



Political and Economic Developments in the Balkans: Is There a Critical Mass of Support for Reform?

Workshop Report
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Political and economic developments in the Balkans: Is there a critical mass of support for reform?

Report from a workshop organized by South East European Studies at Oxford (SEESOX)

The following report draws on the discussions at the workshop on political and economic developments in the Balkans, which took place at St Antony's College, Oxford, on 8 December 2006. The brainstorming meeting was convened by Othon Anastasakis, Dimitar Bechev and Max Watson. The participants included a range of academics and practitioners from international organisations and think tanks. The paper does not purport to reflect the views of any of the participants but instead represents SEESOX's interpretation of the discussions held during the seminar.

Introduction

The states of the Western Balkans have undergone a notable transformation since 2000. Democratic regimes and market based economics are now the norm in the region. The conflicts of the 1990s seem to have been replaced by greater commitment to regional cooperation. Improved economic policies and trade liberalisation with the EU and within the region has delivered consistent economic growth. In terms of the future, nearly all the political parties in the region support EU membership for their countries as guarantee for political stability and economic prosperity. The greatest threat to prosperity in the region is no longer a reversal of these achievements but rather

the stalling of or slowing down of further reforms. In this respect, the EU plays a crucial role as an external actor with the ability to act as an engine for reforms. However, EU readiness to take on this role poses many questions as to the immediate prospects of the transformation process.

The slow pace of reform

The current state of the political and economic reform process in the Western Balkans can be described as one of 'muddling along', in the sense that reforms continue but at a slow pace and lacking consistency. While a great deal of the reform process is externally inspired, the prime responsibility lies with domestic actors and it is internal circumstances that determine the

pace of political, economic and institutional change. Muddling along may reflect a lack of elite commitment, but also weak societal support for radical changes. This twofold deficit creates a vicious circle that makes reforms uneven over time.

One characteristic problem is the weakness of political parties which often fail to exhibit clear ideological differentiation. Extreme rightwing forces in Serbia, for instance, support values like the redistribution of wealth thus resembling parties of a social democratic orientation. A more fundamental problem is the absence of mass-based parties capable of articulating popular concerns and informing political elites. The weakness of parliaments in the region is partly a consequence of this problem. As a rule, unrepresentative institutions such as the armies or the churches enjoy greater public trust than the institutions of parliamentary democracy.

It is also important to consider what factors shape support for and opposition to political and economic reforms at the grassroots level. Part of the problem lies with the fact that the reform process itself is often discredited, devalued and considered a partisan project. In the absence of a broad consensus on the kinds of change which are desirable not to mention the need for change at all, the transformation agenda has consistently fallen hostage to day-to-day politics and has consequently been devoid of an overarching strategic direction. To complicate things further, there is confusion as to the priorities. While

opinion polls would indicate that economic welfare concerns matter the most to voters, the main external anchor the EU, has been pushing for reforms aimed at improving the quality of institutions and the rule of law.

Across the Western Balkans, the main problem seems to be the failure of reform advocates to mobilise the wider public. On the contrary, opponents in the transition process form a vociferous minority whose grievances echo clearly in the public debate. Part of the blame lies with the political elites who fail to showcase the benefits of the reform process in order to generate broader consensus.

Reform is hostage to the weakness of states across the Western Balkans but also to ethnic tensions still besetting Bosnia-Herzegovina, FYR Macedonia and Kosovo. The critical issue of Kosovo's final status, for example, has consistently diverted attention from the bread-and-butter policy issues in both Belgrade and Prishtina.

Threats to the reform process

Political and economic reform has scored some successes in the Western Balkans. Evidence for this can be found in the continuing absence of conflict, the prevalence of democratic elections and the regular commitment to EU membership. On the economic front, the region has been enjoying solid economic growth, increasing foreign direct investment (FDI), and inflation under control. Doing business in the region has become easier and more normal.

On the other hand, several areas of concern and possible threats remain. One problem is the weakness of the public administration. While parliaments pass many excellent laws, implementation is still a serious problem. This is due to the poor quality of the bureaucracies of the region, and their inability to recruit capable individuals. As in other transition countries, rent-seekers and other vested interests have also been a retarding factor for designing or implementing reforms. The presence of widespread corruption poses a serious threat, which all companies and investors in the region have to face. However, while for large foreign investors it is perhaps manageable, it can be particularly detrimental to the expansion of small and medium enterprises, particularly when coupled with poor enforcement of domestic market competition.

While the informal sector of the economy is to some extent a coping mechanism for a substantial proportion of the population, informal practices and the grey economy obstruct progress. Tax evasion is a particularly salient problem, though there have been strong attempts to deal with it through flat taxes and VAT. However, the greatest concern is that the informal sector continues to be tolerated due to the interests of big businesses and the capture of government by special interests.

Uneven economic growth poses another set of risks. This concerns in particular the unbalanced expansion of bank lending which exacerbates current account deficits and creates inflationary pressures resulting in a

bubble economy that might threaten the macroeconomic stability achieved over time. Finally, ethnic tensions and particularly the endgame in Kosovo could destabilise both the province itself and Serbia by bringing nationalist and retrograde elements to power. In FYR Macedonia and in Kosovo, the process of decentralisation seems to have been adopted as a mechanism for alleviating ethnic tensions; yet it carries risks of softening macroeconomic constraints and regulatory capture if it is not managed through strong institutional frameworks. Turning to Bosnia, the creation of a more functional state is key to preventing the reform process from becoming derailed.

How embedded is the reform process?

On the whole, it seems that a reversal of the changes that have occurred in the Western Balkans since 2000 is highly unlikely. Democratisation is not proceeding with equal speed in all the countries of the region, but it is moving ahead in what appears to be an irreversible trend. Even the conservative-nationalist parties in the region, such as the Croatian Democratic Party (HDZ) and VMRO-DPMNU in FYR Macedonia, both in power at present, have adopted more moderate, pro-reform and pro-EU policies. However, while the EU accession process does have a role to play in stimulating political reforms in the region, expectations remain frustrated. Part of the problem lies in the gap between rhetoric and actual policy. For instance, the

Serbian Radical Party's on-and-off support for EU membership means little in terms of promoting EU-oriented transformations. The answer to the question of why EU accession has failed to generate rapid reforms in the Western Balkans unlike in the other Central and East European states probably is related to the fact that membership is such a distant prospect.

In the economic sphere, the region as a whole has achieved macroeconomic stabilisation, moving away from the hyperinflation of the past. Rapid economic growth has continued for the seventh consecutive year, while the economies of the Western Balkans have become firmly integrated with the rest of Europe. Due to this economic integration of the Western Balkans with the economies of the EU, it seems highly unlikely that economic reforms could be reversed.

However, while most of the political and economic changes thus far seem irreversible, the real question remains whether the reform process can sustain itself and provide its own momentum. The challenge for the region at this juncture is how to move ahead. In principle, the opportunities and challenges of globalisation (including the risk of FDI moving elsewhere) should provide independent incentives for reform, while the growing openness of economies should strengthen institutions. Yet in reality, it is doubtful whether such incentives are powerful enough on their own to advance political and socio-economic transformations. While domestically driven constituencies for reform exist and are

perhaps becoming stronger, state institutions are too weak and markets too small to sustain such reforms without external assistance and pressure from the EU.

From the EU point of view there is also a concern about undermining the power of conditionality. Conditionality is reliant precisely on the threat of non-inclusion of aspiring candidates in the EU. The Union has also learned lessons with Romania and Bulgaria, which have been monitored more closely than the rest of the CEE. It is therefore going to be tougher in terms of enforcing its criteria and standards on the Western Balkan membership hopefuls.

One of the key questions in this respect is how to maintain the credibility of EU conditionality, and in particular how to increase its leverage, given the lack of progress on ICTY cooperation in Serbia, or on constitutional reforms in Bosnia-Herzegovina. The limited commitment on the part of the EU to membership for the Western Balkans (apart from Croatia) in the near future undermines the credibility of conditionality as a tool of EU foreign policy. At the same time, by creating a perception that the accession of the Western Balkans to the EU is inevitable and something to which the region is entitled, the Union risks undercutting its own power.

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ABOUT SEESOX

SEESOX South East European Studies @ OXFORD



South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the relationship between European integration and the politics, economics and societies of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality academic and policy-relevant research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within Oxford University (e.g. politics, international relations, law, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.

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