

EUROPEAN ENLARGEMENT CHALLENGES, WESTERN BALKANS AND THE WAY FORWARD

Fatmir Besimi, PhD¹

Abstract

Since its foundation, the European Union contributed to the advancement of peace and reconciliation, democracy and prosperity in Europe. This process over the years has been followed by several challenges. This research observes the challenges and prospects of European integration for the Western Balkans. The latest security, political and economic challenges affect the pace of European integration and enlargement policy. This new environment also has an impact on the credibility of the European integration process for the Western Balkans, affecting the support of citizens for the EU perspective. New additional efforts for an integration reform agenda are needed to show further progress, as the EU integration seems to be the best alternative for the Western Balkans. In addition, this research through comparative statistical evidence observes the convergence of the Western Balkans economies with the EU and further considers catching-up with the EU living standard. This assumes increasing competitiveness through higher investments and credible structural reforms, which also requires credible policymaking and political leadership. In addition to policy recommendations, this research concludes with a call for deeper political view of the European integration process because of potential conflicting short-term political and long-term economic interests and time-(in) consistency challenges of the European integration agenda of the leadership in the Western Balkans.

Keywords: *European enlargement, European integration, Economic integration, Western Balkans*

JEL Codes: *E61, F02, F15, F5*

¹ Assistant Professor, South East European University, Republic of Macedonia
Visiting Senior Fellow, London, School of Economics and Political Science, UK
e-mail: f.besimi@seeu.edu.mk

1. Introduction

The pacification policy for the European continent, through the establishment of the European Union and its continuous enlargement, is a unique process and a historic possibility for further peaceful integration of the continent and expansion of stability and prosperity within Europe (Nobel Prize, 2012). Since its establishment, the European Union has continuously promoted cooperation and solidarity policies in the name of peace and prosperity by establishing mechanisms of economic, political and security integration (European Commission, 2016).

The process of European integration has been followed by several challenges, including the economic, political and security challenges in the past years. The developments in the immediate neighborhood of the EU, in North Africa and the Near East, and particularly in Syria and Levant, as well as the developments around Ukraine and the related differences between the United States and the European Union on one side, and the Russian Federation, on the other, serve as reminders that peace is not a constant and that daily hard work is required to preserve the balance of peace. Also, during the past several years, the EU functioned in a situation of acute economic crisis, which at times had developed dramatic proportions.

2. European Enlargement

From an economic, political or security aspect, all the stated challenges require a proactive attitude and decisiveness, and they can be used as signals concerning the need for internal reforms and consolidation of the EU along all lines, as well as a foundation to build a coherent and consistent attitude towards a more deepened integration (political, economic and monetary union) and further accelerated enlargement towards South-East Europe, namely, Western Balkans and Turkey. The new composition of the European Parliament and the European Commission will have to immediately confront all the challenges inside and outside of Europe - the recovery after the economic crisis, the issue of security (especially relations with Russia in the Ukraine), the crisis of migrants (refugees), terrorism, but also political challenges as the Euroscepticism and national political populism (European Union, 2016 and Szolucha, 2010).

Recently, adding to the above, the Brexit and its implications for the future of the European Union listed as main reasons the discontent among citizens with the establishment, as well as the numerous challenges that the European Union has been facing in the last decade, such as the economic crisis, the debt crisis (Greece, Spain, Italy) and partly the lack of efficiency in the fiscal policy within the euro zone, then security risks (Ukrainian crisis and relations with Russia), immigration policy, the refugee crisis (mainly due to the war in Syria) and terrorism. These caused an increase of the euroscepticism within the Member States of the European Union, and a greater expression of populism among some national political leaders.

The European Union makes efforts to overcome the crisis and create a new

perspective for development, with decisions which introduced changes in the direction and coordination of the European economies, as well as mechanisms to control public finances and borrowing excess (European Union, 2016). In order to successfully confront the challenges of the economic and financial crisis, the EU has developed the strategy "Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth", which has set itself the task of achieving the following objectives: 75% of the population aged 20-64 should be employed; at least 40% of young people should have higher education (university); 3% of GDP needs to be invested in research and development (R & D); the number of poor people should be reduced by 25% (European Commission, 2010). Also, it approved an Investment Plan of Europe which aims to generate 315 billion Euros of investments in 2018 (European Commission, 2014).

Taking into consideration the context of a number of challenges to the European Union and the implication on the enlargement process, the next steps to be undertaken by the European Union may be listed as follows:

First, the European Union should show unity and solidarity between its Member States and should not create room for uncertainty, because it will directly affect the credibility of the EU. In this regard, clear messages were the last European Council summit in late June 2016, confirming the determination to deal with the new situation and defining the strategy for confronting the economic, political and security challenges.

Second, prepare for a credible and fair process of negotiations between the EU and the UK in the event of activation of Article 50 of the Lisbon Treaty of the European Union for exit of a Member State. Scenarios may be based on the example of Switzerland to have free access to the common European market in certain sectors and industries or the Norwegian example through a membership in EFTA (European Free Trade Association).

Third, reforms should follow to strengthen EU institutions, namely a stronger banking union within the euro zone, higher flexibility and harmonization of fiscal policy within the euro zone, as well as appropriate policies about the freedom of movement for goods and services, labor, capital and knowledge within the European Single Market. Fourth, increased democratic accountability of the EU institutions and strengthened communication with citizens on the EU policymaking. This has been particularly evident lately through the immigration policy, as well as dealing with the refugee crisis that shows lack of consensus in the approach by the EU Member States, and at the same time it influenced the increase of social insecurity among citizens in some Member States.

Fifth, consistent implementation of the "Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth" adopted in 2010 by the European Union as a recovery strategy after the economic crisis. Similar effects should be achieved in support of the EU economic growth and current implementation of the EU three-year investment plan, adopted in 2014, which aims to generate approximately 315 billion investment in the next three years in the EU.

Sixth, foreign security policy should focus on strengthening the cooperation with NATO in order to handle the challenges and to provide peace globally, as well as increased financial support in less developed countries and regions through development programs, which will also contribute to reducing the influx of refugees and immigrants into the EU.

Seventh, continuing the European Union enlargement policy of from the perspective of Western Balkans will mean a more stable, more advanced democracy and an economically more developed region, which would actually be an advantage for the European Union in this period with global economic and security challenges. The latest refugee crisis has shown that the region de facto is part of Europe, and thus, part of the problems and solutions within the European Union.

Finally, the European Union should continue to fulfill its goal of creating a union that will live in prosperity and peace through the promotion of European values of unity, solidarity, transparency, inclusiveness, accountability, democracy, rule of law, human rights and freedom, peace and prosperity.

3. The Western Balkans

European integration process

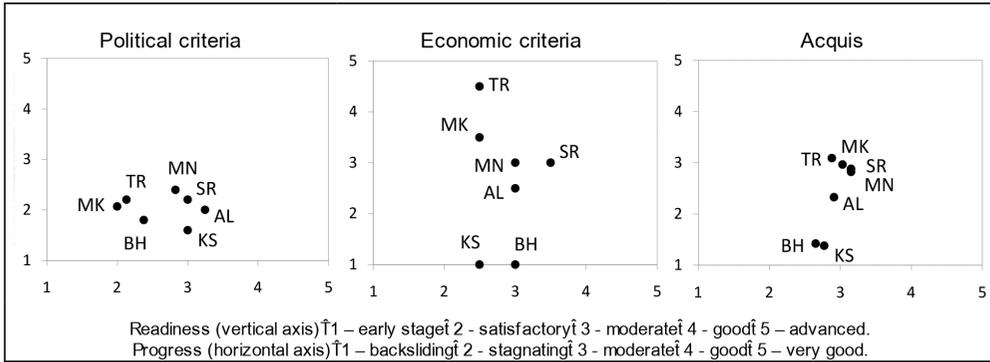
Progress. In the last fifteen years, the region has managed to be safe and stable. Namely, the region transformed from an importer to an exporter of peace. It became a provider to the global peace through NATO security and peace missions. This process notes some positive shifts whereby Croatia became the twenty-eighth Member State in 2013; Macedonia fulfilled the conditions to start negotiations in 2009; Montenegro did the same in 2012, and Serbia in 2013, after the successful dialogue with Kosovo, also started its accession negotiations; in 2014 Albania received a candidate status with the possibility to start negotiations; Turkey, slowly but surely makes progress in negotiations; Kosovo closes negotiations for the conclusion of the Stabilisation and Association Agreement, and recently, Bosnia and Herzegovina has found a window of opportunity for continuation of the process through the United Kingdom and German Initiative (European Commission, 2015a & 2015b).

Challenges. In the circumstances described above related to the challenges of the European Union, the growth of Euroscepticism in some of its Member States should be highlighted, since it directly influenced the process of enlargement of the European Union. This becomes even more complex when we consider the other challenges facing the Western Balkan countries, the complex system of government in Bosnia and Herzegovina, sensitive relations between Kosovo and Serbia, as well as the name issue of Macedonia (European Commission, 2015b). Therefore, the question is how to make a lasting peace in this region, which will provide a sound basis for the development of the region.

Copenhagen convergence criteria. The long-lasting process of European integration of the Western Balkans affects the reform agenda as well. Looking from that point of view, the fulfillment of both political and economic criteria, as well as the approximation with the European 'Acquis', there is evidence that countries from the region have shown better results in terms of economic criteria than political criteria and the performance is related to the pace and credibility of the EU integration process. In order to gain a comparative overview of the level of readiness pace of progress of the Western Balkan countries towards the integration process, in a preliminary analysis, we illustrate the analytical model: "Space-time integration" (Figure 1). With some reservation, but because of the comparative analysis, these models are based only on simple quantification of estimates given in the progress reports of individual countries from the region (European Commission, 2015b). The assumption, because of methodological purposes, does not consider the qualitative aspects of the integration process, neither the specifics of individual countries.

Within the "Time-space integration", one can see the level of readiness (vertical axis) and progress, i.e. pace of the integration process (horizontal axis) of candidates and aspirant countries for the EU integration. Namely, weaker performance is shown in the bottom left corner of the diagram (1, 1), while the best performance is in the upper right corner (5, 5). Looking at "Time-space integration", the first impression is that most countries have good performance in addition to economic criteria, while are weaker in terms of political criteria. In their fulfillment of political criteria, the countries are more or less at a satisfactory level of readiness (2) and moderate pace (3), while the negative effects of the political crisis in Macedonia and latest developments in Turkey can also be noticed. As regards the economic criteria, Macedonia records progress on par with Turkey and Kosovo, while better progress have Serbia, Albania, Montenegro and Bosnia and Herzegovina. However, in terms of readiness, Macedonia is in a better position, shortly after Turkey and then, other countries are following. In terms of progress in the ability to meet the obligations (acquis) of EU membership, Serbia and Montenegro are ahead, which corresponds with the formal opening of accession negotiations with the European Union, and thus have more remarkable progress compared to other countries (we note that this can be considered as an argument that the official opening of negotiations helps to accelerate the European integration process). Regarding the level of readiness in terms of meeting the acquis, Macedonia is in a relatively more favorable position, immediately after Turkey, followed by Serbia and Montenegro, while Albania, Kosovo and Bosnia and Herzegovina can be described as having a lower level of readiness due to their later inclusion in the integration processes. In such case, we may count that as an argument in favor of the endogeneity of the European integration process, which needs to be further tested more formally.

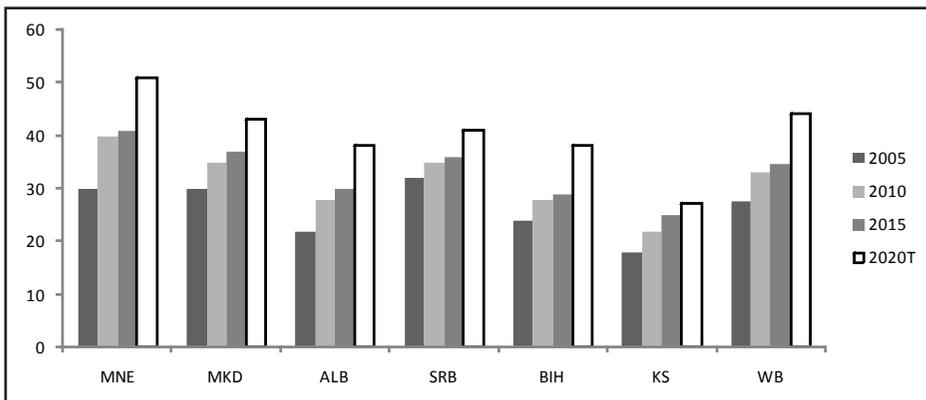
Figure 1. Copenhagen convergence criteria



Source: Author's illustration (European Commission, 2015a & 2015b)

Economic convergence. Another challenge and characteristic of the EU integration process for the Western Balkans is that these countries face a major convergence challenge in terms of living standards. The main reason behind this prosperity gap lies in the failure of Western Balkans countries over the years to be competitive, meaning they lack the appropriate factors and institutions needed for high levels of long-term productivity (Sanfey et al, 2016). European integration has proven to be a long and complex process of harmonization with the existing economic performance achievements of the EU Member States (DGEP, 2015; European Commission, 2015a & 2015b). If we compare living standards in the Member States of EU and NATO with those of the Western Balkan countries, we will notice a big difference. In 2010, the average level of GDP per capita in Southeast Europe stands at the level of 36.4% of GDP per capita of the EU. The average unemployment rate in the Euro zone is 8-9%, while in the Western Balkans, it is around 23% (Regional Cooperation Council, 2013; Eurostat). These figures clearly indicate the big difference in living standards between the Western Balkans and the EU. As presented below (Figure 2), over the last decade, there has been a moderate trend of convergence comparing 2005, 2010 and 2015 respectively for each country. The average Western Balkans GDP per capita in PPS compared to EU28 average is moving upwards to 27.6%, 33.2% and 34.6%, respectively for 2005, 2010 and 2015.

Figure 2. GDP per capita in PPS (EU28=100)



Source: Eurostat (Kosovo data and Targets 2020 from RCC, 2014)

We can find similar evidence of improved competitiveness of the Western Balkan economies from the Global Competitiveness Index (WEF, 2016). The targets for 2020 are set in the SEE 2020 Strategy, as explained in the next section of this research. According to the World Bank projections, Western Balkans will reach the EU average in a period of 20 years, if there is a growth of 6% annually, meaning a rapid acceleration (doubled growth) compared to the average economic growth of the past decade (World Bank, 2014). The vital requirement for catching up with the rest of the European Union is a boost of investment in the region. The Western Balkans have a number of attractive features for investors. The long-term EU perspective is a major plus and a unique quality of the region compared with other emerging markets, as it helps to anchor market-oriented reforms and European standards. Strong macroeconomic stability, strategic geographic location, diverse economies, favorable tax regimes and low unit labor costs, combined with a relatively well-educated population, are common attributes throughout the region (Sanfey et al. (2016).

Prospects of European integration

EU perspective. All countries in the Western Balkans expressed their strategic goal and linked their political and economic interests with the EU membership. In the next period, one can expect that the EU will raise the level of priority in the enlargement process and make significant engagements and investments to complete the initial process in relation to the Western Balkans (such as the Berlin Process, Connectivity Agenda, Western Balkans 6, RCC, CEFTA, etc.). According to the last Enlargement Strategy prepared by the European Commission and adopted by the European Council, there are three major strategic benefits of enlargement, that fully deserve further investment and full consideration by all Member States - enlargement makes Europe a safer place, it helps to improve the quality of people's lives and it makes us more prosperous (European Commission, 2015).

SEE 2020 Strategy. Guided by this Strategy, the Regional Cooperation Council in coordination with the Western Balkan countries and the European Commission prepared a strategy called "South East Europe 2020 - Jobs and Prosperity in European Perspective" focused on five pillars of growth: smart, sustainable, integrated and inclusive growth and governance for growth. The main objective is to increase the living standards of Southeastern European countries through an accelerated economic growth from the current level of 36% to 44% of the EU average in 2020, according to GDP per capita; next goal is to double the foreign trade of the countries of the region and to reduce the trade deficit. This would affect the opening of about one million new jobs in the region (Table 1).

Table 1. Targets of the South East Europe 2020 Strategy

	2010	2020
	Basis	Target
Overall strategic goals		
1. GDP per capita relative to the EU average (in PPS), % of EU-27 average	36.4	44.0
2. Total trade in goods and services (EUR million)	94,413	209,500
3. Trade balance (% of GDP)	15.7	12.3
Integrated growth		
4. Intra-regional trade in goods (EUR million)	12,459	30,500
5. Overall FDI inflows (EUR million)	3,396	8,800
Intelligent growth		
6. GDP per person employed (EUR in PPS)	27,485	36,300
7. Number of highly qualified persons in the workforce (million)	1.7	2.0
Sustainable growth		
8. Net enterprise creation (new businesses per year)	30,107	33,760
9. Exports of goods and services per capita (EUR)	1,780	4,250
Inclusive growth		
10. Overall employment rate, % of the 15+ population	39.5	44.4
Governance for growth		
11. Government's effectiveness, World Bank Governance Index	2.3	2.9
Source: RCC, 2013		

According to this Strategy (RCC, 2015):

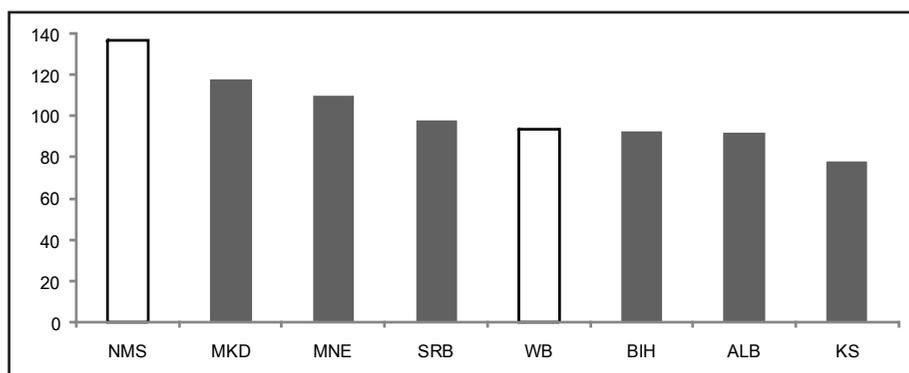
Smart growth objective is to ensure a 32% increase in average labor productivity via an 18% increase in the number of highly qualified persons in the workforce. This cannot be achieved without quality education, research & development, scientific innovation, digital society and a quality and merit-based cultural promotion and creative sectors. Integrated growth objective is to increase intra-regional trade cooperation and exchange 2.4 times, and increase overall foreign direct investment (FDI) inflows to the region 2.6 times. This will be done via the promotion of free trade, a competitive economic environment, and integration into the global economy. Sustainable growth will ensure a constant growth of new businesses by 12% per annum, and increase exports from the region 2.4 times. This will be tangible via investment and reforms in the field of energy, transport, environmental protection, etc. Inclusive growth should increase the overall employment rate from 39.5% to 44.4% through the promotion of active measures and social policies in the labor market and increase the quality of healthcare services. Governance for growth will ensure effective public services, uncompromised fight against corruption and the rule of law.

Economic integration. The EU has been the largest export market for the region for some time, and continues to absorb about 60 percent of Western Balkan exports, with

the notable exception of Montenegro. Yet, trade among Western Balkan countries themselves has also become more important since 2000 (IMF, 2015).

Although the region of the Western Balkans may be considered as open with 94% of GDP, yet it is below the EU-11 (New Member States) with trade openness of 137% of their GDP (Figure 3.). This process is required to continue as the economic integration increases and creates new markets, and thus, more potential for higher economic growth in the future.

Figure 3. Trade openness (share of GDP), 2014

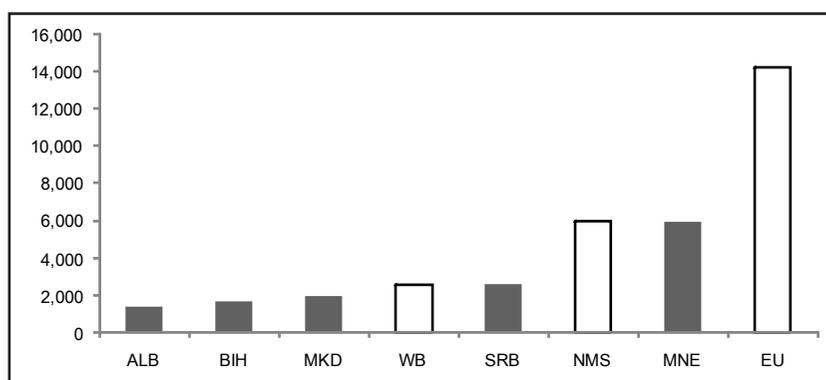


Source: World Economic Outlook, IMF

WB – Western Balkans; NMS – New Member States (EU-11)

Investment increase remains a challenge that is mainly reflected through FDI per capita, which is still below the average of the New Member States (EU-11) and the EU (Figure 4).

Figure 4. FDI stock per capita (Euro), 2014



Source: World Economic Outlook, IMF

WB – Western Balkans; NMS – New Member States (EU-11); EU – European Union (EU-28)

Intensifying integration. We may say that European integration remains the best alternative for the Western Balkans (DGEP, 2015; Sanfey et al. 2016), which is also present in the rhetoric of political leaders in the region supported by the majority of population regardless of the downturn trend (according to Eurobarometer survey). There has to be a delivery at a certain pace to keep the support from the people. Namely, the European integration process should be more intensive and faster in order to maintain its credibility (European Commission, 2015a).

Further research

The EU enlargement as a peace building process has been a successful project. The challenge is how to move forward with this success in the post-crisis period during the times of new economic, technological, demographic and security challenges in the changing geopolitical context? How to speed up the European integration process of the Western Balkans and increase the credibility of this process? Conversely, delays with the European integration may harm the credibility of the Western Balkans as a future partner in the European family.

Taking this into consideration, we may suggest the following framework of the European integration reinforcement (Table 2) for further research:

Table 2. Reinforcing the European integration

Challenges	Prospects	The way forward
<ul style="list-style-type: none"> <input type="checkbox"/> Rising Euroscepticism in the EU <input type="checkbox"/> Slowdown of integration processes <input type="checkbox"/> Economic convergence gap between the Western Balkans and the European Union 	<ul style="list-style-type: none"> <input type="checkbox"/> Further integration and higher investments <input type="checkbox"/> Structural reforms and higher competitiveness <input type="checkbox"/> Faster economic growth 	<ul style="list-style-type: none"> <input type="checkbox"/> Credible policy making <input type="checkbox"/> Balanced short-term national political and long-term economic integration interests <input type="checkbox"/> Political economy

Actually, the enlargement faces the challenges of rising euroscepticism in some of the European Union countries, slowdown of the integration reform process and an economic convergence gap of the Western Balkans relative to the European Union living standard. The prospects for the Western Balkans will be based on catching-up through a faster economic growth which can be achieved through further trade integration and higher investments, as well as sound structural reforms and increased competitiveness of the economy. However, the way forward will depend on the credibility of policymaking and trade-offs regarding the short-term national political and long-term economic interests, thus creating a possible time-inconsistency problem in policy making and also the need for a political economy view on the overall process of European integration.

4. Conclusions and policy recommendations

Based on the overall history of the European Union since its foundation, one can conclude that the EU enlargement process is one of the most successful geo-political and economic policies on a global level, which was crucial for the establishment of the world largest economy and peace promotion, whilst in the past and nowadays, the process was exposed to a range of internal and external challenges that require pro-active policies.

Although there has been certain progress, additional work needs to be done and a re-energize the EU reform agenda. Further engagement is required in the following areas: Rule of law and independence of judiciary; Fight against corruption and organized crime; Media and freedom of expression; Political dialogue and functioning of democratic institutions; Inter-ethnic relations; Electoral code; Economic reforms for a functioning market economy; and Good neighborly relations.

The enlargement process towards South-East Europe and Western Balkans has been ongoing for quite a long period of time and it can be evaluated as a successful process which is still in progress and needs to be reinforced and accelerated. Slovenia (2004) and Croatia (2013), which are already EU Member States, serve as good examples that the integration can also be reality for the countries in our region. However, until all countries in the region are there, one cannot consider it as completely successful.

The EU and Western Balkans have the challenge to find a way to overcome the bilateral open issues among some countries of the region (Serbia and Kosovo are a positive example), i.e. open bilateral issues between an EU Member State and a candidate country, whereby the EU external policy mechanisms are still powerless (the example of Macedonia and Greece). The ability to solve such complex matters would protect the credibility of the European integration.

Under such complex conditions, the continuation of the process and its pace would require continuous additional efforts. It will be important to consider the introduction of mechanisms and channels for addressing the complexity and specifics of the bilateral issues of aspirant countries. In addition, to increase the transparency and comparability of the integration reform process, it is announced by the European Commission that a new methodology of Progress Reports will be introduced, which will contribute to constructive competition and raise the accountability of political leaders in the Western Balkans. This is expected to help the more effective implementation of reforms with respect to recommendations. Also, useful considerations may be given to the implementation and extension of the Stabilisation and Association Agreement, as well as enhancing the scope of the National program for adoption of the *acquis communautaire*.

Hence, the recommendation here is to focus on the European reform agenda and boost investments to ensure the Western Balkans have better prospects for positioning during the period of global geopolitical and economic developments. Regional initiatives to increase cooperation and integration of the region should be added to this, such as:

the Berlin Process, which was held in Paris this year in July; Connectivity Agenda for the Western Balkans under the auspices of the European Commission; Western Balkans 6; Regional Cooperation Council and similar initiatives. These initiatives promote cooperation in order to increase the infrastructure connectivity, which will contribute to improving the competitiveness and economic growth of the region, also the implementation of a common development strategy "Southeastern Europe 2020: Jobs and prosperity in European perspective". In addition, these initiatives promote the strengthening of democratic capacities through involvement of civil society and youth in policymaking. Basic human rights and good governance are among the priorities addressed in the Enlargement Strategy of the European Commission for the Western Balkans.

Finally, following the above conclusions and policy recommendations, we may suggest an economic model for faster economic growth, primarily based on the increase of investments and generation of new jobs (in the private sector), through the increase of competitiveness and improvement of infrastructure and business climate. We need transparent and responsible public finance management to support and foster investments and to affirm social and territorial cohesion while promoting balanced regional development. Foreign investments will surely increase exports and economic productivity. However, this requires knowledge and new technology. The economic development model based on a competitive and integrated economy, including equal opportunities for all, would help the Western Balkans to join the European Union as soon as possible!

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