

## **Reaching out to the Balkans in Times of Crisis: Report**

At a critical juncture for the Western Balkans region, the Hellenic Foundation for European and Foreign Policy (ELIAMEP) in cooperation with the Woodrow Wilson Center for Scholars (Washington D.C.) organized a 2-day conference in Athens hosting several prominent officials, academics and policy practitioners from the US, Europe and the Western Balkans. The purpose of this conference was two-fold: to identify, analyze and find ways to overcome the region's most outstanding challenges and consequently to foster stronger cooperation and coordination between the European Union and the United States on the Western Balkans. The conference was divided in four discussion panels which focused on the following issues respectively: 1) the dynamics of the region's most outstanding disputes; namely Kosovo's status, the situation in Bosnia and the dispute between Greece and FYROM over the latter's name, 2) the current economic situation in the Western Balkans after the outbreak of the global and later Greece's financial crisis, 3) the role of some key international actors in the region (such as the EU, NATO, US, IMF, Russia as well as Turkey) and finally 4) the impediments towards the Western Balkans states' European future and the necessary strategies that need to be found and implemented in order to facilitate and accelerate their Euro-Atlantic integration.

**In the first discussion panel**, which was moderated by **Ambassador (ret.) Alexandros Mallias** and was titled **“An overview of Outstanding Issues in the Balkans”**, the main speakers were: Mr. Oliver Ivanovic (State Secretary in the Serbian Ministry for Kosovo and Metojija), Mr. Ylber Hysa (Government Coordinator for North Kosovo in Prishtina), Mr. Vladimir Todoric ( Executive Director of the Center for New Policy and member of the Foreign Policy Council of the Serbian Ministry for Foreign Affairs) and finally Prof. Ljubomir Frckoski (Faculty of Law, St. Cyril and Methodius University). The overwhelming focus of this panel was given on the recent developments and dynamics of Kosovo's unresolved status, especially after the ICJ's opinion on that issue on 22 July 2010 and the forthcoming direct Serbia-Kosovo negotiations mediated by the EU. Emphasis was also given on the fact that public opinion is not a contributing factor in resolving the region's disputes and/or is used by local leaders as an excuse for avoiding diplomatic settlements.

**Mr. Ivanovic's** speech focused on the forthcoming direct dialogue between Belgrade and Prishtina. He argued that the starting time and the agenda of the negotiations remain still unclear. He put forward the proposal that the negotiations should start from relatively “easy” topics (e.g. the cooperation of the two sides on issues such as the missing persons, refugees' return, energy, transports and communication as well as CEFTA) which will create a better atmosphere among the 2 sides. The effort to reduce Kosovo's unemployment should also be included in the agenda since it affects the lives of both Albanians and Serbs and may lead to social protest. **As far as the outcome of the negotiations is concerned, Mr. Ivanovic believes that it should neither hurt Serbia nor Kosovo. In his view, however, Serbia will never recognize Kosovo's independence while the situation in North Kosovo should be solved** since four Serbian-dominated municipalities will never recognize Prishtina's authority over them. As far as the forthcoming parliamentary elections in Kosovo are concerned (December 2010) Mr. Ivanovic stated that Serbia will continue its firm position and will not support them while he criticized the Serbs who plan to participate. Mr. Ivanovic concluded his speech by arguing that Serbia has

critical interests in reaching an agreement with Kosovo since it cannot otherwise combat corruption and organized crime, which are nurtured by Kosovo's unresolved status.

The floor was then given to **Mr. Hysa** who analyzed the situation in Kosovo after its declaration of independence and Kosovo's agenda in the forthcoming negotiations with Serbia. In his view, Kosovo's independence (despite estimations on the opposite) has been a stabilizing factor in the Balkans. However, he argued, Kosovo has the potential to become a frozen conflict, stressing that Kosovo is the only state in the region that has not signed an SAA with the EU, does not belong to NATO'S Partnership for Peace Program or has a visa liberalization status. Therefore, there is a need for Kosovo to move beyond the current situation. As far as the negotiations with Serbia are concerned, Mr. Hysa argued that the negotiations should lead towards Kosovo's final historical chapter: **the de jure recognition of its independence by Serbia**. He underlined that the three cornerstones that have shaped the Balkans during the last 15 years (Dayton Accords, Ohrid Agreement and the Ahtisaari Plan) should be challenged by neither side. The situation in Northern Kosovo, according to Mr. Hysa, remains an outstanding issue. In his view, the scenarios of its potential secession from Kosovo can be extremely destabilizing for the Balkans leading to chain reactions in the region. Mr. Hysa concluded by arguing that Kosovo and Serbia should share a common vision: their future in the Euro-Atlantic institutions.

The next speaker, **Mr. Todoric**, elaborated on Serbia's policy after Kosovo's declaration of independence and tried to clarify Serbia's goals in its negotiations with Kosovo. In his view, the Serbian response after Kosovo's declaration of independence can be divided into four stages: 1) diplomatic self-isolation which lasted until May 2008, 2) a more creative phase where Serbia tried to improve its relations with the other Balkan states, the EU and the US, 3) a legalistic approach which ended this summer after the ICJ's opinion on Kosovo's status and 4) the current stage, where Serbia is still looking for a new policy and rhetoric. The decision of both sides to negotiate was not, according to Mr. Todoric, a result of external pressures but an outcome of both sides' dissatisfaction with the current situation. The ICJ's opinion has left both sides unhappy, Mr. Todoric continued, because Serbia did not get what it expected while at the same time it was bad for Kosovo because it was not followed by a rush of international recognitions of the latter's independence. Because of the forthcoming elections in Kosovo and possibly in Serbia in 2011, Mr. Todoric estimated that the start of negotiations will probably take some time. In his opinion, Serbia will join the negotiations having three important limitations: 1) its Constitution that forbids the recognition of Kosovo's independence, 2) its public opinion and 3) the different status of the Kosovo Serbs living in Northern Kosovo compared to those living in several enclaves. Even though there can be many possible outcomes in the negotiations, **Mr. Todoric estimated that Serbia is not willing to go for a de jure solution. Instead, he continued, it will go for an intermediate solution.** Finally, Mr. Todoric analyzed the current situation in Bosnia arguing that the international community needs to accept Bosnia's fragile inter-communal relations and consequently not try to change the status of Republika Srpska.

The final speaker, **Prof. Frckoski**, gave particular attention to the **negative role of populism**, which is widely used by almost all the Balkan political elites, in

managing the region's disputes. As a result, Prof. Frckoski was rather pessimistic on the prospects of the region's states to solve their bilateral disputes.

In the ensuing discussion, the majority of our Kosovo Albanian participants rejected the Serbian claims that the Kosovo Serbs in Northern Kosovo should be treated differently, arguing that a possible secession could destabilize the whole region. Additionally, further emphasis was given on the negative role of public opinion in solving the region's disputes. It has been widely agreed that public opinion works as an obstacle or/and it is used as an excuse and that a new narrative is needed that will change the public opinion's dynamics. The first panel was concluded with Amb. Mallias' brief analysis. He argued that the EU's mediation in the negotiations between Serbia and Kosovo reflects not only its return to the region as a soft but also as a hard power. In his view, both sides' aspirations to eventually join the EU are still the strongest incentive for moderation, understanding and change.

**In the second discussion panel**, which was moderated by **Ms. Hedvig Morvai-Horvat** (Executive Director, European Fund for the Balkans) and was titled "**Confronting the Economic Crisis in the Balkans**", the main speakers were: Dr. Vladimir Gligorov (Lecturer at the University of Vienna and Researcher at the Vienna Institute of International Economic Studies) and Dr. Jens Bastian (Visiting Southeast Fellow at the Saint Antony's College, University of Oxford and ELIAMEP's Senior Research Fellow). The speakers elaborated on the current economic situation in the Balkans, especially after the outbreak of the global and Greek financial crisis, and put forward several proposals they considered necessary in order to overcome the current economic deadlock.

After describing the problematic growth model of the Balkan economies during the last decade, **Dr Gligorov** analyzed the consequences of the global financial crisis in the region's economies and argued on what needs to be done in order for the Balkans to have a more sustainable economic growth in the future. The Balkans' fragile economic growth model of the last 10 years, according to Dr. Gligorov, has had the following characteristics: 1) it was based on extreme foreign borrowing that led to trade deficits, 2) it was consumption-driven and 3) the labor market (despite the GDP growth) was significantly compressed. The global financial crisis, Mr. Gligorov continued, has left the Balkan states unable to attract foreign financing which has been crucial for the sustainability of their economies. As a result, most of the Balkan economies have been facing negative economic growth over the last 2 years, stagnating or even declining incomes and increased unemployment. Dr. Gligorov predicted that the Balkan economies will remain in the medium-term (at least for the next 2-3 years) stagnant, mostly because of the lack of foreign financing. **The political and social consequences of this bleak situation are yet to be seen.** In his view, Serbia and Croatia are the countries where the social protest will be more intense, possibly sacking the current governments. As an exit strategy of the economic recession, Dr. Gligorov pointed out the need for: 1) large-scale inter-regional infrastructure projects (despite the current fiscal limitations and the lack of will among the Balkans' political and economic elites for regional cooperation) and 2) attracting FDI, especially from Germany. Finally, he questioned Turkey's intentions and abilities to become a critical economic power in the region.

The floor was then given to **Dr. Bastian** who claimed that nowadays politics have become an asset for the region while the economy has become a liability.

However, the economic recession will negatively affect the progress made in the political sphere. The economic recession has, according to Dr. Bastian, delayed or even stopped the region's catching-up with the rest of Europe. During the last two years most of the Balkan economies have witnessed, Dr. Bastian continued, negative economic growth, declining job prospects, extreme austerity measures and decline of FDI. As a result of the economic recession, almost every country in the region is currently under external financial assistance programs (from the IMF's 18 rescue programs, 8 of them concern the SEE region). Additionally, he argued, the consequences of the Greek crisis in the region have so far been contained. This situation, however, might change in the immediate future since Greece is no longer the region's major investor while we should expect a significant decline of Greek capital flows and FDI in the Balkans as well as of remittances from immigrants living in Greece. The Balkan states have responded to this crisis by trying to reduce their foreign currency credit growth, depreciating their currency (with both positive and negative consequences) and by pressing their commercial banks to adopt a more conservative approach in their lending strategy (since they have accumulated a significant number of non-performing loans). A positive trend that leaves some room for optimism has been, according to Dr. Bastian, the increased regional cooperation (the return of the Yugosphere as he called it) that has been highlighted by the increase of Croatian exports to Serbia, the joint-venture signed by Slovenia, Croatia and Serbia on rail transport and the new ferry that links Serbia with Vukovar. In conclusion, Dr Bastian argued that **the Balkan economies should move towards an export-led growth model by attracting FDI that will be helping export-oriented local companies.** Additionally, there is much more space for regional cooperation and particularly for inter-regional infrastructure projects concerning sectors like transport (e.g. rail, roads, and water) and energy (e.g. distribution networks of petrol and liquefied gas). A necessary precondition will be the transparent procurement rules. Finally, he estimated that the IFI (e.g. IMF and European Investment Bank) will continue to play a critical role in financing the Balkan economies while he expressed his belief that Turkey will play a more important economic role in the region, partially replacing Greece.

**In the third discussion panel**, which was moderated by **Ms. Nida Gelazis** (Senior Associate of European Studies, Woodrow Wilson Center for Scholars, Washington D.C.) and was titled **"The Role of External Actors in the Region"**, the main speakers were: Dr. Franz-Lothar Altmann (Balkans expert and Associate Professor at the Bucharest State University), Mr. Robert Benjamin (Senior Associate and Regional Director for Central and Eastern Europe at the National Democratic Institute, Washington D.C.) and Dr. Beata Huszka (Assistant Professor at the Eotvos Lorand University, Budapest). The main focus of this panel was the role and policies of the EU and US in the region.

**Dr. Altmann**, after identifying the UN, EU, US, OSCE, Russia, Turkey and recently the IFI as the region's most important external actors, put his emphasis on the EU's role in the Western Balkans, since the EU remains the region's most important external actor in the medium and long-term. The main argument put forward by Dr. Altmann is that **the EU's leverage and credibility as a transformative power has weakened over the last few years, mainly because of the EU's incoherent policy, which has been caused by the different goals and interests shared by the European Commission on the one hand, and several member states on the other.** The European Commission has always been, according to Dr. Altmann, more

enlargement-enthusiastic while in many member-states there is an increasing “enlargement fatigue.” This internal split has led the EU to several setbacks in the Western Balkans during the last years. Dr. Altmann used two case studies which underline the EU’s incoherent policy and weakening position in the Balkans: 1) Kosovo and 2) Bosnia. As far as the status of Kosovo is concerned, the EU is split between its 22 member-states that have recognized Kosovo’s independence and its 5 member-states which are opposed to an independent Kosovo. Furthermore, the recent EULEX mission has not been able so far to establish itself in Northern Kosovo, thus weakening even more the EU’s credibility in Kosovo. In Bosnia, the EU’s conditionality has lost its credibility over the last few years, mainly because of the EU’s setbacks on Bosnia’s constitutional and police reforms which, if applied, would have led to a more centralized and functional Bosnian state. Even though the EU had initiated and strongly supported these reforms by making them an indirect condition for Bosnia’s EU accession, it was later forced to moderate its position after strong pressures by some member-states. Dr. Altmann finally argued that the EU’s leverage in Bosnia might weaken even more if the EUSR will totally replace the OHR (possibly this will happen in 2011 or 2012). In that case, the EU will permanently lose the Bonn Powers which belong exclusively to the OHR.

The floor was then given to **Dr. Beata Huszka** who focused her speech on what we should expect, as far as the Balkans are concerned, from the forthcoming Hungary’s EU Presidency. **It will be rather difficult, Dr. Huszka argued, to expect that a new impetus or dynamic will be given in the Western Balkans during the Hungarian Presidency.** According to the preliminary Hungarian Agenda, the overwhelming emphasis of the Presidency will be given on more pressing issues (e.g. in managing the economic crisis and reforming the EU budget) rather than the EU enlargement towards the Balkans, which is only sixth in the Agenda’s priority list. The Hungarian Presidency however, Dr. Huszka concluded, will try to take some initiatives concerning the Western Balkans such as: 1) trying to close and even sign the Accession Treaty with Croatia, 2) urging the European Council to give a date to FYROM’s start of accession negotiations, 3) launching visa-liberalization negotiations with Kosovo and 4) monitoring Serbia’s dialogue with Prishtina as well as its cooperation with the ICTY.

**Mr. Benjamin** argued that the US presence in the Balkans over the past years has been solid, balanced and constructive. **Despite the view among several US policymakers that there are some unfinished business in the Balkans (especially in Kosovo and Bosnia) and their partial distrust on the EU’s abilities to lead the international chorus in the region, the US strategic interests are elsewhere in the world.** Even though the US is still engaged in the region, Mr. Benjamin argued that the scope, duration and comprehensiveness of its engagement may not be as robust as many people would like to see. He continued by identifying the major US goals in the region, which are: 1) securing the Western Balkans, 2) making the region a net contributor in the US security efforts around the globe, instead of being a net recipient and 3) solving the remaining problems in Kosovo and Bosnia because of the prior heavy US engagement on these two cases. The US is trying to achieve these goals mainly by: 1) strongly supporting the region’s integration in the EU and NATO, 2) providing diplomatic assistance (especially in Bosnia, Kosovo, Serbia and FYROM) and 3) providing financial assistance (which currently is almost entirely headed towards improving the region’s governance structures). **For Mr. Benjamin there is a gap between the US ambitious objectives in the region and the US diminishing**

**means.** The US is trying to moderate this gap by using Europe's resources. Mr. Benjamin concluded by stating that: 1) the US presence remains necessary in the Western Balkans, 2) the US still have leverage on the region and 3) the US engagement in the Western Balkans will be declining in the coming years.

The panel was completed after a short intervention by **Ms. Gelazis** who argued that: 1) there is need for better coordination among the region's key external actors, 2) the international community should approach the region by a different approach which surpasses its accession in the EU and 3) there is need for a division of labor among the international actors.

**In the concluding panel**, which was moderated by **Ms. Maria Logotheti** (Special Secretary for the Development of International Programs at the Greek Ministry of Foreign Affairs) and was titled "**The European Perspective of the Western Balkans in 2014**", the main speakers were: Dr. Othon Anastasakis (Director of SEESOX at the Oxford University), Mr. Gerald Knaus (Chairman of the European Stability Initiative, Istanbul), Mr. George Spanos (Balkans Expert, Greek Ministry of Foreign Affairs) and Dr. Alexandros Yannis ( Member of the Cabinet of Catherine Ashton).

**Dr Anastasakis** focused his analysis on the EU's recent Progress Reports concerning the Western Balkans. The first conclusions that can be made by a first-level analysis, Dr. Anastasakis argued, are the following: 1) Albania is having a polarized political situation, 2) Serbia is going through its Kosovo obstacle, 3) Kosovo is going through its organized crime problem, 4) Bosnia is desperately divided, 5) Croatia is moving forward despite its problems on judicial reform, 6) Montenegro has received a positive avis from the Commission, 7) FYROM needs to manage its nationalistic overdose and 8) Bosnia and Albania have gained visa-liberalization status. However, reading through the lines of the Progress Reports, the following conclusions can be made: **1) enlargement is not a priority for the EU anymore, 2) enlargement in the Western Balkans is seen more as an entanglement rather than a strategy, 3) there is a lack of a common EU position concerning Kosovo, 4) Bosnia remains highly divided and the Republika Srpska becomes more and more alienated from the central state and 5) conditionality has lost to a significant extent its efficiency compared to previous years.** Dr Anastasakis also argued that: 1) the EU is becoming more managerial rather than visionary 2) a bilateral approach is used since regionalism does not work in the Balkans 3) Turkey is engaging in the Balkans in a very systematic way and 4) the EU can still be very helpful in the Balkans on minority issues, regional cooperation and bilateral disputes.

**Mr. Knaus** claimed that the Western Balkans have considerably progressed during the past 5 years. In order to support his view he used the following examples: 1) the independence of Kosovo has brought the most pro-European government in Serbia 2) there has been an increased number of Kosovo Serbs who have participated in Kosovo's elections during the past few years 3) nobody worries anymore for a return of violence in Bosnia 4) the Croat President's apologies for Croatia's policies during the Yugoslav Wars 5) all states' ( except Kosovo) visa-liberalization status and 6) the fact that the dialogue between Serbia and Kosovo is ranked as the second most important priority in Catherine Ashton's Agenda for 2011. Despite these positive trends, the Western Balkans are still facing significant problems such as: 1) the

unclear timing of their accession to the EU 2) their significant bilateral disputes and disagreements 3) the frustration among several states (like Serbia and Kosovo) on the EU's demands and policy towards them and 4) Greece's absence as a stabilizing power because of its dispute with FYROM. Mr. Knaus supported the view that the whole EU enlargement process will reenergize if FYROM will start its negotiations talks with the EU in 2011. This can only happen, Mr. Knaus argued, if a settlement will be found with Greece. He then elaborated on what this settlement might be like: **the two states will reach an Agreement whereby a new name will be immediately used in their bilateral relations and where the Skopje Parliament will immediately pass a Constitutional Amendment which will say that this new name will be erga omnes on the day FYROM will join the EU (this term will also be included in FYROM's Accession Treaty with the EU).** This settlement, Mr. Knaus concluded, will give Greece the guarantee that the new name will immediately replace FYROM on their bilateral relations and that it will be erga omnes when FYROM joins the EU. On the other hand, FYROM will have the guarantee that if it will not join the EU it will not give away its name.

The floor was then given to **Mr. Spanos** who elaborated on the Greek Government's 2014 Agenda proposal (which has a strong symbolic dimension). The 2014 agenda, according to Mr. Spanos, aims to give a new impetus (without challenging however the EU's accession criteria) to the EU's enlargement process. Even though the several aspects of the 2014 Agenda will be clarified by the Greek Government in the forthcoming months, Mr. Spanos argued that Greece is ready to provide the know – how and technical expertise to the candidate countries. In order for the 2014 Agenda to succeed, Greece will seek the pro-active involvement of other states like Austria, Hungary and Slovenia.

The final speaker was **Dr. Alexandros Yannis** who focused his analysis on the EU's policy in the Western Balkans. In his view, the region has considerably progressed during the last few years (a clear illustration of their progress is their visa-liberalization status). For the EU, Dr. Yannis continued, the Balkans remain a high priority even though the EU's enlargement policy has lost its impetus during the last few years. **However, there is still the perception among the EU's key policymakers on the historical inevitability of the region's European perspective.** Dr. Yannis argued that, despite the entrance of new actors in the region (which is the result of global power shifts) the most powerful alliance of external actors in the region still remains the EU-US. However, Dr. Yannis argued, the EU is willing and has started cooperating with these new actors that have entered in the Balkans (e.g. Turkey).

The negotiations between Serbia and Kosovo and Greece's dispute with FYROM were the two main themes of the discussion that followed. Prof. Frckoski took the floor and argued that the only workable solution between Greece and FYROM should address, besides the name, the identity concerns and sensitivities of both sides. He suggested that both FYROM and Greece can use the term Macedonian in the following pattern: Makedonski (in Slavic)/Macedonian for the one side and Makedonas/Macedonian for the other side. Ambassador Mallias then took the floor and argued that an increased interaction between the media in Greece and FYROM is needed since the Greek position is almost never presented to FYROM's public opinion.