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## **ASPEN WORKING GROUP SOUTHEAST EUROPE**

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**December 1-2, 2014 | Berlin**

In cooperation with:



Auswärtiges Amt

The Aspen Institute Germany wishes sincerely to thank the German Federal Foreign Office for its sponsorship of the Aspen Southeast Europe Program 2014 through the Stability Pact for South Eastern Europe.

## **December 1, 2014**

*Arrival of the participants during the day*

**20:00**

### **Welcome Dinner**

Remarks: Rüdiger Lentz, *Executive Director, Aspen Institute Germany*  
Peter Beyer, *Member of the German Parliament*

## **December 2, 2014**

### **Working Group**

*Venue: Savoy Hotel Berlin, Fasanenstraße 9, 10623 Berlin*

**09:30 – 11:00**

### **Economic Development**

**11:00 – 11:30**

Coffee break

**11:30 – 13:00**

### **Rule of Law**

**13:00 – 14:00**

Lunch

**14:00 – 15:00**

### **How to solve the remaining problems? Identifying the next steps**

**15:00 – 16:30**

### **Preparation of presentation**

**16:30**

Coffee

### **Public Event**

*Venue: China Club Berlin, Behrenstraße 72, 10117 Berlin*

**19:00**

### **Presentation of Results**

#### **Panel Discussion**

#### **Economic Reform and Strengthening the Rule of Law – a Panacea for a Stalling EU Integration Process?**

Speakers: Simon Mordue, *Director for Enlargement Policy, DG Enlargement, European Commission*  
Prof. Alina Mungiu-Pippidi, *Professor of Democracy Studies, Hertie School of Governance*  
Anja Quiring, *Regional Director for Southeast Europe, Committee on Eastern European Economic Relations*  
Ambassador Dr. Ernst Reichel, *Special Envoy for Southeast Europe, Turkey, and the EFTA States, German Federal Foreign Office*

Sokol Dervishaj

Tobias Flessenkemper

Josip Juratović

Amer Kapetanović

Srdjan Majstorović

Christiana Markert

Aleksandar Andrija Pejović

Anja Quiring

Manuel Sarrazin

Hans-Ulrich Südbeck

Bodo Weber

**Aspen Institute Germany**

Valeska Esch  
*Senior Program Officer*

David Jackson  
*Rapporteur*

Juliane Kabus  
*Program Assistant*

Rüdiger Lentz  
*Executive Director*

## Report

The Aspen Institute's Working Group on Southeast Europe' was convened in Berlin on December 3, 2014. The meeting brought together four select decision-makers from Southeast Europe (SEE), as well as government officials and politicians of the Federal Republic of Germany. The workshop focused on two main areas: the economic situation and the rule of law.

### Economic situation

A question was posed to the representatives of the region: where do we stand on the economy? In general, a rather gloomy picture was presented by participants. All countries in the region have suffered from recession, the effects of which are still keenly felt – but there are still some reasons for optimism. In Montenegro, the country has not been in recession for two years and a 3.3 percent growth rate is predicted for this year. Though capacity and investments in the industrial sector have been diminishing, substantial funds continue to flow into the tourism sector – in fact, Montenegro is a regional leader for foreign direct investment (FDI) per capita. An important reason for this has been the EU integration process which has raised economic governance standards and helped cut 'red tape'. The new approach of the European Commission focusing on small and medium-sized enterprises (SMEs) has also been beneficial. A regional representative stressed that in general the EU-led economic governance reform has been central in shaping a more helpful economic environment in Montenegro. Unemployment in the country has remained at critically high levels, but unlike the other SEE countries, Montenegro has been a net importer of labor, especially for tourism and construction.

Neighboring Serbia continues to suffer from recession, high public debt and widespread unemployment. Full implementation of structural reforms remains the biggest challenge for the economy. A more flexible labor market and a stronger economic rule of law should be priorities. Education reform is also vital; in the meantime, initiatives involving the provision of vocational training by German companies should continue. Certain steps have been made in the right direction to improve the economic environment: entry and exit barriers into the market have been lowered; a new planning and construction law has been introduced; a new loan with the IMF has been agreed; and fiscal policy reforms have reduced public debt. Though reforms are necessary, a specialist highlighted that further reforms may provoke social instability: additional privatization of the public

sector may see up to 70,000 to 90,000 people lose their jobs, for example.

While trade is mostly directed towards CEFTA countries and the EU, and EU investors remain important for the economy, especially Germany and Italy, investors from outside the EU have been increasingly in the foreground in Serbia, especially China, the United Arab Emirates, and Turkey. Serbia cannot be 'picky' when it comes to choosing the 'color of the money', though it was stressed that these investments also must adhere to the general spirit of EU economic governance. It was also noted that Serbia is not becoming a re-exporter of Russian goods – in fact, Serbia's exports to Russia have been decreasing. Even though a difficult economic situation has meant that social issues are far higher on the public agenda than EU integration, support for the EU has been consistently quite strong. According to a national expert, Serbian public opinion has been quite rational in relation to EU accession and there has been a realization that accession is probably necessary for improving the economic well-being of citizens.

The situation in Bosnia and Herzegovina (BiH) has been desperate. Economic growth has been non-existent and youth unemployment stands at 60 percent. BiH is a 'low trust' society: people simply do not believe in the politicians and state institutions, and identities are not civic but based on religion or ethnicity. Such low trust makes reforms extremely difficult – BiH has done nothing to reform the employment sector, for example. Public enterprises have been very poorly managed as most have been misused by politicians for political purposes – companies should be reconstructed with a privatization perspective. Though foreign debt in BiH has been low, there is a high budget deficit and the business climate is very poor. Critical issues should be immediately addressed by the government and the EU's Compact for Growth should orient reforms. Specialists stressed that decreasing the high tax burden on employment, and finding a balance between workers rights and employer flexibility, especially in public sector, should be priorities.

Experts judged the British-German initiative for BiH as having a fifty-fifty chance of success; these are higher odds than last year because 'business cannot continue as usual' especially with riots on the street. Non-EU investors have been playing a helpful role in BiH. For example, Turkey has established a 100m Euro fund that grants small credits (normally 100,000 Euros) to SMEs at low rates of interest and with a grace period of ten years. China has won the contract to build a power station in Tulsa. Amidst the pessimism, it was stressed that BiH has an important

source of economic potential: renewable energy. As the only country in region that exports electricity, there is huge promise in developing this sector. Small-scale bio-food production in BiH could also be a basis for growth – ‘thinking small’ could be as important as large-scale infrastructure projects.

Though Albania has been particularly exposed to downturns in the Greek and Italian economies, growth of around 2.5 percent is expected for next year. Looking further ahead, it was noted that a maritime perspective could also provide potential for economic growth.

Despite a mixed picture overall for the region, issues relevant to all countries emerged during the course of the discussion. All speakers agreed: without economic growth, there can be no progress with rule of law and public administration. Infrastructure improvement is also essential for the future economic health of the region, and the EU’s Western Balkan investment framework should become an important flexible framework to secure the right kind of investments. Crucial infrastructure investments are not only held back by deficiencies in the region, such as poor absorption capacity and small markets, it was also noted that the EU have not been as helpful as they could be in reducing interest rates. One participant highlighted how low levels of infrastructure investment and cooperation is an ‘old story’ – these are not technical issues but depend on favorable political dynamics. Investment is necessary for social stability: austerity measures need to be accompanied with economic help for businesses and citizens.

Participants agreed that the countries of the region do not have the means to deal with the pressures of globalization alone; yet, together the countries can compete in the global market. Greater cooperation therefore is necessary: the ‘Berlin Conference’ of August 2014 was an important opportunity for renewed cooperation, but one participant doubted whether there are sufficient administrative and political mechanisms for the countries to work together.

A clear EU perspective is especially important for the younger generation. Regional representatives suggested that both EU and regional integration need to proceed simultaneously. It was also stressed that joining the EU is no panacea – Croatia’s governance has become disoriented after joining the EU. Policy synergy with other international organizations, especially the IMF and World Bank is important. The European Bank for Reconstruction and Development has become an important player under the new European Commission and is predicted to play an important role in the region. A frank and comprehensive

study comparing the implementation costs of a fully-fledged accession of SEE to the benefits of ‘gaining’ the region (and not losing it to other geo-political powers) could convince actors unenthusiastic about enlargement.

There was widespread consensus that education systems in the region are not ‘fit for purpose.’ Newly emerging areas of the economy, especially in the service sector, have not been served by the education system. Skills are lacking across the board; better vocational training is essential. Privatization has been a troubling process throughout the region. Often the reform of public enterprises has not been an economic policy but about the political control of society, meaning skill levels in the workforce have deteriorated. One expert stressed there is a need to ‘create spaces where the state has no say.’ Civil society led exchanges for young people could be part of these new dimensions of public life, independent of governments and ideally set in a broader European framework.

#### **Rule of law**

Albania has a long way before reaching EU rule of law standards – but the current government has been certainly committed. The most recent Albanian National Security Strategy has identified organized crime and corruption as the two main risks for Albanian society.

One participant emphasized that the rule of law situation in BiH is blighted by the Dayton constitution imposed by international community. The political system has been designed according to ethnic rights and not human rights; consequently individual civic rights cannot take root in BiH – an overhaul of the system may be necessary. Divisions across ethnic lines have been made worse as politicians continue to prey on the fear of individuals to presents themselves as ‘strong’ ethnic representatives. Even stealing for your ethnic group seems to be tolerated. The anti-corruption agenda has become instrumentalized in BiH, creating opportunities for politically driven corruption cases. Anti-corruption has also somehow polluted perceptions of the political class; now the view is once a politician, by default a criminal. Efforts should concentrate on finding ways to generate sincere corruption cases.

It was noted that the international community has created a highly independent judiciary in BiH that in practice has become substantially corrupt. Judicial sector reform is critical in BiH: new rules in selecting judges and prosecutors, allied to better training is ab-

solutely necessary. With such low trust in politicians and other state institutions, the judiciary remains the last bastion of the rule of law; yet if trust is lost in the judiciary, then the state will be devoid of legitimacy and chaos will ensue. One recommendation made is for the SEE governments to follow the ‘open governance’ agenda as complete transparency of action can really help build trust with citizens.

The Serbian government is completely dedicated to the rule of law reform according to one participant. Independent institutions, such as the Ombudsperson and state auditors, have been active and visible in public life, and ultimately central to steering rule of law reform in the right direction. These kinds of accountability mechanisms should be further encouraged as part of the EU accession process. Serbia’s freedom of media environment has been enhanced through three new legislative acts. The holding of a LGBT pride parade in Belgrade represents a step forward for minority rights. Regional cooperation with regards to the war crime investigations has been a positive development. Still, organized crime remains a real problem and anti-corruption reforms must become more successful in the region. Overall it was stressed that though forward steps have been made in Serbia, there is still a lack of institutional and financial capacity to implement all rule of law aspects involved in EU accession.

Montenegro has been the ‘test case’ for the EU’s new approach to the rule of law. ‘Highly demanding’ sums up the workload required in this area; often, half of all work is spent on these areas, other areas may well feel neglected. Montenegro’s experience reveals that certain elements are very important for other countries, especially efficient administrative structures, the careful tracking of judicial processes and upgrading human capital in the system.

One expert suggested making a distinction between the symptoms and the structural causes of the more undesirable aspects of the rule of law in the SEE. Countries are actually quite impressive in dealing with the symptoms – local police forces cooperate over organized crime, for example. Acquiring tools and techniques to deal with crime or make the judiciary more efficient will not ultimately overcome the structural limitations of rule of law reform related to the values underpinning society. The real problem is that liberal values are too absent from rule of law reform processes and people have vested interests in illiberal networks. Reform will be inherently circumscribed therefore, unless there is a focus on transforming the values underpinning society, and not just on new tools and measures.

Another participant stressed that democratic values should play a larger role in the region. Political elites who speak of EU integration do not encourage a liberal society: political parties are undemocratic, media freedoms are often restricted, and there is very little democratic consciousness. Democratic enhancements are necessary so that the EU has an active parliament and vocal civil society with which to partner.

The ways in which judges are selected is very important and must be improved. In Macedonia and BiH, slowing EU accession has contributed to a weakening of the judicial sector. In fact, one participant noted how since the international judges pulled out of BiH, the judicial sector’s independence has deteriorated and judicial councils have become too self-interested and ‘independent of reality.’

‘Strategic patience’ is needed in Brussels, especially as sources of regional tension still remain. But it was advised that the EU should do more to sanction irresponsible political behavior. And although it has been unhelpful that the EU is pushing standards that are not always met in member states (e.g over LGBT rights), participants stressed that EU integration is about changing attitudes and creating common trust – it is here where future success or failure will be determined. The message from the region to the EU is this: ‘do not be afraid to complete the job of integration.’ A clear timeline is also necessary to focus efforts. Participants also recognized that integration will continue to be a messy, non-linear process but progress made by SEE states should be clearly communicated to wider European community: ten years ago the EU were paying for peacekeepers in the region, now the whole of Europe is benefiting from cooperation with SEE region, a place where the EU’s founding values of peace and solidarity have been revitalized in recent years.

*Report by David Jackson, Doctoral Researcher,  
Berlin Graduate School of Transnational Studies/  
Social Science Centre Berlin*

## Public Presentation of Results

### Introduction

The Euroatlantic integration of the Western Balkans is the completion of the already existing integration process, which promises stability for Europe as a whole.

Reforms made on the way to EU accession are for the own countries' populations, especially for the perspective of the younger generations – the region has made its choice and the EU needs to be credible about its commitment.

The reform process needs a clear timeline which reflects the political will of the EU to move forward and by doing so gives the younger generation a credible perspective.

One should not only think about the cost of integrating the Western Balkans but about how much both sides are already benefiting from existing forms of integration:

- EU trade
- Energy Community
- Future transport community

### Economic development

Countries of the region are experiencing a prolonged economic and financial crisis, which negatively influences the reform process.

The countries need more investments to boost growth and improve transport and energy connectivity in the region and abolish remaining obstacles to free trade in the region.

Public sector needs to become more efficient and more adjusted to the EU rules and procedures to reduce state influence on the economy.

The region needs structural reforms in the education sector, pension system, public finance, and labor.

The EU is already a major economic partner of the region and the reform process of further integration can help improve the investment climate.

There already is a number of German companies in the region that have made positive experiences, people can learn from them about the region.

### Rule of law

Economic progress and growth and the implementation of rule of law are closely linked.

The region has been undergoing fundamental reforms in the field of rule of law within the EU integration process.

Rule of law is the basis for the success of reforms, in particular economic reforms, social justice and security, and attracting FDI.

The key reform policies are ensuring judicial reform and fighting corruption and organized crime.

These areas reflect already the new approach of the EU accession process and the already existing regional cooperation.

A major challenge is the independence and accountability of the judiciary and professionalization of administration.

Neither of these sectoral reforms can succeed without reforms in other areas that guarantee good governance and a functioning democratic system, for example independent media, a strong parliament and civil society.

### Outlook

There are enhanced mechanisms of cooperation in the region, especially on rule of law, economic development and infrastructure investments (connectivity).

We have learned from our past mistakes and are today working together on our mutual interest and a common future.

To back up the reform process of the Western Balkan countries, decision makers in the region not only need the public support of their own electorates but also the public support of EU member states to give the process credibility.



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