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## **Balkan geography of animosity and cooperation**

### *Introduction*

Stabilization, normalization and development in the Balkans depend on the fact that Balkan states have weak political will and weak inclination for regional cooperation. Thus, they depend on foreign influences to function, both internally and regionally. Increasingly, the key external factor is the European Union (EU). This is more the outcome of economic integration rather than the consequence of EU foreign policy or policy of enlargement. Only recently the EU seems to have recognized that it needs to pursue a pro-active strategy because of the political weaknesses in the Balkan states and in the region as a whole. This pro-active strategy is not without risks because of the rather weak capacity in foreign and security areas of the EU. It basically boils down to the process of negotiations with the aim of closer integration and finally of membership. Clearly, if EU were to decide to speed up the process of Balkan enlargement and intensify negotiations that would contribute decisively to stabilization, normalization and development of the Balkan states and of the Balkan region. On the other hand, any increased risk to this process generated by the EU or by its member states may have sizeable negative effects on the Balkan region.

### *The effects of stability*

Balkan economies tend to grow strongly with increased security and political stability. The resolution of Kosovo crisis in 1999, the democratization of Croatia in early and Serbia in late 2000, the resolution of the Macedonian crisis in 2001, and the independence of Montenegro in 2006 have all contributed positively to growth and development of the particular countries and of the region as a whole. Similar positive effects should be expected with the process of the resolution of the Kosovo status and with continued political stabilization of Serbia. With the improvement of security, economic cooperation improves. Given this strong influence of security risks and political stability, it is important to be clear about the geography of animosity and cooperation in the Balkans.

A distinction is drawn here between security and political risks as their political and economic consequences are quite different. Former emanate from animosity or enmity while the latter are the consequence of the characteristics of the constitutional set up or of the political system.

Security risks are about the probability of the use of violence to achieve political, social or economic aims, while political risks are an indicator of the efficiency of public governance or of the political process. The lower the risks the better are the prospects for cooperation. The opposite is also true: increased cooperation tends to decrease security and political risks. This is also true for regional cooperation, which anyway depends very much on cooperation with the European Union.

### *Risks*

The geography of animosity in the Balkans is about the areas where there are significant security risks, both between states and within states. When it comes to the international security risk, there is only one deep animosity left, that between Kosovo and Serbia. This is because they are conflicting over territory. There is also only one significant internal, civil animosity left, the one within Serbia. As the world has been reminded recently, after Kosovo declaring independence in February 2008, civil strife within Serbia and violent conflicts in the northern part of Kosovo are still possible. The situation has calmed down after the parliamentary elections in Serbia May of this year, but the sources of animosity are still very much there.

Political risks, unlike security risks, are much more geographically spread. Political instability is fuelled by constitutional problems (Bosnia and Herzegovina), slow democratization (Bosnia and Herzegovina, Macedonia, Serbia and Montenegro), and social dissatisfaction that supports populist parties, which combine ethnic and economic nationalism with social demagoguery. Still, these political conflicts are resolvable without recourse to violence, though they are not without social and economic consequences. In general, it can be argued that political risks are increasingly an issue of the success of the process of democratization and of the building of the rule of law.

This political instability, for whatever reason, influences economic policies that worsen macroeconomic imbalances, both internal, i.e., in the labor market as low employment and high unemployment persist (the unemployment rates range between 20 and 40%, Croatia being an exception with just over 10%), and external, that is in the trade (above 20% of GDP as a rule) and current account balances (close to 10% or more of GDP, Macedonia being an exception with smaller deficit). These imbalances are not necessarily unsustainable as long as high growth, now averaging between 5 and 6 per cent per year, continues. If growth slows down, because of

growing security risks or greater political or social instability or for reasons of policy mismanagement, Balkan economies would face serious challenges.

### *The influence of Serbia*

Given the geography of animosity, the key source of instability is Serbia. If Serbia failed to stabilize politically even after the May 11, 2008 election's relative success of the pro-EU democrats, its economy, which is already under serious pressure due to growing security and political risks, would slow down significantly and could very well experience even a serious recession. Serbia needs about 5 billion euro per year to finance its current account deficit (that is based on the deficit in 2007), that is imports and thus consumption, until its economy recovers and if foreign financing becomes unavailable or costly, consumption and investments would suffer with growth disappearing or even turning negative. That would have significant consequences for social stability, because of the already high rate of unemployment and general feeling that the lot of the majority of the population has not been improving since the start of the democratization and economic reforms in the year 2000.

The consequences of Serbian political and economic instability would not necessarily be dramatic for the Balkan region, especially if Serbia continues to support regional economic cooperation as it has done even since the Kosovo declaration of Kosovo independence on February 17 this year. There are indications that trade and other economic relations with Kosovo have been affected negatively, but that hurts mostly Serbia itself and not very much anybody else. However, if political animosities spill over into lack of regional cooperation, the negative effects will certainly spread. To assess these effects, the geography of cooperation is important.

### *Cooperation and the EU*

There are essentially two main trade routes within the Balkans. One is between Croatia and Bosnia and Herzegovina and the other is that which centers on Serbia, which is serving as a hub for trade with Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo. Other intra-regional trade is small, except that between Macedonia and Kosovo. If Greece, Austria and Slovenia are added to the wider region, and more recently Hungary, then their trade with some of the countries of the region has to be seen as important and their investments even more so.

Serbia is especially dependent on exports to the region and to investments from the wider region. It stands to lose a lot if it curtails regional cooperation due to political animosities. For this reason, there has been no attempt to withdraw from the region and this should not be expected even if the process of European Union integration stalls due to the opposition in the Serbian parliament which is still dominated by the nationalist parties. Of course, if the economic situation deteriorates, the region will lose an important economic partner and Serbia may decide to introduce protectionist measures. In addition, if populist and bellicose parties were to gain power in Serbia again, that would economically isolate Serbia and would make the whole region less attractive for business and political cooperation.

While political instability in Serbia is having negative effects on that country and some of its neighbors, the resolution of Kosovo status should in principle have a positive effect due to increased investments there, but also because of the changed image of the region as a whole. So far, foreign investments have not materialized because the process has not been smooth and stability is yet to be achieved. Also, there are still significant security risks in and around Kosovo. Once this last remaining security risk is removed, overall regional risk will decline and Balkan economies will benefit.

The remaining causes of political instabilities as well as problems with economic development can best be addressed through the process of integration into the NATO and the European Union. This is clearly true for Bosnia and Herzegovina, though it has not received all that much attention lately. It is especially in the case of this country that the distinction between security and political risks can prove to be the most useful. Unlike the conflict between Serbia and Kosovo, the constitutional problems within Bosnia and Herzegovina generate political, but not serious security risks. Though commentators are often linking these two risky areas, the types of risks they experience are quite different. And so are the solutions: in Bosnia and Herzegovina, it is the process of constitution building, so the two state like entities there need to find a constitutional framework that they could live with, while in the case of Serbia it is an issue of control over territory, which is a different risk generator altogether.

Similarly, the problems within Macedonia are those of democratization while the conflict between Greece and Macedonia over the name of the latter state is not easy to characterize or even understand. It is somewhat of an embarrassment even by the Balkan standards and certainly by the standards that should be characteristic of the EU. These are political risks, which can have

significant economic consequences, mainly for Macedonia, but do not generate the type of animosity that can bring in grave security risks. They, however, can have negative consequences for bilateral and regional cooperation, of course.

Constitutional and problems with democratization can be solved only in the “wider context” as Jean Monnet argued for Europe as a whole. This has proved true for the other Balkan countries now member states of the European Union – Greece, Bulgaria and Romania – and these countries should be expected to be exceptionally supportive of these integrative processes that should substitute geography of animosity with that of cooperation. So far, their membership in the EU or their expectation to join the EU has led them to stay out of most of the Balkan animosities and problems, though their positive contribution could have been larger. The same goes for the countries like Austria and Hungary but also for a country like Croatia that hopes to join EU in the near future. The policy towards the Balkan region of the latter country has improved noticeably after it has become candidate country for EU membership.

The fact that a country becomes more cooperative once it is in the EU points to another important characteristic of the Balkan geography of cooperation. Regional cooperation is not very developed and certainly does not have strong influence on the politics of the countries in the Balkans. Therefore, it is the cooperation with the EU that enhances regional normalization and cooperation. Regional cooperation is one of the conditions for EU membership, but the more important determinant is the asymmetry in economic dependence on the EU and on regional cooperation. Trade and most other economic relations with the EU are much more important for every country in the Balkans than regional cooperation. Even in the case of the countries like Serbia that trades a lot in the region, it is the EU that is potentially the main source of growth and development.

### *Conclusion*

If the last remaining security risk is removed, the Balkans should forge ahead in the integration with the European Union and that will enlarge the geography of cooperation in that region too. The contribution of the neighboring countries, which are already members of the EU could be large, certainly much larger than it has been so far.