to be fully implemented if the desired progress towards integration is to be made.

¹³ The Organization for Security and Co-operation in Europe (OSCE) is the largest regional security organization in the world with 55 participating States from Europe, Central Asia and North America. It is active in early warning, conflict prevention, crisis management and post-conflict rehabilitation. For further information, see "About The OSCE", in the Website: www.osce.org

The main objectives of EU assistance are:

- The EU aims to support the achievements to date in the field of democracy by strengthening the institutional and administrative capacity of the state and of the actors of the civil society;
- The EU aims to assist the government at central and local level to facilitate the process of economic and social transformation towards a market economy;
- The EU aims to bring the FYROM closer to EU standards and principles, and to assist the country in the framework of the SAP;
- The EU aims to support the country in its efforts to give full implementation to the Framework Agreement.

The EU, through the SAA commits the parties to further work on political, economic and institutional stabilisation of the country, institution building and public administration reform, enhanced trade and economic co-operation, legal approximation with the Community acquis and strengthened co-operation on justice and home affairs. The full implementation of the SAA will also create a new climate for the development of trade and investment which are crucial factors for the economic restructuring and the modernisation of the country.¹⁴

¹⁴ For details, see “The EU’s Relations With The Former Yugoslav Republic of Macedonia”, in the Website http://www.europa.eu.int/comm/external_relations/see/fyrom/index.htm

3.4. Federal Republic of Yugoslavia (FRY) / The State of Serbia and Montenegro

The relations between Serbia and Montenegro and the EU acquired a new dimension after October 2000 and became a strategic priority of the EU's foreign policy. Serbia and Montenegro defined a clear objective of concluding, by 2003 at the latest, the Agreement on Stabilisation and Association with the European Union. The admission of Serbia and Montenegro as a full-fledged member by the year 2010 has been set as a long-term objective. In the comprehensive process of return of Serbia and Montenegro to international political and economic integrations the European Union represents their key partner and provides the most significant support to political and economic reforms in Serbia and Montenegro.

In 1999 the European Union set up a new mechanism for the development of relations with countries of the Western Balkans - SAP, which Serbia-Montenegro joined in October 2000; the final result is expected to be the signing of the SAA. Under the SAA, Serbia-Montenegro is a beneficiary of EU "special trade measures" (customs tariffs have been abolished for imports into the EU from FRY, with minor exceptions). Very important for the promotion of this programme is the EU financial support to Serbia-Montenegro, in particular under the CARDS programme. In the period 2000-2001, Serbia-Montenegro received 260 million Euros annually from the CARDS programme extended as grant in aid.

For the period 2002-2004, the amount of 980 million Euros for Serbia-Montenegro is provided for (of which 645 million Euros are intended for Serbia).

In order to deliver meaningful results that address the major objectives with as high an impact as possible, EU assistance is concentrated in three main areas of intervention:

- Support for good governance and institution building, focusing on public administration reform, justice and home affairs (e.g. strengthening the rule of law) and customs and taxation;
- Economic recovery, regeneration and reform, focusing on energy, transport, environment and economic development;
- Social development and civil society, focusing on university education, enhancing regional co-operation, vocational education and training linked to employment generation and civil society strengthening.¹⁵

3.5. Bosnia-Herzegovina

Bosnia-Herzegovina's declaration of sovereignty in October 1991, was followed by a declaration of independence from the former Yugoslavia on 3 March 1992 after a referendum boycotted by ethnic Serbs. The Bosnian Serbs – supported by neighboring Serbia and Montenegro – responded with armed resistance aimed at partitioning the republic along ethnic lines and joining Serb-

¹⁵ For details, see “The EU's Relations With The State of Serbia & Montenegro”, in the Website http://www.europa.eu.int/comm/external_relations/see/fry/index.htm

held areas to form a “greater Serbia”. In March 1994, Bosniaks and Croats reduced the number of warring factions from three to two by signing an agreement creating a joint Bosniak/Croat Federation of Bosnia-Herzegovina. On 21 November 1995 in Dayton, Ohio, the warring parties initialed a peace agreement that brought to a halt three years of interethnic civil strife (the final agreement was signed in Paris on 14 December 1995).

The Dayton Agreement retained Bosnia-Herzegovina’s international boundaries and created a joint multi-ethnic and democratic government. This national government was charged with conducting foreign, diplomatic and fiscal policy. Also recognized was a second Federation of Bosnia-Herzegovina and the Bosnian Serb-led Republika Srpska (RS). The Federation and RS governments were charged with overseeing most government functions. The Office of the High Representative (OHR) was established to oversee the implementation of the civilian aspects of the agreement.

In 1995-1996, a NATO-led international peacekeeping force (IFOR) of 60,000 troops served in Bosnia to implement and monitor the military aspects of the agreement. IFOR was succeeded by a smaller, NATO-led Stabilization Force (SFOR) whose mission is to deter renewed hostilities. SFOR remains in place although troop levels are being reduced.

In April 1997, the General Affairs Council EU established political and economic conditionality for the development of bilateral relations with Bosnia and Herzegovina in particular in the fields of trade, financial assistance and economic cooperation. Progressive implementation of these conditions based on the regional

approach will lead to improvement of relations. At present, Bosnia-Herzegovina continues to benefit from autonomous trade preferences by the European Community. Assistance is funded through the PHARE and OBNOVA programmes.

The EU Declaration on Bosnia-Herzegovina of June 1998 represents an important step in the bilateral relations. It emphasizes that the future of Bosnia-Herzegovina is in Europe and provides the framework for a closer co-operation. The member states have also created the EU/Bosnia-Herzegovina Consultative Task Force (CTF). The CTF provides a joint EU/Bosnia-Herzegovina vehicle for technical and expert advice in the fields of administration, regulatory framework and policies. This forum could in particular provide guidance for the economic legislation of the two Entities and therefore contribute to its harmonization. The CTF could also make a contribution to the institution building related initiatives. In the Madrid Declaration (December 1998) the Peace Implementation Council welcomed the intention of the EU to intensify the dialogue on political and economic issues with Bosnia-Herzegovina and supported the efforts of the CTF to develop Bosnia-Herzegovina's administrative and legislative institutions in order to bring Bosnia-Herzegovina closer to European standards.

Following the Dayton Agreement ending the war, the massive task of building a stable social and political structure as well as a functioning economy had to be faced. Through the Regional Approach initially and subsequently the SAA, the EU has worked to support Bosnia-Herzegovina. In particular:

- To help consolidate the peace process and foster inter-Entity co-operation;

- To help ethnic reconciliation and the return of refugees and displaced persons to their homes of origin;
- To establish functioning institutions and a viable democracy, based on the rule of law and respect for human rights;
- To lay the foundations for sustainable economic development and growth;
- To bring Bosnia-Herzegovina closer to EU standards and principles.

In 2001, the European Commission adopted a Country Strategy for Bosnia-Herzegovina which covers the period 2003-2006 and provides a framework for EU assistance. Since 2001, assistance of more than 240 million euro has been committed under the CARDS Programme, supporting Bosnia-Herzegovina participation in the SAA Process.¹⁶

3.6. The Crisis of Kosovo and the EU

Short History

By 1190 Kosovo had become the administrative and cultural centre of the medieval Serbian state ruled by the powerful Nemanjic dynasty. This dynasty lasted 200 years and still today Kosovo is known by Serbians as "Old Serbia". However in 1389, in the famous Battle of Kosovo Polje, the Serbs and their allies were defeated by the Ottoman Turks and shortly Kosovo became part of the Ottoman Empire. Albanians started to move back into Kosovo in considerable

¹⁶ For details, see "The EU's Relations With Bosnia & Herzegovina", last update: June 2003, in the Website http://www.europa.eu.int/comm/external_relztions/see/bosnie_herze/index.htm

numbers in the 15th century and the Ottomans took sovereignty over the region in 1489. During this time the great majority of Albanians were still Christians, and Serbs and Albanians lived together in reasonable harmony.

In the first Balkan War of 1912 Albania was attacked by Montenegro, Serbia, Bulgaria and Greece. The Albanians were allied with the Ottomans. Serbs joined the army in large numbers to avenge the Serbian defeat by the Turks at the Battle of Kosovo Polje. At this time Kosovo was mostly Albanian.

At the beginning of the World War I, Austria-Hungary – with the support of Germany, declared war on Serbia. The declaration of war by Austria-Hungary was greeted with considerable satisfaction in Albania for understandable reasons. Also for understandable reasons Serbia saw Albania and Albanians as its enemy. As a result vicious guerrilla fighting took place between Serbs and Albanians in Kosovo with atrocities on both sides and a flow of refugees of Albanians into Albania.

The peace treaties of 1919-1920 established a Yugoslav state with the name "The Kingdom of Slovenes, Croats and Serbs". The name was shortly changed to Yugoslavia. Included in the Kingdom, which was a constitutional monarchy, beside those mentioned above were Bosnia- Herzegovina, Montenegro and Macedonia. Kosovo was again an integral part of Serbia. The Kingdom was comprised of 12 million people, of whom 400,000 were Albanian. It was overwhelmingly a Slavic state. In contrast 64% of the population of Kosovo was Albanian, and of these three-quarters were Muslim. The Kingdom was governed from Belgrade.

After the World War II, Yugoslavia consisted of republics of Slovenia, Croatia, Serbia, Bosnia-Herzegovina, Montenegro and Macedonia. The 1946 Yugoslav constitution did not grant territorial autonomy to Kosovo, nor did it grant Albanian status as a recognized nationality. Five nationalities were recognized within the Yugoslav Federation; Serb, Croat, Slovene, Montenegrin and Macedonian. Albanian was not one of them. Kosovo was not recognized as a republic or an autonomous territory within Serbia. Rather it was defined as an autonomous region under Federal not Serbian jurisdiction.

By the 1980's the economy in Yugoslavia, besides being dependent on Western aid with a very large debt, was in a shambles. Debt increased from \$6 billion in 1975 to \$19 billion in the early 1980's. Interest on the debt combined with mismanagement and a centrally-planned stagnant economy resulted in triple-digit inflation. Conditions were bad throughout Yugoslavia, worse in Kosovo and desperate among Kosovar Albanians.

Along with the collapse of the communist world in the Soviet Union and Eastern Europe, the idea of declaring independence by one of the Yugoslav republics was conceived first in Slovenia in the fall of 1990. Among other reasons, Slovenia, as the most economically advanced of the Yugoslav republics was increasingly distressed about having to subsidize other less well off republics. After a plebiscite that demonstrated overwhelming public support for independence, the Slovenian Parliament declared independence on December 26, 1990 to become effective in six months time if grievances weren't resolved. They

weren't and, Slovenia became the first of the Yugoslav republics to achieve independence, and for reasons not gone into here this was accomplished with virtually no military action.

Croatia and Bosnia were different matters and in both cases war resulted after independence was declared. Croatia had been a Fascist state allied to Germany during World War II. Many Serbs had been killed by Croats at that time and these matters had by no means been forgotten. Franjo Tudjman had become President on a tide of Croatian nationalism as, correspondingly, Milosevic had been elected on a tide of Serbian nationalism. The two dictators wanted, respectively, a greater Croatia or a greater Serbia. Milosevic and Tudjman met in March 1991 and Tudjman proposed a division of Bosnia between them to avoid conflict.

This and other negotiations failed and Croatia declared independence from Yugoslavia as it was currently constituted. A brutal war resulted with much killing and burning of houses on both sides with ethnic cleansing part of the war from the beginning. A UN brokered cease-fire occurred January 2, 1992 with United States recognition coming in April of that year. However low-level warfare continued between Croatia and Serbia into 1994 as Croatia fought to place the Krajina region, which had been populated largely by Serbs for 400 years, firmly under Croatian control. Croatia got its way and the Krajina Serbs were in essence abandoned by Milisovic. In 1995, the Croatian army, which had been clandestinely armed with the assistance of the United States, took control of

Krajina. With the tacit approval of the United States estimates are that anywhere from 200,000 to 400,000 Serbs were forced to leave Krajina and without adequate food and water crowded the road to Banja Luka and Serbia. Their reception in Serbia was not warm. Many of the Serbs that remained behind were tortured or killed.

The independence of Bosnia-Herzegovina was recognized by the European community on April 6, 1992, in spite of the fact that the referendum in Bosnia on independence had been opposed and boycotted by the Bosnian Serbs who comprised one-third of the population. In addition the arbitration commission authorized by the European community had recommended against independence since its requirement that all ethnic groups support independence had not been met.

In 2002, with the help of the EU, Serbia and Montenegro agreed to rename Federal Republic of Yugoslavia (FRY) and redefine relationships between them. They will have a parliament and an army in common, and during the three years (till 2005), neither Serbia nor Montenegro will hold a referendum on the break-up of the Union. EU's high representative for the Common Foreign and Security Policy (CFSP), Javier Solana, has said that he is happy with the agreement, because it has stopped the disintegration progress in the former Yugoslav zone.¹⁷

¹⁷ Sources: Miranda Vickers, "Between Serb and Albanian: A History of Kosovo", Columbia University Press, New York, 1998 and "General Framework Agreement for Peace in Bosnia and Herzegovina", initialed in Dayton Ohio November 25, 1995, signed in Paris December 14, 1995, Peace Resource Center, University of Minnesota, Twin Cities Minnesota.

The EU's Role

By the autumn 2000, one could reasonably hope that the violent upheavals that had led to much bloodshed since 1991 were over – although some uncertainty remained as to the consequences of Milosevic's demise on Kosovo and Montenegro. On the other hand, practically everything still had to be done in terms of rebuilding the region's shattered economies, setting up and anchoring democratic institutions and patterns of behaviour, establishing or re-establishing economic, political and social/cultural inter-action across border, and finally, securing the region's integration into broader European structures.

While the United States inevitably took the lead in times of war, long term tasks of reconstruction and democracy-building belong in priority to the EU. There is no transatlantic disagreement on the matter. This is only logical in the sense that Balkans countries are the EU's close neighbours and have a vocation, sooner or later, to "join the family".

The EU's roles for these purposes are:

- I. The Stability Pact, officially launched in Cologne in June 1999 and substantiated in more concrete form at a 29 March 2000 Funding Conference which resulted in the commitment of 2.3 billion euros in bilateral and multilateral funding for the initiation, within a year, of some 200 "Quick Start Projects", about a quarter of that amount (530 million euros) was pledged by the EU;

2. The Stabilisation and Association Process (SAP), the most concrete achievements of which , since its launch in June 1999, have been the beginning of negotiations on a Stabilisation and Association Agreement (SAA) between the EU and the FYROM on 7 March 2000, and the establishment, following the change of regime in Croatia, of an “EU/Croatia Consultative Task Force” intended to pave way for future negotiations on a SAA. SAA should lead to the establishment of a free trade area between the country concerned and the EU, and eventually within the region itself;
3. The disbursement of substantial humanitarian aid to Kosovo and the neighbouring regions by the European Community Humanitarian Office (ECHO) during and after the war in 1999 (200 million euros, or almost double the total ECHO funding for the region over 1991-1998) and, subsequently, the creation of a Reconstruction Agency for Kosovo with dual location in Thessaloniki and Pristina; the Agency, which was inaugurated on 25 March 2000, has also been expanding the benefits of its programmes to Montenegro;
4. Beyond Kosovo, the provision of massive humanitarian, reconstruction, development, and macro-economic assistance to the whole region since 1991: taking into account national contributions, the EU invested almost 8 billion euros into the five SAP countries over 1991-1999;
5. During the long 16 months between the end of the Kosovo war and the fall of the Milosevic’s government, efforts to reach out to democratic forces in

the FRY through: 1) the devising of exceptions to international funding rules to permit support to non-sovereign Montenegro; and 2) the implementation of differentiated policies vis-à-vis Serbia, combining the reinforcement of sanctions against the Milosevic regime and measures to support the democratic opposition (through initiatives such as the “Energy for Democracy” and the “Asphalt for Democracy” programmes); subsequently, a wide-ranging programme of reconstruction and democratisation prepared in anticipation of the October events by the Commission.

IV. EU's INTERESTS TO THE WESTERN BALKANS REGION AND

PROBLEMS OF THE EU's WESTERN BALKANS POLICY

4.1. Progress by the Countries of the Western Balkans in the Stabilisation and Association Process (SAP)

It is interesting to try to sum up how is the progress of EU's SAP Programme. What the SAP has been done for Western Balkans region? The EU claims the SAP Programme has given a lot contribution for development and reconstruction in the Western Balkans. Here are descriptions about two important fields in the Western Balkans region under the SAP Programme.

Overall political development

The countries of the Western Balkans have invested significant efforts in the Stabilisation and Association process. **Stability** has essentially been restored; **security** has improved; all of the countries have democratically elected governments; massive reconstruction has taken place across the region; a substantial number of refugees and internally displaced persons have returned home; reforms in many sectors are underway – the cumulative effect of this is to lay the foundations for economic, social and institutional development, for a normalisation of every-day life and for the countries' gradual rapprochement with the European Union.

Important and positive developments during the reporting period include clear signs of increasing political stability in Albania, which have enabled the country to move one step further towards a closer relationship with the European Union; the Council adopted the directives for the negotiation of a Stabilisation and Association Agreement with Albania in October 2002 and negotiations were formally opened at the end of January 2003.

Bosnia and Herzegovina has pushed forward with reforms, including important measures aimed at increasing the efficiency of and advancing integration within governments at all levels. The EU Road Map was substantially completed during the autumn and the Commission will in due course prepare a study on the feasibility of Bosnia and Herzegovina negotiating and concluding a Stabilisation and Association Agreement (SAA). Croatia is continuing to make good progress in its transition process and adopted a plan for implementation of the SAA at an accelerated pace reflecting its ambitions for EU membership.

In the FYROM, the Ohrid Agreement is being implemented and the census was conducted smoothly - there is an increasing readiness to find compromise solutions, confirming that the process of stabilisation and normalisation is firmly on track. Economic reforms are being implemented in Serbia and Montenegro and steps have been taken towards necessary constitutional restructuring and in regional relations. Continued progress in Serbia and Montenegro should allow the Commission to prepare a feasibility study for a Stabilisation and Association Agreement.

Many of the pressing political, economic and social challenges identified in the first Annual Report remain, however, and the Commission will continue to support the countries in their efforts to address these and other reforms required for a closer relationship with the European Union.

The countries are adhering to the **principles of democracy**. There are, nevertheless, still shortcomings in terms of governmental culture and functioning of democratic institutions, such as a lack of respect for constitutional frameworks and exertion of political influence on the judiciary and media – although there are great variations between the countries. Parliamentary structures have improved but the functioning of parliaments and parliamentary bodies is still being hampered by the slow pace of reform, a lack of democratic tradition and efficient procedures, an endemic shortage of experience and technical expertise, as well as by a tendency to politicise parliamentary administrations.

General and local elections, which were held in several of the countries over the past year, were considered basically free and fair but voter turnout was generally low, in the case of the Serbian and the Montenegrin presidential elections even rendering the elections invalid. This low turn-out is worrying in several respects: it reveals a disappointment or a lack of confidence in the political establishment and also draws attention to structural problems, such as the need to review election legislation in Serbia and Montenegro. The behaviour of many political leaders also leaves much to be desired – confrontational approaches, personal agendas, corruption, obstruction and obfuscation rather than a focus on

achieving the medium to long-term needs of their populations negatively affect developments and undermine confidence in public institutions.

Unresolved, complicated or fragile **constitutional arrangements** continue to put a brake on reforms in several countries and thus on implementation of the Stabilisation and Association process. There is an increasing sense of urgency in the need to overcome obstacles to transition and development.

Work is continuing to reform and modernise the **public administrations** and their performance is improving. While recognising progress made to date and the enormous difficulties it has entailed, public administrations nevertheless remain weak in several countries, lacking adequate administrative capacity, trained staff and budgets. The legislative process and implementation is slow for a variety of reasons, including a lack of implementation mechanisms, blockages, internal political party disputes and unclear division of power between different levels of government. As in the case of the Candidate Countries, the Commission attaches the greatest importance to ensuring that the countries reinforce their administrative and judicial capacity and it therefore provides extensive support to institution and capacity building.

During 2002, experts from the Member States and the Commission made assessments of the **justice and home affairs** sector. Progress has been made across the region in reforming their judicial systems – a key factor in ensuring the rule of law. They still suffer from a number of common deficiencies, however. The independence of the judiciary is generally not secured. All countries have a large number of pending cases in the courts, not so much due to an insufficient

number of judges but to outdated procedural codes, inadequate infrastructure, inefficient court organisations with a high number of small courts and an uneven division of tasks. The countries need to foster training of judges, prosecutors and court clerks. Slow implementation and enforcement of decisions in civil cases is a common weakness. Enforcement procedures need to be simplified and the efficiency of the bailiff services improved.

Organised crime and corruption are endemic in the region, negatively affecting institutional and economic development. The commitments of the countries to tackle these problems have not been sufficiently translated into concrete measures. The decision of the Council to enable Europol to start negotiating agreements between Europol and the countries of the Western Balkans could in due course provide a useful instrument in the fight against organised crime. Until these agreements become operational, police and judicial co-operation have to be enhanced through existing instruments, notably the Interpol network. Organised crime and corruption are not constrained by borders – this has a clear regional dimension and the problems can thus only be tackled efficiently if the countries co-operate.

At the Ministerial Conference on Organised Crime held in London in November 2002, the countries acknowledged that these problems pose serious threats to their stabilisation and democratisation and made a joint commitment to work together to fight crime at source, in transit and at its destination, and to implement a number of priority actions related to e.g. international standards, legislation, capacity building and co-ordination. The Summit in Thessaloniki in

June 2003 will represent an opportunity to take stock of progress and for the countries to give evidence of their commitment by providing information about the first concrete achievements in the fight against organised crime and corruption. It would be useful if each country presented a national plan setting out the main elements of how to fight organised crime successfully.

The general situation in terms of **respect for human rights and protection of minorities** has progressed but there is a need for further improvement in a number of countries as regards for example implementation of legislation, equality before the law, missing persons and the right to property.

The number of **refugees and displaced persons** returning to their homes is steadily increasing:

- Approximately 1.1 million people remain displaced in the Western Balkans, however
- While welcoming the significant progress made over the last few years, there are still obstacles which need to be tackled to enable all individuals to exercise their right to choose whether or not to return. Property repossession in Bosnia-Herzegovina, which has the largest number of refugees and displaced persons, is advancing while the process is still slow in Croatia and Kosovo. Croatia has made progress on reforms of property repossession legislation but difficulties to repossess property nevertheless remain a significant obstacle to return. The regulation of property repossession varies between the countries – and needs to be harmonised. Security is still a factor hampering returns to Kosovo.

Administrative procedures often remain cumbersome and do not facilitate access to basic rights, including citizenship and social benefits. Economic activities and employment opportunities in many return areas are far below national averages. Areas with a large influx of refugees have not had commensurate increases in budgets for health and social welfare. Regional exchange of information need to improve and new forms of financing of return related expenditures found.

Education is an important issue which is linked to the democratisation process and to structural reforms. The education systems need to be further developed to promote democratisation, pluralism and employment. Non-governmental youth organisations also have an important role to play in the development of open and democratic societies by promoting inter-ethnic dialogue and active participation of young people.

An active **civil society** is slowly but surely emerging in the Western Balkans, although the level of development varies considerably from country to country. Civil society organisations are engaged in an increasing number of areas, including culture, environmental protection, electoral transparency, in fostering democratic ideas and institutions. But organisations in many other areas, such as professional associations and trade unions, remain weak. The majority of civil society organisations are still at an early stage of development and need to be strengthened to be able to respond more effectively to the political, social and economic environment.

Most of the countries have made significant efforts in developing an effective legal framework for **media**. Reform programmes must continue by adopting, amending and effectively implementing the legislation necessary to cement a culture of independence and sustainability. The establishment of regulatory bodies in most of the countries is a welcome development, but they operate with varying degrees of independence and in some cases lack a clear mandate. Efforts should be directed at securing a transparent, predictable and legally secure implementation of new regulatory frameworks. More efforts are also required to consolidate professional structures and raise professional and ethical standards.

Recent events have reconfirmed the importance of multiplying efforts for the democratisation of state structures. In this light, the overall level of co-operation of Bosnia-Herzegovina (Republika Srpska in particular), Croatia and Serbia and Montenegro with the **International Criminal Tribunal for the Former Yugoslavia (ICTY)** in the Hague remains inadequate. Co-operation with the Hague tribunal is a legal obligation under Security Council Resolution 827 of 25 May 1993, is an obligation on Dayton signatories and is essential for further rapprochement with the European Union.

Economic development

The population of the Western Balkans region is about 25 million people, and its economic size (GDP) equals some €50 billion. Croatia is the largest economy with a GDP of some €23 billion, thus accounting alone for nearly half of

the region's GDP and for almost 75% together with Serbia and Montenegro. Average per capita income in the region equals €2000. Per capita income in Croatia is approximately €5100, while the average of the remaining countries is about €1350.

In 2002, the economies of the Western Balkans countries grew at a rate close to 4%, faster than the **rate of growth** of the world economy of about 2.5%. This was partly fuelled by an inflow of foreign grants and loans corresponding to roughly 7% of the region's GDP. Bearing in mind the slowdown in and the importance of the EU economy for the region, this may be considered as by and large satisfactory. Still, living standards have barely improved compared to the pre-war period and the low levels of per capita income provide future potential for significantly higher rates of growth. Growth in the FYROM reached only about 0.3% and is apparently still suffering from the repercussions of the crisis in mid-2001.

Despite respectable growth rates in general the last couple of years, high registered **unemployment** levels persist, stretching from about 15% in Albania to 40% in Bosnia-Herzegovina. Inflation at regional level has steadily declined and was down to 6% in 2002. Serbia and Montenegro is the only country of the region with an inflation rate remaining in double figures (though rapidly declining).

The countries' fiscal positions are weak. The general government **deficit** for the region as a whole, excluding grants, reached about 6% of GDP in 2002. The situation has improved somewhat in all countries except for Serbia and Montenegro during 2002. In general, revenue collection needs to be improved in

order to reduce reliance on external financing and expenditure control have to be strengthened. Likewise, public spending should give increased priority to necessary investments, and administrative structures must be rationalised.

Further progress in **structural reforms** is needed to turn the Western Balkans countries into fully functioning market economies. The pace of privatisation and restructuring of large public companies has generally been slow, despite some progress in Serbia and Montenegro and the FYROM. This issue remains a key for the coming years. The results are better concerning privatisation of small and medium sized enterprises. There has also been positive development with respect to reform of the banking sector. Progress can be noted in reform of the legal framework, and in an increased confidence in the banking system. The level of bank lending is still relatively low, however.

In all the countries of the region, small and medium-sized enterprises (SMEs) are essential for economic development. In that respect it is important to improve their institutional and financial environment. In addition, the adoption and implementation of the principles enshrined in the European Charter for Small Enterprises is recommended, as it would further enhance the improvement of the business environment in line with good practice in EU Member States.

In 2001, the region's **trade** continued to grow despite the global economic downturn. Imports grew by 17%, whereas exports increased by 13%. Growth in trade continued in the first six months of 2002, albeit at a slower pace. The EU remains the region's main trading partner. In 2001, the EU accounted for about 55% of Western Balkans' total trade (ranging from some 45% for the FYROM

and Bosnia-Herzegovina to about 80% for Albania). Italy and Germany are the Western Balkans' two main EU trading partners, accounting for about 35% of EU trade with the region. A first assessment of the introduction of the European Union's trade measures shows encouraging results, although much remains to be done to increase the export potential further. During the last few years, the rate of growth in exports from the Western Balkans to the EU has outpaced the increase in exports from the region to the rest of the world.

However, the level of exports remains relatively low, corresponding to approximately 0.5% of total EU imports. The region's imports amount to more than twice the volume of its exports, giving rise to sizeable trade deficits. These range from 20% of GDP in Serbia and Montenegro to close to 45% of GDP in Bosnia-Herzegovina. However, the current account deficit of the region is limited to approximately 7% of GDP due to an inflow of private remittances, official transfers and a positive balance of trade in services. Trade with the candidate countries is important (especially with Slovenia) and represents almost 20% of total trade for the region. Intra-regional trade remains low, at about 6% of total trade. Still, it is essential to Bosnia-Herzegovina, representing some 20% of its total.

The conclusion of a network of free trade agreements (FTAs) between the countries of the region under the auspices of the Stability Pact's working group on trade liberalisation represents a major achievement. When fully implemented, these are expected to boost intra-regional trade, to enhance efficiency, increase competition and to enable economies of scale. In view of the small size of the

countries' economies, regional trade integration is also expected to attract further Foreign Direct Investment (FDI) to the region. Only when the necessary conditions are fulfilled and the administrative arrangements are in place could an extension of the pan-European system of diagonal accumulation of origin to the Western Balkans be envisaged, which would then further facilitate reaping the full benefits of regional trade integration. If any such extension were to be envisaged, it should be applied in a manner which is fully consistent with all relevant community policies.

At multilateral level, the FYROM completed its WTO accession negotiations in 2002, while Bosnia-Herzegovina and Serbia and Montenegro started theirs. The two countries already members of the WTO, Albania and Croatia, continued their reform programs in order to comply with the WTO accession conditions.

In order for the countries to realise the full benefits of trade liberalisation in the framework of WTO and/or Stabilisation and Association Agreements, significant improvements in the areas of infrastructure, customs and institutional capacity, and progressive alignment with EU standards are needed, in addition to a political will to implement the agreements. In 2002, **foreign direct investment** inflows to the region reached about €2.2 billion, corresponding to about 4,5% of the Western Balkan's GDP or some €90 in per capita terms, a slight decline compared to 2001 when FDI flows amounted to €2.5 billion. Croatia accounts for half of the inflow of FDI to the region, corresponding to €230 per capita in 2002. In comparison, the inflow of FDI to the ten acceding candidate countries was

equal to about 5% of their GDP or by and large €250 per capita in 2001. With the exception of Croatia, FDI flows remain insufficient to finance the countries' current account deficits. They need to attract greater levels of foreign direct investments, not least green field investments.

Several macroeconomic indicators related to the development of the region's economy are moving in the right direction. Growth is sustained, inflation is being brought under control and trade is increasing. There are still some reasons for concern. Inequality in income distribution has increased in the region and poverty has become more widespread. Estimates on unemployment remain high, even taking into account that a substantial part of economic activity remains unregistered. Countries remain heavily dependant on foreign financing. Donor grant assistance to the region is expected to be gradually reduced, and it is necessary for the countries most reliant upon it to start shifting to other sources of financing (and growth). In addition, there is a continuous flow of people from the region seeking a future elsewhere. According to UNHCR, four of the five Western Balkans countries are included among the top-40 nationalities seeking asylum in industrialised countries, and there has been a steady increase in the number of asylum seekers from some of the countries over the past year.

This process signals lack of hope for the future and leads to a loss of human resources, which in turn may lead to serious consequences for the long-term development of the countries. It is necessary to restore citizens' confidence, and to make ordinary people feel tangible improvements in their situation. There is an essential need for continuous institutional and structural reforms. Continued

weak application of the rule of law, combined with extensive corruption and a sizeable informal sector undermine confidence in the political leadership which in turn affects economic development. A substantial informal sector creates an uneven playing field for economic operators and reduces tax collection. This may in turn lead to difficulties for the State in performing basic tasks and obligations, including fulfilment of obligations and implementation of SAA.

4.2. EU's Interests to the Western Balkans Region

After we talk about how is the progress of the SAP in the Western Balkans, now lets make an analyze why EU gives a special policy to the Western Balkans region. For obvious geographical, political and historical reasons, the EU has a particular interest and responsibility towards the stabilisation and development of the South Eastern European region. The EU strategy for the five countries (Albania, Bosnia-Herzegovina, Croatia, the FYROM, and FRY/Serbia-Montenegro) is based, on the one hand, on the model used to rebuild Western Europe after the Second World War, and on the other hand on policies adopted by the then European Community following the collapse of communism in Central and Eastern Europe in 1989. As Commissioner Chris Patten, who is in charge of the EU's Balkan aid policy, said:

"We are trying to create in Europe a common—underline "common"—foreign and security policy, not a single foreign and security policy. What that means is that there are parts of the world or even political subjects where there is a sense that we can achieve more by working in aggregate than by doing things on our own and self-evidently where that approach is going to have greatest political priority is in what I have described as the

'arc of instability' around Europe's border from Kaliningrad in the north ... to the Balkans in the south-east, and indeed into the Mediterranean".¹⁸

The Western Balkans is thus clearly seen as a source of past and potentially future instability in Europe. The EU's strategy is predicated on the idea that it can foster regional stability by promoting internal economic and political reform in the countries of the Western Balkans and holding out the hope of eventual accession to the EU itself. This provides a long-term solution to the problems which have plagued the Balkans in the last decade, and indirectly rid the EU of a potential threat. In his evidence, Commissioner Patten said that:

"aid as a supportive part of our policy is extremely important and what we are trying to do with that assistance is, of course, to reconstruct where economic life, social life in a community has been destroyed but, above all, help countries in the Balkans journey along that path of economic social and political reform which is essential if they are to aspire to long-term membership of the European Union".¹⁹

In a different setting, Commissioner Patten made it clear that this new strategy of economic assistance upon which the EU has embarked was a long-term one in which the EU would have to settle for the "long haul". Here he makes it clear that a cornerstone of this "not particularly glamorous work is building stability brick by brick ... because this corner of our continent remains volatile, and at any moment any part of it can still topple into crisis" According to Commissioner Patten, the only sure way of achieving regional stability is:

"to transform this part of our European continent, to equip it to sustain liberal democracy and the rule of law, rooted in strong institutions,

¹⁸ The Rt Hon Chris Patten, "EU Strategy in the Balkans". Speech to the International Crisis Group, Brussels, 10 July 2001.

¹⁹ *Ibid.*

supported by thriving market economies trading with each other and the wider Europe”²⁰

The underlying logic of this new aid strategy is that ultimately, through a long process of economic and political transformation facilitated by the EU's assistance programmes, the countries of the Western Balkans will be prepared for accession to the EU. As argued by some, it is the promise of potential EU membership that lends coherence to the EU's Balkan aid policies and makes them an attractive enterprise to the recipient states. As stated by Mr Wordsworth of the Foreign & Commonwealth Office:

"For much too long, decades if not centuries, the Balkans were seen essentially as a problem; a rather remote district and one which the rest of Europe did not bother with too much, or saw only as a problem ... They (the states of the Western Balkans) have been recognised formally as potential candidates for EU membership; and there is a great willingness on the part of many of the members of the leadership of the various countries to move towards what they see as their European destiny, which is to link up to the rest of Europe".

4.3. Problems of the EU's Western Balkans Policy

Even the EU claims that the SAP as the cornerstone of the EU's policy has given progress to the Western Balkans region, but actually this policy has some problems. This policy has been accompanied by violent confrontations many of which have been concluded by massive international military interventions in favour of one of the combatants: the Kosovars in the case of the Serbian-Kosovar conflict over the Kosovo province of the Federal Republic of Yugoslavia and the Bosniaks (and, to a certain extent, the Croats) in the case of the Serbian-Bosnian

²⁰ *Ibid.*

conflict over the independence of Bosnia-Herzegovina. In both cases, Serbia and the Serbs had been the loser as they were in the earlier cases of the Slovenian and Croatian secession from the former Federated Socialist Republic of Yugoslavia.

Deep material and psychological wounds have been mutually inflicted and these will need much time to heal. Societal and public structures have been destroyed, the rebuilding of which are seriously impeded by the continuing uncertainty over some crucial regional problems such as the future fate of Serbia, Kosovo and Bosnia-Herzegovina. With the exception of Macedonia and, more recently, Croatia, in none of the regional countries are the political and social elite firmly established and these have as their first priority the transformation to democracy and market economy plus the integration into the European mainstream. Ethno-nationalistic ambitions often combined with vindictiveness and fierce struggles for power and influence continue to dominate the political scene to a considerable extent.

Under such conditions, many EU instruments lack their interface in the Western Balkan states. As long as corruption, organised crime and rentier income from international assistance provide sufficient comfortable sources of income for important parts of the local elite, it will be difficult to promote the establishment of democratic, market-based and civil society-oriented structures, not to speak of the creation of functioning multiethnic states. It can be doubted that the latter goal is a serious political priority for the elite in Bosnia-Herzegovina and Kosovo. In general, the thrust towards ethnic separation continues to dominate the thinking of

important regional political actors. Unless this state of mind is overcome there is little chance that functional cross-border or regional co-operation would lead to stronger regional political stability. It is a long way to go from the rebuilding of bridges, highways or railways across old and new borders to the creation of a general mutual political trust between societies that would be necessary to overcome old and newly created enmities between the peoples of the region.

The 'stabilisation dilemma' is another problem of the EU's Western Balkans policy. This term describes the anomaly of the EU regional approach that due to the conditionality of the SAP, the least stable states (in terms of democratic structures, functioning institutions and economic reforms) would qualify only for the lowest level of EU assistance, i.e. the most needy would get the least support. Thus, Albania, Bosnia-Herzegovina and Kosovo qualify for reconstruction aid and other forms of discretionary EU assistance but not for the much more comprehensive and integration-oriented SAA. Yugoslavia does not even qualify for normal assistance in the framework of CARDS. Thus, Albania, Bosnia-Herzegovina and Kosovo qualify for reconstruction and other forms of EU assistance but not for contractual relations and Yugoslavia does not even qualify for normal assistance in the framework of CARDS. Where the full range of stabilisation instruments is needed most it is least applicable.

Under these circumstances, the EU's strong emphasis on economic reconstruction and development, including regional economic co-operation schemes, encounters another dilemma: economic development is seen as an

important instrument for political stabilisation through the creation of economic welfare. On the other hand, economic development itself strongly depends on political stability, i.e. a political elite that puts a strong priority on economic and political reforms plus the existence of an institutional framework for the smooth functioning of market mechanisms, such as finance and banking, property rights and law enforcement.

Although the EU policy of stabilisation and association for the Western Balkans is meant as a broad undertaking in crisis prevention by way of integration, this policy still has other flaws beyond the general 'stabilisation dilemma'. The most important one is the insufficient mobilisation of 'civil' crisis interveners as is best exemplified by the slow pace of staffing the law enforcement institutions, including police, in Kosovo and to a certain extent even in Bosnia.

This unsatisfactory situation concerning the core area of potential instability in the Balkans leaves the EU and the international community with no other choice but to rely on the long-term effect of its measures. In the meantime, there is a continuing need to uphold a strong international military and administrative presence to provide the minimum requirements for a positive effect of the various assistance measures. This implies also the need for continuous harmonisation between the various international actors. In this respect, a certain reduction of the multiplicity of institutions and frameworks active in the region should be sought to reduce duplication and enhance the division of labour. Too

much time is often spent on harmonisation efforts between different institutions without much effect on the ground.

In addition, the EU should improve its efforts to establish a circle of stability around the more fragile area by furthering Macedonia's consolidation through the rapid conclusion of a SAA and by doing the same with Croatia and strongly enhancing its assistance for Albania to prepare the country for the opening of SAA negotiations in the near future. As a rehabilitation of the 'core of crisis' in the western Balkans is a difficult and long-term task, it is even more important to upgrade the crisis resistance of the neighbourhood.

Another problematic issue is the lack of conceptualisation of a functioning regional political order. Integration into the EU structures is a long-term undertaking the exact details of which remain open. What is needed, however, is an intermediate structure in which peaceful coexistence between the states of the region would be possible. For this to come about, the open questions of Bosnia-Herzegovina, Kosovo and Yugoslavia/Serbia have to be solved in a way that satisfies the interests of all parties concerned. This is not just a question of how to get rid of the Milosevic regime nor would it automatically result from functional economic regional co-operation and free trade. A determined political endeavour will be necessary which includes all relevant regional actors. Perhaps, the EU-Balkan summit meeting that is to take place later in 2000 could become a starting point for a process of regional reconciliation that would lead to a stable regional political order.

V. CONCLUSION

The Stabilisation and Association Process (SAP) is the instrument to support the domestic reform processes that these countries have embarked upon. It is a step-by-step approach based on aid, trade preferences, dialogue, technical advice and, ultimately, contractual relations. In the long term, the SAP offers these countries the prospect of full integration into EU structures: Albania is negotiating a Stability and Association Agreement (SAA), Bosnia-Herzegovina has just received a Commission feasibility study on the possible opening of the negotiations; Croatia already concluded an SAA with the EU in 2001 but this has not yet entered into force due to missing ratifications from some Member States; Croatia has, however, submitted its application for EU membership (the European Commission is expected to publish its opinion by the end of March 2004); the former Yugoslav Republic of Macedonia is in the same situation as Croatia as far as the SAA is concerned - it intends to submit its application for EU Membership in February 2004; Serbia and Montenegro (the Union State which succeeded the FRY between December 2002 and the beginning of 2003) has an EC feasibility study in progress.

The Stabilisation and Association Agreement is then the next step for countries that have made sufficient progress in terms of political and economic reform and administrative capacity: it is a formal contractual relationship with the EU.

The SAP will include, as appropriate: Stabilisation and Association Agreements (SAA) – a new kind of contractual relationship offered by the EU in return for compliance with the relevant conditions to the FYROM, Albania, Bosnia-Herzegovina, Croatia and the Federal Republic of Yugoslavia / Serbia-Montenegro.

- There is no doubt that the EU aid strategy is more than simply showing that the EU cares about the plight of the people of the Western Balkans. It is about: providing the resources for them to overcome basic humanitarian problems;
- assisting the physical reconstruction of war-torn regions;
- stimulating sweeping economic reform and restructuring programmes which will tackle basic economic malaise and create sustainable economic growth;
- reinforcing the principles and further develop the practices of functioning liberal democracies; creating the institutional structure which is needed to underpin political and economic evolution; and
- ultimately to introduce some measure of stability to the politics of the region.

These ambitions can be achieved only if the people of the region actually share these aspirations (see next section of the report) and if the EU is prepared to countenance and maintain a long-term involvement in the Western Balkans through its aid strategy. There are short-term security imperatives driving EU

policy. But, in the longer term, the only real guarantee of stability in the Western Balkans, and thus diminution of the threat to the security of Western Europe from the turbulent South Eastern corner of the continent, lies in the success of economic, political and institutional reform.

It is thus clear that security in the Balkans, a necessary condition for future stability and economic progress in the region, can be achieved either through political settlements of outstanding disputes and grievances or by the permanent presence of an international military force. Without security in South Eastern Europe, in the long-term, the EU's aid policies will have little or no chance of success. Without region-wide security (and by region, I mean South East Europe) and an end to the insecurities about borders and states, there is simply no way that these countries can actually meet the conditions that the EU is asking them to meet.

According to this situation, in my opinion the challenges with which the EU is actually confronted are fourfold and multi-layered. First and most pressing are the post-conflict tasks of peacekeeping, political reconstruction, and economic and social rehabilitation in Kosovo and Bosnia-Herzegovina. These areas have been largely devastated by intense civil war combined with strong international military interference.

In the long-term, the challenge lies in the establishment of functioning democracies that are based on sound market economies in Europe's least developed region. The development of democracy and market economies is seen as the

unconditional prerequisite for stable regional political and economic development. A highly problematic element of this longer-term task is the settlement of the final status of Kosovo as a part of the Federal Republic of Yugoslavia (FRY) or a new independent state in the region²¹ and the consolidation of Bosnia-Herzegovina as a multiethnic, multi-zone single state. Neither will be possible without a clarification of Serbia's political future.

In order to meet these challenges, the EU has to intensely co-operate with other international actors, especially the US, NATO, the UN and the OSCE. More important, however, is the congenial co-operation of the local actors. They are especially asked to support UN Mission in Kosovo (UNMIK), The Kosovo Force (KFOR) and other Western institutions in their effort to reconstruct Kosovo as a multiethnic autonomous political entity within the borders of the FRY, in which the Serbs and other non-Albanian minorities have their acknowledged place and role.

This means to abjure any schemes of Kosovar independence or a policy of Albanian unification. For this to be realised, it is of utmost importance that the political, legal and administrative set-up of Kosovo provides for guaranteed and equal participation of the various ethnic groups. Of equal importance is to prevent the development of an Albanian-dominated Kosovar army or police based on the former units of the Kosovo Liberation Army (KLA). This would imply the danger

²¹ See Susan L. Woodward, "Kosovo and the Region: Consequences of the Waiting Game", *International Spectator* (Rome), Vol. 35, No. 1, January-March 2000, pp.35-48.

of a systematic maltreatment of non-Albanian groups in Kosovo.²² Up to now, these goals of the international community's Kosovo policy, which is at the centre of the EU's endeavours in the western Balkans, have been only reluctantly accepted by a minority of Kosovo's political leaders and the majority, especially the former KLA leadership, more or less openly rejects them.

In a similar manner, the EU's efforts in Bosnia-Herzegovina, together with those of other international actors such as the High Representative, aim to establish a functioning multiethnic state in which the authorities of the different political entities not only allow but further the resettlement of displaced persons of whatever ethnic background. Croats should stop trying to establish special relationships with Croatia to secure Croatian dominance in their areas of the common state; Serbs should stop dreaming of reunification with Belgrade; and Bosniaks (Muslims) should refrain from a creeping Islamisation of their policies. Instead, all ethnic groups should work hard on the full and quick implementation of the Dayton Agreement.

Second, there is the challenge of stabilising the fragile political and economic systems of the immediate neighbourhood, i.e. Croatia, Albania, and (the Former Yugoslav Republic of) Macedonia. Given regional interdependencies, all of these states are directly affected by developments in the post-war areas and can influence these developments to a certain extent by their own policies. Immunising neighbouring states against conflictual tendencies emanating from the

²² See Espen Barth Eide, "The Internal Security Challenge in Kosovo", *International Spectator* (Rome), Vol. 35, No. 1, January-March 2000, pp. 49-63.

post-war area and preventing these states from exploiting the actual weakness of Kosovo and Bosnia-Herzegovina for regional power politics is the rationale behind the EU's engagement with respect to the neighbours.

The EU will only be able to reach its political goals if actors in Macedonia and Albania co-operate in a concurrent manner. Macedonia's political élite from all strata should concentrate on economic and political stabilisation, taking into account the necessity of balancing the ethnic groups in the country. Political participation, economic and social development, and access to economic and social infrastructure such as transportation, health care and education should be evenly distributed between the Macedonian majority population and the Albanian minority.

Furthermore, the EU's regional goals would benefit from a continuation of Macedonia's efforts at co-operative and good-neighbourly relations with all its neighbours. Albania could support such EU and Macedonian efforts by continuing to refrain from any attempts at explicitly or implicitly furthering secessionist forces in Macedonia.²³ Generous European support for the establishment of a functioning government and administrative system in all parts of the country plus large-scale economic aid to improve the general level of development would greatly further such an Albanian approach to regional affairs.

²³ For the possibilities and temptations of looking to the creation of a 'Greater Albania', see Woodward, 'Kosovo and the Region', *op.cit.*, pp.38-42

Third, the EU has to synchronise its policy towards the Western Balkans with the ongoing enlargement process, which includes Bulgaria and Romania (two more Balkan countries) and Hungary and Slovenia (two other south-east European states) all of which are highly affected by the developments in the Balkans. Brussels has to keep a certain coherence in its policy approach towards the whole region in order to prevent the development of new political and socio-economic 'borders' within the Balkans that could lay the ground for new potential conflicts.

This is not a merely abstract danger given the high probability that Slovenia and Hungary will enter the Union much earlier than Bulgaria and Romania. These countries, in turn, have much better chances of becoming EU member states than can be foreseen for the western Balkan region states, which, with the exception of Macedonia and Croatia, do not even qualify for association relationships with the EU.

There is a real danger that the different speed of integration into the EU will severely impede the equally necessary process of intense regional co-operation and integration that, in the long run, would be the best basis for lasting regional peace and development. Hungary together with Slovenia and the Czech Republic, after their entry to the EU, will take over from Austria and Italy important gate-keeping functions under the Schengen system concerning the fight against illegal migration, drug trafficking, illegal arms sales and other forms of international organised crime. These new functions, however, should not lead to a

new border that would prevent regional economic and political co-operation from flourishing all over the Balkans. The regional states together with the EU will have to develop effective regional border control mechanisms that do not prevent regional free trade and an easy free movement of persons in the region.

Fourth and finally, the European Union has to develop a comprehensive policy to cope with the Serbian problem. Everybody agrees that as long as Serbia remains the odd man out of the region, peace and stability remain endangered. Furthermore, many regional economic co-operation schemes are heavily dependent on Serbian participation given the country's central location in the region. How to induce changes in Serbia that put the country on the path of democracy and market economy and that let it agree on a regional settlement at Serbian cost remains one of the most daring challenges to the EU's Western Balkans policy.

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