ECONOMIC DEVELOPMENT IN THE WESTERN BALKANS: ON THE ROAD TO COMPETITIVE MARKET ECONOMIES?

June 23-26, 2014 | Alt Madlitz

In cooperation with:

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Accommodation and conference venue: Gut Klostermühle, Mühlenstr. 11, 15518 Madlitz-Wilmersdorf (Alt Madlitz)

Monday, June 23, 2014

Arrival of participants during the day

20:00 Drinks reception and welcome dinner
Venue: Klostermühle Refektorium

Tuesday, June 24, 2014

09:00 – 09:15 **Welcoming remarks and opening of the conference**
Venue: Conference Room Theaterforum

Speakers: Rüdiger Lentz, *Executive Director, Aspen Institute Germany*
Dr. Ernst Reichel, *Envoy for South Eastern Europe, Turkey and the EFTA-States, German Federal Foreign Office*

09:15 – 10:30 **Session I:**
Current economic developments and short-term measures – first steps towards recovery?

Faced with high unemployment, a depressed domestic demand, low foreign direct investments, high fiscal deficits and public debt, the Western Balkan countries share the challenge of difficult economic situations. This session will therefore focus on the current economic situations in the countries and discuss the short-term steps that need to be taken by the governments of the region. What is the status of economic development? What has been achieved thus far? What are the main hindrances to economic development? Which short-term measures can be taken to reduce the high numbers of unemployment? Which sectors should governments focus on? How can new industry be developed? Should the governments invest more to support small and medium-sized businesses? To what extent can the privatization of state-owned companies contribute? How can privatization processes be improved to ensure a transparent and legal procedure? How can the governments work towards attracting more foreign direct investments? Which role can the Western Balkans Investment Framework play? How can governments tackle the issue of high fiscal deficits in the short-term?

Moderator: Rüdiger Lentz
Introductions: Bozidar Cerović, *Western Balkans: Late in Transition, Struck by Crisis, Slow in Recovery – Which Road to Take?*
Anto Domazet, *Current Economic Developments and Short-term Measures – First Steps Towards Recovery in Bosnia and Herzegovina*
Valbona Zeneli, *Current Economic Development and Short-term Measures – First Steps Towards Recovery?*

10:30 – 11:00 Coffee break

11:00 – 12:30 **Session II:**
Implementing structural reforms in the Western Balkan countries

There is a general agreement that the Western Balkan countries need to undergo structural reform processes in order to encourage sustainable economic stabilization and development. The EU in particular demands a strengthening of economic governance and competitiveness in order to comply with EU economic criteria. Which reforms are needed in order to increase productivity and competitiveness, and improve labor market conditions? What are the most pressing structural reforms the countries need to undergo? How can the investment climate in the countries be improved significantly in order to attract more foreign direct investments? How can unemployment be reduced efficiently? How can the high numbers of unemployment and the low domestic demand on the one hand, and the urgent need for an increase in state finances and fiscal consolidation on the other hand be balanced more efficiently? Is there a need to address the growth of the public sectors in many countries? How can the illicit business sector and corruption be tackled more efficiently? Is there a need to include the education system in the reform process and improve opportunities of vocational training to better prepare young people for their work life? How can rural development be improved?

Moderator: Dušan Reljić
Introductions: William Bartlett, *Implementing Structural Reforms in the Western Balkan Countries*
Ryszard Rapacki, *Implementing Structural Reforms in the Western Balkans Countries*
Milica Uvalić, *Structural Problems of the Western Balkan Economies*

12:30 – 13:30 Lunch
Venue: Klostermühle Refektorium

14:00 Departure to Berlin in front of Fischerhaus

15:30 – 16:30 **Meeting with Claudia Dörr-Voß, Head, Directorate-General for European Policy, Federal Ministry for Economic Affairs and Energy**
Venue: Federal Ministry for Economic Affairs and Energy

17:00 – 18:00 **Meeting with Prof. Dr. Rainer Lindner, Executive Director, Committee on Eastern European Economic Relations, and representatives of German companies**
Venue: Haus der Commerzbank, Pariser Platz 1, 10117 Berlin

18:00 – 19:00 **Welcome Reception of the 11th generation of the Zoran Djindjic Internship Programme of German Business organized by the Committee on Eastern European Economic Relations**
Venue: Haus der Commerzbank, Pariser Platz 1, 10117 Berlin

19:30 – 21:30 **Dinner with Members of the German Parliament**
Venue: Schmugglerscheune, Altes Zollhaus, Carl-Herz-Ufer 30, 10961 Berlin

Wednesday, June 25, 2014

09:00 – 10:30 **Session III:**
Regional economic cooperation – a key to economic growth?

Considering the size of the Western Balkan economies, regional economic integration is often considered key to economic growth. While countries have already created a free trade area and are all members of CEFTA, deeper economic integration in terms of liberalization of services and freedom of movement of workers is yet to be established. What role can deeper economic integration play in the economic development process of the Western Balkan countries? What are the risks and benefits? What are the next steps that should be taken regionally? What role can the Regional Cooperation Council (RCC) and its South East Europe 2020 Strategy play in fostering regional economic integration and development? Can the "Western Balkans Six"-approach provide additional support to the process? How can more political will for regional integration be developed? Is there a need to de-politicize regional cooperation?

Moderator:	Johanna Deimel
Introductions:	Predrag Bjelić, *Regional Economic Cooperation – A Key to Economic Growth?*
	Irena Kikerkova, *Administrative Barriers to Trade within CEFTA-2006*
	Silvana Mojsovska, *SEE 2020 Strategy's Challenges in Fostering Regional Economic Cooperation*
Expert Comment:	Erhan Turbedar

10:30 – 11:00 Coffee break

11:00 – 12:30 **Session IV:**
The backbone of economic development: strengthening infrastructure and energy security in the Western Balkans

Cross border transport, energy and communication networks play an important role with regard to regional economic development. What is the situation in the Western Balkans? Do underdeveloped transport, energy and communication networks constitute an additional obstacle to regional economic development? In which areas of regional infrastructure is improvement most needed? What role does the huge energy dependence on outside countries play regarding economic development? How can energy security at affordable prices be established? What would its impact be on economic development? Would economic growth exacerbate energy insecurity? What are the steps that need to be taken next? What role does corruption play when it comes to the development of transport, energy and communication networks?

Moderator: Andrea Despot
Introduction: Jens Bastian, *The Backbone of Economic Development: Strengthening Infrastructure and Energy Security*
Expert Comments: Yanni Papapanagiotou
Hubert Warsmann

12:30 – 14:00 Lunch

14:00 – 15:30 **Session V:**
EU economic instruments in the enlargement process – evaluation of the new approach

The European Commission's Enlargement Strategy 2013-2014 has identified economic governance and competitiveness as key challenges in the EU integration process. At the same time, not only Croatia as the youngest EU member, but also a series of further EU member states have difficulties complying with EU economic criteria. This session will therefore take a closer look at the EU's economic instruments in the enlargement process, in particular its new approach to help enlargement countries meet the economic criteria. What role can the ECOFIN Council play in implementing strategies aimed at economic growth? How effective are the Pre-Accession Economic Programs and the Economic and Fiscal Programs? What is to be expected from the EU's approach to introduce as a new element structural and competitiveness reform programs? What can further technical assistance by the Commission look like? How can additional administrative capacities in candidate and potential candidate countries be developed considering the already burdened public finances of these countries? What can the EU do to further support the RCC in implementing its SEE 2020 Strategy? In which areas in particular would the Western Balkan countries' governments expect additional support from the EU?

Moderator: Andrea Despot
Introductions: Dušan Reljić, *EU Economic Instruments in the Enlargement Process – Evaluation of the New Approach*
Mahmut Tekçe, *EU Economic Instruments in the Enlargement Process – Evaluation of the New Approach*

15:30 – 16:00 Coffee break

16:00 – 17:30 **Discussion with Dr. Carsten Enneper, acting State Secretary, Ministry for Economic and European Affairs of the Federal State of Brandenburg**

18:00 Barbecue on the shore of Madlitz lake

Thursday, June 26, 2014

Departure of participants during the day

Bartlett, William

Bastian, Jens

Baumann, Tobias

Bjelić, Predrag

Cerović, Božidar

Deimel, Johanna

Dervishaj, Sokol

Despot, Andrea

Domazet, Anto

Haas, Joachim

Hadžiahmetović, Azra

Harxhi, Edith

Kikerkova, Irena

Majstorović, Srđan

Meredith, Lawrence

Mojsovska, Silvana

Munk, Christian

Ninčić, Roksanda

Papapanagiotou, Yanni

Predojević, Bojan

Quiring, Anja

Radović, Snežana

Rapacki, Ryszard

Reichel, Ernst

Reljić, Dušan

Samofalov, Konstantin

Selimi, Petrit

Smith, Brian T.

Tekçe, Mahmut

Turbedar, Erhan

Uvalić, Milica

Warsmann, Hubert

Zeneli, Valbona

The Aspen Institute Germany

Esch, Valeska
Senior Program Officer

Jackson, David
Rapporteur

Kabus, Juliane
Program Assistant

Lentz, Rüdiger
Executive Director

Wittmann, Klaus
Senior Fellow

The Aspen Institute's conference 'Economic Development in the Western Balkans' took place in Alt Madlitz, just outside Berlin, between June 23–26. The event brought together 40 select decision-makers from Southeast Europe (SEE), Germany, Russia, the United States (U.S.), Turkey and the European Union (EU), with professional backgrounds in government, international and civil society organizations, academia, the security sector and foreign service. The conference was divided into five sessions, with the first diagnosing the current state of the economy in the region and the second session discussing which structural reforms are required to galvanize growth. The third session considered the potential of greater regional cooperation, while the fourth examined security and infrastructure development. The concluding session evaluated the EU's economic approach to the region.

Session I: Current economic developments and short-term measures – first steps towards recovery?

The session's opening statement underlined the importance of sound economic governance as an essential ingredient of development, a proposition that is often under-represented in international discourse, especially in relation to 'political matters.' The economy is central to politics, but the benefits of economic reform take time to be felt and so the reforms are often out of step with democratic politics: there are few democratic incentives to undertake economic reforms; therefore, it takes foresight as well brave statesmanship and leadership to make these reforms. It was also recommended that the EU should support structural economic reforms in Southeast Europe (SEE), even though it may generate unpopularity towards the EU.

Experts moved on to discuss the current state of the economies of the region. It was noted that transition is about finding a better institutional arrangement for the economy but the results – the Albanian case aside – seems to have been rather disappointing. Compounding this, the region has been disproportionately hit by the economic crisis due to high exposure to Greek banks and the fall in remittances from diasporas. The region has therefore witnessed a double-dip recession, with high youth unemployment particularly worrying. Economic security is a daily source of anxiety that people face, especially the specter of poverty: 30-40% of the population live under less than $5 a day. One expert explained that the region is suffering from demand-deficient unemployment caused by a general decrease in demand in the Eurozone economy.

Sky-high debt levels were also noted as a cause for concern. By the end of the 1980s, debts of 20bn dollars bankrupted Yugoslavia – the region is currently burdened by 90bn euro debt. Croatia's GDP is below that of 2009, and Slovenia has lost 10% of her GDP since the crisis. Even hitherto performing economies, like Kosovo, are reaching a plateau. The peculiarities of BiH were remarked upon, especially the dysfunctional central state that thwarts the necessary reforms. One expert from the region also highlighted how the floods of May 2014 had wiped off 15% of BiH's GDP, with almost 2bn euros in damages recorded.

Much of the economic dysfunction can be blamed on inadequate policies. One expert explained that after the first wave of reforms in the 2000s, there was room for some industrial policies but they simply did not happen – the window of opportunity was missed. Experts lamented the lack of innovation in the Balkans even though it borders constantly innovating economies. It was recommended that austerity may have been necessary but cannot be relied upon as viable long-term solution. Other analysts advised that there has been a misallocation of capital towards consumption and not to productive activities, and that foreign direct investments (FDIs) have been channeled into the markets and service sector and not areas of the economy that could help bring down the region's trade deficit. It was noted that this policy failure, especially in countries like BiH, strikes right at the heart of questions of government responsibility and authority. Indeed, one analyst suggested that the political instability is the main underlying problem for the economy: first and foremost on the agenda should be to build political stability within and between countries.

What opportunities can the region offer for outside investment? There was consensus that SEE is still attractive for foreign investors due to its geographic location and low labor costs. But some experts warned that this potential to attract investors is being undermined by the lack of skills in the labor market. There was unanimous agreement that education is key for the future but the contemporary challenge is the gap between what education systems prepare students for and what the market requires. Worryingly, education standards have been worsening in the last 20 years. Education budgets are diminishing and strategies for educational development are poor. Illiteracy is increasing in the region, especially in Albania, and scandals at universities, where diplomas can be often bought, are rife. A recent study in the region has revealed the desperate state of vocational training and how schools are woefully disconnected from businesses. Reform of the higher education system is critical – integrity should be a leading element of

that reform to counter the brain drain of the population. In Albania, 30% of the most productive segment of the population have left the country in the past decades. But brain drain could also be brain gain: diasporas could help fuel investment back into the region if conditions are right.

One expert advocated that there can be no quick fixes from the outside and recovery should come from internal resources. The EU cannot save the Balkans suggested another speaker; indeed, why should the reform of the Balkans by an EU priority? The answer advanced was that the SEE countries have candidate status, and therefore the EU should take care of the EU family and take steps to minimize regional disparities. The dire economic situation of SEE cannot be understood without reference to the declining EU economy. Remittances from EU countries have diminished and the initial growth in SEE was also due to large influx of foreign credit from the EU and a boom in consumer spending – this is all over now. One expert described the relationship between the EU and SEE in terms of a core-periphery dynamic: the core exports, the periphery consumes – in this respect, the Balkans is on the 'super periphery,' importing without exporting, a dynamic that serves to ratchet up trade imbalances. SEE governments are also generally impotent in the shadow of the Eurozone – they cannot devalue the economy because Balkans countries are highly euro-ized, for example. Many speakers suggested the main role of the EU should be to encourage greater investment in the region.

Session II: Implementing structural reforms in the Western Balkan countries

One speaker noted that there is a need for the 'visible hand of the state' to force economic change as the 'invisible hand' of the market has been ineffective. Many speakers called for these state-led changes to be focused on 're-industrialization.' Another expert summed up the difficulties of industrial policy: how to implement industrial policies in small countries with small markets in which the economic structure is dominated by small companies? One expert suggested that there are two alternative models of re-industrialization. The 'industrial zone' model – witnessed in Macedonia – which has been quite successful but is only limited in creating links to the wider economy; and the 'subsidy model' deployed in Serbia, in which important connections to the local economy have been generated but because it is based on government subsidies is rather unsustainable. Another expert suggested that a one-size fits all approach would not be appropriate. In fact, there are different varieties of capitalism, shaped by the different institutional orders in the countries of the region – better synergy between these institutions should be sought.

One speaker lamented that there seem to be few new tools available besides the well-established economic mantras. Another noted that the effect of structural change in the region has been distorted because FDI has been directed into services (transport, tourism) but a service-led economy has limited growth. Yet structural change has occurred: the notice period for workers is the same as in France, for example. Further, structural reforms are necessary in the private sector to support businesses.

Different answers emerged to the question: who should be the agents of change? The starting point was it should be the role of the state to think in the long term and to act strategically. But it was also noted that states in the SEE create rent-seeking environments and barriers to entry. States as agents are weak – due to clientelism there is constant turnover in the public administrations – and the judiciaries do not enforce contracts. Skills in government are also very low: how can we expect from 'dysfunctional elites' an industrial policy that is sustainable? Though the levels of corruption may be exaggerated it still hinders economic development. One expert explained how an informal system of double taxation – a time tax and bribe tax – raises entry costs by around 25% and puts investors off. Civil society can be an important agent, especially in overcoming the social and political divisions that plague countries. One speaker noted that it should be the spark for political reform: 'if people are suffering, they can demand reform.'

The capacity of the private sector to be an effective agent of change was examined. While more foreign direct investment was seen as central to growth, the wisdom of privatization was questioned. Privatization failures, for example in Albania in relation to electricity, were noted, as was the preponderance of FDI towards privatization. Over 70% of investments are related to the privatization process, while only 30% are directed to greenfield investments in the region. Of concern was an impending 'credit crunch' in the region. Private credit flows are drying up in the region. Many of the banks – Greek, Austrian and Slovenian – that are lending in the region face stress tests and will reign in their investments. Non-performing loans are a big problem but at the same time entrepreneurship is thwarted by high interest rates and an important conundrum is where the entrepreneurs of the region find the cash to develop ideas. According to participants, most of the lending that is taking place in the region is under the threshold of 5,000 euros. The region is dominated by micro-fi-

nance but the overarching micro-finance framework is not as effective as it should be. Important credit in the next few years will come from the European Investment Banks that will lend to small businesses – but this should be done within a tightened framework that coordinates lending. Some form of regional trade integration is also necessary because the countries of the region offer too small markets to compete globally. One expert highlighted how trade integration is not working: only 10% of trade happens regionally – an incidence way below potential. From the perspective of private investors, predictability is the 'name of the game'. A representative from a major company emphasized that decisions about investments turn on the likelihood of investment plans becoming a reality. Good governance is therefore essential. Others question whether predictability is really important as there were many investments in the region when it was supposedly 'unpredictable' in the early 2000s.

The discussion turned to the basic question of what kind of growth model would be most effective. One speaker explained how Kosovo has experienced 4-5 percent growth for past six years via a 'Keynesian' model of heavy investments in infrastructure. In BiH, a mixed model that emphasizes both private investments and an active role of state in the economy has had mixed results. There is a need for market rules even for state-owned economies. Sectoral focus is important: rather than talking about the business environment in general, each sector should be assessed and treated on its own terms.

Unfavorable comparisons were made with central and eastern European (CEE) countries. Not only are reforms starting ten years later than in central Europe but in SEE there is also an absence of social cohesion and the economies are far less integrated into western Europe than the CEE economies. Unlike in SEE, the structure of FDI in CEE is geared towards manufacturing. In fact, SEE economies produce much less, export fewer goods and the phenomenon of out of work and out of training young people is far higher than in the CEE.

Session III: Regional economic cooperation

The session began with the recognition that the break-up of Yugoslavia prompted the dissolution of a common economic space in SEE. Yet, one expert suggested the creation of CEFTA-2006 has been essential in reestablishing economic cooperation among the Western Balkan countries. The free trade area has refreshed the exchange of goods and provided respect for international standards of regulation. In many respects, CEFTA is where SEE countries practice how to become members of the European Union. Participants also stressed that the full potential of CEFTA has not been realized. Part of the problem is the continual existence of a number of open and hidden non-trade barriers. For example, all of the CEFTA member states still have to deal with the lack of contemporary border infrastructure, adequate customs laboratory equipment, as well as properly established operational and interconnected IT systems. A lack of experienced customs personnel is an also issue – Yugoslavia had better trained custom officers. Politics also plays a role. Most of the problems concerning CEFTA-2006 trade facilitation process are a result of the low political will and negotiating potential of the member states. It was also noted that CEFTA is being undermined when states such as Croatia accede to the EU.

Participants recommended increasing regional coordination. It was noted that regional cooperation is a cornerstone of the EU's policy framework for the Western Balkans. In this respect, the regional cooperation could be perceived solely as a precondition for further pursuing the process of EU integration of the SEE countries. One expert highlighted how the Regional Cooperation Council (RCC) is a focal point for regional cooperation in SEE and its key role is to generate and coordinate developmental projects of a wider, regional character, to the benefit of each individual participant, and create an appropriate political climate susceptible to their implementation.

However, speakers noted that politicization could scupper the real-world impact of integration. Analysts suggested that integration has been a mostly politically driven process under the auspices of the EU; the political commitment of the SEE countries to the regional integration has been ensured externally, something that masks political differences between SEE countries. The SEE 2020 Strategy aims to turn back the losses of the past five years – the right balance between "operationalization" and "politicization" must be found. One expert suggested that the financial crisis has offered a window of opportunity: for the first time the politicians of the region have begun to seriously discuss the economy.

Experts noted that SEE countries are part of a complex of overlapping trade regimes – Russia and China also have regulated trade regimes with SEE countries – but the problem is that countries cannot capitalize on these trade regimes. Another dilemma is emerging: what happens to these regimes as SEE countries move closer to the EU, which regime stays in place? It was also pointed out that the prospect of EU accession actually poses a threat to regional integration as it encourages synchronicity with Brussels but not the other SEE countries. One expert

demonstrated that SEE is integrated into the EU but the relation is asymmetric: year on year SEE countries record trade deficits with the EU.

Session IV: Strengthening infrastructure and energy security

The session started off with an expert highlighting three important developments in relation to energy in the SEE. The first is that Gazprom's actions in the Ukraine – the suspension of supplies and the demand for payments upfront – illustrates what lies in wait for energy security of the region. Countries in SEE that are dependent on outsiders for energy may face a 'rude wakening' especially for those countries that have had payment problems. The second is the rising importance of political forces in shaping energy supply. Illustrating this are recent calls by Germany and Poland for a European Energy Union, including a single market for energy. This will be top of the agenda over the next few years, even though it may not become a reality in the near future. Finally, the region is witnessing much needed energy cooperation, including the pooling of resources. Such cooperation should continue: Kosovo, for example, has the second largest supply of coal in the world but it needs the help of its regional partners to 'cash in'.

The mode of infrastructure development was discussed. It was noted that private-public partnerships (PPPs) are increasingly important in the region. Many of these partnerships involve countries – Russia, China and Qatar especially – co-funding major infrastructure projects with governments. One expert was not optimistic about the long-term effect of these kinds of investments. For one thing, it creates confusion as these investors want to invest in what they want – not national priorities. These PPPs are also expensive, creating a tax burden for citizens; they are inefficiently implemented; and they often fail to alleviate unemployment because they often use outside labor. Quite possibly, these PPPs represent a 'new disease' in the region.

The financing of infrastructure is a complex picture: there is an internal dimension and external dimension, as well as 'budgetary' constraints. Generally, financing is an issue as there is not enough money available for all the required projects. The EU could do more in this regard. Energy supply can also determine the scope of states' fiscal capacity. One expert suggested that Gazprom's principal of asking for timely payments is legitimate; while another suggested that this puts a fiscal straitjacket on countries – the Ukraine has to access international credit to pay for gas, for example. There was a consensus that energy security is essential for further economic development. Analysts also recommended that there has to be a discussion about how to keep prices to affordable levels and stressed that major infrastructure projects can have social effects, causing, for example, the price of land to rise.

The infrastructure for the supply of gas was discussed. It was noted that Gazprom faces challenges, as it owns the gas but not the pipelines in Europe. Projects diversifying supply, such as TAP, are increasingly prominent in the region but some of these projects face technical difficulties. The issue is often not financing; the issue is to what degree the relevant SEE countries have technical expertise to, for example, establish zoning maps or to verify property regimes. One expert suggested that the Balkans is caught up in a global energy controversy, which means SEE countries are locked in 'double bind.' On the one hand, they are looking to the east for resources, but are bound politically and economically to the west. The dilemma of being caught between these two poles is difficult to resolve.

Session V: Economic instruments in the enlargement process

The session began with an acknowledgement that the EU has changed its toolbox but it is too early to tell whether the EU's new economic approach to the region has been successful. It was stressed that a new approach has been necessary. An analyst suggested that the region is 'really stuck.' Most young people in the region are living with fewer opportunities than their parents, and human security and welfare nets are fragile. An expert advised that all economic reforms aim to accelerate progress to the EU but this can cause dislocation and make people worse off – with such a development, the EU's legitimacy becomes questionable. The reality on the ground is that people are suffering and that the mantra of constant reform is becoming tired. Moreover, a model of 'off-key' political behavior is plaguing the region. There has been an 'Orbán-ization' of politics: the aggressive, ruthless, anti-EU politics of Hungary's Prime Minister is being imitated by SEE leaders and this kind of politics is out of step with the EU norm.

One speaker voiced the concern that SEE countries will start to drift away from the main goal of quick entry into the EU. Economic insecurity is a cause of the drift: Serbia is partnering with Chinese investors to build bridges, motorways and power stations in the country precisely due to the poor state of the economy. Another speaker suggested that the EU should stop restricting SEE: 'why shouldn't we find partners in different parts of the world?'

In fact, the difficulty of detecting the EU's economic impact brings into question the credibility of the EU. At the same time, the EU are increasingly involved in evaluating micro-processes in the region – a new kind of intervention that should be implemented with care and sensitivity to the political environment. This new EU economic governance is reflected in a more 'hands on' approach that aims to avoid a 'Greek-style surprise'. One expert suggested that SEE politicians are generally disengaged from the EU accession process: they tend to receive 'orders' from the EU without engaging with viability of the content or even explaining the rationale of adoption to the public. The EU was also criticized for not always allowing for flexibility in relation to the accession process.

From the perspective of Turkey, it feels like the EU is putting the country in a holding pen. The EU's credibility in Turkey is dissipating, while Turkish nationalism is one the rise and can make people believe in misleading things, especially an over-estimation of the nation's power. During the economic crisis, the reflex in Turkey was to blame the EU. It was also noted that Turkey is increasingly active in the SEE region, notably in education institutions and infrastructure. It was explained that Turkey is taking the role abdicated by Greece, diplomatically and economically. Others suggested that Turkey's involvement in SEE has largely failed.

A government official from the region noted that even though the appeal of the EU is damaged, the transformative power of the EU is still felt in the region. The EU model is still the one to which SEE countries want to adjust. Analysts warned of a potential doomsday scenario of the SEE plunging into further economic crisis, at the same time as the EU becomes tired of the region, especially as the issue of security no longer seems so pressing. High public debts as well as massive trade deficits means SEE is sending far more capital back to the center than they receive in return, something that could foreshadow a Greek-style economic collapse.

One analyst suggested SEE countries do not have a free choice to join the EU as they are 'encircled' by the EU. The perspective from Brussels was that the EU does make demands but aims to support choices made by the governments of the region. The view was that SEE countries do not have the right frameworks to withstand market pressures, so the EU, rather than standing on the side-lines, is attempting to guide SEE countries to help them sequence the reforms effectively. One expert suggested that technical guidance from the EU should focus on increasing absorption capacities of EU funds. In this regard, dramatic improvements are possible. The EU commission task force in Greece has helped the authorities there to radically improve their administration. Greater flexibility in designing where EU funds may be allocated would also help SEE countries. Still, the EU should be concerned about its appeal. One expert explained that the EU is about two promises – security and economic development – both of which seem hardly credible after the events in Ukraine and Greece. At the same time, there was a strong recognition that the crisis of the EU will be solved not only in Brussels, but in all the countries of Europe – including those of the Western Balkans.

The Aspen Institute | Germany

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Ana Trišić-Babić
Deputy Foreign Minister of Bosnia and Herzegovina

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Deputy Prime Minister of Kosovo

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Michael Brand
Member of the German Parliament

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Marieluise Beck
Member of the German Parliament

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President, Belgrade Fund for Political Excellence