



THE CENTRE
FOR THE STUDY OF
GLOBAL
GOVERNANCE

Discussion Paper 36

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*Trade Policy of the European Union as a Factor of Regional Trade
Integration in Southeast Europe*

Discussion Paper 36 (2005)

Predrag Bjelic, 'Trade Policy of the European Union as a Factor of Regional Trade Integration in Southeast Europe'.

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ABSTRACT In this paper we set to explore the influence that European Union's (EU) trade policy has on trade policies of the economies in Southeast Europe, in general, and on regional trade integration in the region of Southeast Europe, in particular. It is more than obvious that the EU influence on trade relations between economies in Southeast Europe is very significant. But the Common trade policy of the EU is not consistent in its treatment of Southeast Europe. The EU has proclaimed a "regional approach" in its policy towards trade relations with Southeast Europe but prefers to utilise a bilateral model of relations with this countries. Also it seems that countries in this region are not interested in regional integration any other than EU membership. This paper argues that the lack of real interest among the economies of Southeast Europe to create local regional integration is only partly to do with undeveloped trade flows than with their preoccupation with the prospect of EU integration. While it is obvious that EU integration will have positive effect on Southeast European countries in this paper we also indicate negative influence that the common EU trade policy will have on trade relations of this states with other trade partners.

KEY WORDS: EU Trade policy, Southeast Europe, Regional Trade Integration, Intraregional Trade in the Southeast Europe, Trade Relation of the EU with Economies in Southeast Europe.

Nowadays the national economies` involvement in international trade is becoming more intensive than ever before.¹ All the nations are becoming more economically interdependent and their growth is highly dependant on their integration into the world economy. Many countries are not willing to wait for a slow multilateral trade liberalisation so they engage in regional process of trade liberalisation. Economies in the Southeast Europe (SEE) are not exempted from this process but until now they were lagging behind in the process of regional integration.

1. Southeast Europe and Intraregional Trade

The region of Southeast Europe, also referred to as the Balkans, includes all the countries on the Balkan Peninsula, territory south of the rivers Sava and Danube. Southeast Europe in geographical terms consists of following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia², Romania and Serbia and Montenegro³. Turkey has a small part of the territory on the Balkan Peninsula but is principally an Asian country. Moldova has close cultural and ethnic links with people from the Balkan but is classified as an East European Country and it is a member of Commonwealth of Independent States. But Moldova is also included in a free-trade area (FTA) that is being created in Southeast Europe. Greece, while geographically a Southeast European country, is not in the scope of our analysis because it is a member of the European Union (EU).

The region of Southeast Europe has long been associated with political instability. From the brake up of the Socialist block the countries in this region have witnessed a series of revolutions and wars. First came the 1989 revolution in Romania, then the wars during the break up of Yugoslavia followed, and finally the mass civil unrest in Albania came. Bulgaria was faced with high financial instability in the 1990s accompanied by` related high social pressures. These events throughout the region made political stability the priority of most local and international actors, while efforts at economic integration were largely marginalized.

The economies in Southeast Europe are small and under developed, and have accumulated decades of socialist economic legacy imposed alongside a concept of economic growth based on import substitution. Nowadays these countries are in the process of economic and political transition. They build a market economy and strive to create a new structure of the economy that is more in accordance with world and European market demands. The economic indicators presented in table 1 show that all these economies have relatively low gross national product (GNP) and very low export performance. This is a result of their low international competitiveness (Bjelić 2004b:86)⁴.

Table 1:

Basic Economic Indicators for Southeast European Economies in 2002

Economies		Population Millions	GNP bil. USD	Exports mil. USD
Albania		3.2	4.6	330
Bulgaria		8.0	5.4	5,745
Bosnia and Herzegovina		4.1	14.1	950
Croatia		4.5	20.3	4,899
Macedonia		2.0	3.5	1,112
Romania		22.3	41.7	13,869
Serbia and Montenegro ⁵	Serbia	8.2	11.6	2,274
	Montenegro			
	Kosovo (UNMIK)	1.8	1.5	210
TOTAL		54.1	102.7	29,389
Greece		11.0	123.9	10,353
Turkey		70.0	173.3	34,561
Moldova		4.3	1.7	667

Source: World Bank, *World Development Indicators*, 2004, except for Kosovo data obtained from UNMIK Customs Service.

The Southeast European economies are faced with many economic and social problems, including the rise in poverty, low wages, high inflation pressure, persistent trade deficits, large and untransformed industries. Not all is so gloomy however because these countries have potential to achieve economic growth. Their greatest economic potential is highly skilled cheap labour force, geostrategic position in Europe and in Euroasia generally, good natural raw materials and great skilfulness. But they lack a good system of organization to connect all these factors together and to generate growth.

Although they share many common characteristics, the Southeast European economies also differ a great deal. Based on these differences we can identify two subregions:

- a. West Balkans, consisting of former Yugoslav republics except Slovenia, which became an EU member in 2004, but including Albania;
- b. East Balkans, consisting of Romania and Bulgaria.

Countries of the West Balkans (Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro) were outside the Soviet block and, especially former Yugoslavia, had more economic interactions with the West. Also Former Yugoslavia developed a market economy in the conditions of the socialist political system. But after 1990 the countries created after the dissolution of Yugoslavia were involved in wars so they lagged behind in transition and approaching the EU.

On the other hand, countries of the East Balkans, Romania and Bulgaria, were important members of the Soviet block and involved in international trade almost exclusively with socialist countries. They developed their economic structure in accordance with a

”international socialist division of labour”. But after 1990 they went through the process of transition to market economy much faster than the West Balkans. The transition is not yet finished and not without its problems but these countries are now candidates for European Union’s membership and stand to become full members of the EU in 2007 or 2008.

These differences may be the cause for such a low level of intraregional trade in Southeast Europe. In 2003, the unweighted average share of intraregional trade in total trade of the economies of Southeast Europe was around 12%. From the group of observed countries from table 2 we can conclude that only Bosnia and Herzegovina, Serbia and Montenegro and Macedonia trade extensively with countries in the region of Southeast Europe. Other countries from the region, like Romania, Bulgaria and Croatia, do not have a large share of intraregional trade in trade flows (please note that the last three countries are candidate countries for EU membership). Moreover, intraregional trade as a share of total trade of economies in the region is dropping in all Southeast European economies in the last decade. This is not a good background for regional trade integration, especially in the long run.

Table 2:

Intraregional trade in Southeast Europe,
percentages of total exports of SEE economies

Economies	1995	1998	2000	2003
Albania	11	5	6	7
Bosnia and Herzegovina	45	30	21	32
Bulgaria	4	3	4	3
Croatia	1	3	2	4
Macedonia	29	22	19	21
Romania	1	1	1	1
Serbia and Montenegro (ex FRY)	8	8	18	13
Southeast Europe	5	6	6	12

Source: IMF and World Bank ”Building Peace in Southeast Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict” Joint IMF-World Bank paper, Second Regional Conference for Southeast Europe, Bucharest, 25-26 October 2001, p. 36 and The Vienna Institute for International Economic Studies (WIIW) data for year 2003.

The result of intensive trade cooperation between Bosnia and Herzegovina, Serbia and Montenegro and Macedonia can be explained, on one hand, by high complementarity of their economies resulting out of joint economic development in the Former Yugoslavia, and on other hand, by favourable trade regime that exists between these countries. As it seems high degree of trade integration is possible and wanted. But we have to keep in mind that the complementarity of the economies of mentioned countries is a result of socialistic economic development partly based on import substitution growth strategy. Most of the products of these countries are competitive only on neighbouring markets. This implies that the present-day integration between these three countries in many sectors is possible only if it is a close regionalism model of trade integration meaning that high external trade barriers must be introduced. In the situation where these countries tend to be members of the EU and WTO closed regionalism is out of the question.

Also much of the trade between these countries is the result of favourable trade regime that exists between these countries, which makes their goods which are not internationally competitive, competitive on the local markets. In 1996 Serbia and Montenegro concluded favourable trade agreement with Macedonia while Serb entity in Bosnia and Herzegovina (Republic of Srpska) was in de facto economic union with Serbia and Montenegro. All three economies will pass true the economic restructuring in order to adjust their economies to economic specialization required by the single European market and trade regime imposed by WTO rules. Will the economies of these countries be so trade interlinked remains to be seen?

Having this in mind the reasons for the establishment free trade area are less credible if we in our analysis include all the countries in the Southeast Europe. According to some analysis the effects of trade diversion will be larger than the effects of trade creation in the region so the situation in Southeast Europe was defined as a trade aversion (Gligorov 1998:1). But where will the economies of Southeast Europe be integrated and under which conditions?

2. Regional Trade Integration in Southeast Europe

The countries in the region of Southeast Europe were lagging behind in the process of regional trade integration but could not stay out completely when this process became a global trend. Greece joined the EU in 1981 and Romania and Bulgaria were members of the Council of Mutual Economic Assistance (CMEA) with other socialist countries. When the CMEA was disbanded, Romania and Bulgaria later joined Central European countries in the Central European Free Trade Agreement (CEFTA) when they became candidate countries for EU membership. Also Albania, Bulgaria, Romania, Greece and Turkey joined East European countries to form the Black Sea Economic Co-operation (BSEC) regional trade promotion forum without yet defined trade concessions. After the dissolution of Former Yugoslavia the number of the countries in the region has increased. But the countries in Southeast Europe did not establish regional trade integration to cover this region. The magnetism of the EU as a strongest regional trade integration at the continent and its trade policy is a big obstacle in achieving a true regional integration in the Balkans.

Almost all the countries in the region are members of the World Trade Organisation (WTO), except Bosnia and Herzegovina and Serbia and Montenegro, which initiated the process of accession. For the members of a regional trade integration is important to have similar trade regimes procedures that become harmonised with WTO membership. That is why one of conditions for the membership in CEFTA was that acceding economy must be a member of the WTO. In this way all the countries follow the same rules when they apply trade remedies.

Table 3:

Membership of SEE Economies in Regional and Multilateral Trade Institutions

Economies		Regional trade liberalisation	EU Candidate	WTO membership
Albania		BSEC	No	Yes
Bulgaria		CEFTA, BSEC	Yes	Yes
BiH			No	No
Croatia		CEFTA associate	Yes	Yes
Macedonia			No	Yes
Romania		CEFTA, BSEC	Yes	Yes
Serbia and Montenegro	Serbia		No	No
	Montenegro			No
	Kosovo (UNMIK)		No	No
Greece		EU, BSEC	-	Yes
Turkey		ECO ⁶ , BSEC	Yes	Yes
Moldova		CIS, BSEC	No	Yes

The EU is the single most important trading partner for all Southeast European economies. With that economic significance for SEE trade the EU is capable of influencing trade policies of Southeast European economies. This influence partially manifests in the EU initiative for the creation of regional trade integration in region of Southeast Europe. There is a need for regional trade integration in the region of Southeast Europe even if the countries of the region do not see this need.

Under the auspices of the **Stability Pact**⁷ an initiative to establish free trade that will include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Serbia and Montenegro (including Kosovo) was adopted in 2001. This initiative was to gather countries from the West Balkans as well the candidate countries from the East Balkans and even Moldova. In June 2001 the SEE countries concluded a Memorandum of Understanding on Trade Liberalisation and Facilitation (MoU) that request conclusion of the network of bilateral trade liberalisation agreements between SEE economies that will lead to the establishment of a free trade area that will cover SEE and Moldova. The 28 agreements were signed between 8 countries in the region but thier application did not start at the end of 2002 because of the reform of the Federal Republic of Yugoslavia, which in 2003 was transformed and renamed to Serbia and Montenegro. Also Kosovo being a separate customs territory under UNMIK administration signed a free trade agreement with Albania and started to negotiate agreements with other economies in the region like Macedonia and Romania. It was agreed that during 2004 all agreement would start to be applied.

Practically the trade agreements signed between SEE economies contain provisions that envisage:

- Elimination of tariffs on 90% of goods in intraregional SEE trade;
- Elimination of non-tariff barriers in intraregional SEE trade;
- Enhancement of trade in services in the region of SEE;
- Trade facilitation;

- Harmonisation with EU trade standards;
- Application of trade remedies according to WTO provisions.

The enforcement of free trade agreements finally started in 2005 but was practically obstructed in many occasions, confirming that there is no great interest in developing intraregional trade even in the business community. Some of the countries suspended the part of the agreement but many of the countries did not have sufficiently organized customs services which could cope with such a large number of legal documents that these agreement represented. Finally, the trade ministers of Southeast European countries decided in June 2005 at a meeting in Sofia that they will work to create a single trade agreement that will replace the system of bilateral trade agreements. They also agreed to work on reducing non-tariff barriers in regional trade.⁸

EU initiative for establishing a free trade area in SEE has an aim to stabilise region politically, instigate building of regional institutions and liberalise trade that will collectively enable restructuring of the economies and preparation of these countries for EU membership. The same strategy was used at the beginning of the 1990s when the EU initiated establishment of free trade areas in Central and Eastern European Countries (CEEC). The two regional integrations were established in this area – Central European Free Trade Agreement (CEFTA) and the Baltic Free Trade Agreement (BAFTA). CEFTA was very successful in preparing candidate countries of the EU from Central Europe for EU membership. But we have to know that the condition of CEFTA membership was besides signing bilateral trade agreements with CEFTA members also that the acceding country is a candidate country for EU membership and a member of World Trade Organization (WTO). This was to ensure similar trading conditions in all CEFTA countries and a smoother restructuring of CEFTA economies to the EU economic system.

All regional initiatives in Southeast Europe are external in character. Either Southeast European countries are members of a regional trade initiative that gathers countries principally from some other region or the initiative for SEE regional trade integration have been instigated by the external actor – the EU. This indicates that there has not been genuine interest in SEE to establish a regional trade block.

Romania and Bulgaria have very different structures of their economies from other SEE countries, trade very little with countries in the region and are set to join the EU in 2007 or in 2008 at the latest so they do not have legitimate economic interest to invest in regional integration that would be obliged to leave when they become members of the EU. Once they become full members of the EU they have to put aside all trade agreement they concluded previously and obey the Common Trade Policy of the EU. In its policy of regional approach it is not obvious why the EU is insisting on this regional integration of Romania and Bulgaria with other SEE countries, which obviously does not have a future because it is not based on the trade interest of countries involved. These two countries as candidate countries have different trade regimes with the EU than other SEE countries so it is not possible that the proposed regional trade block serve the same purpose as CEFTA.

It is clear that the focus of the creation of any future regional trade integration should be on the West Balkan countries. Their integration to full EU membership is not obvious in the near future, they have economic interest to boost trade and they have all the predispositions as most of them were part of the former Yugoslavia so they have similar economic structures and well established trade patterns. But in the Former Yugoslavia this countries did not have

any trade barriers in their trade and today they have significant obstacles to their trade - tariff but more important non-tariff barriers. Albania does not have a very developed foreign trade sector so it will benefit from any regional integration that will boost its exports. But even if there is genuine economic interest from all West Balkan countries for regional economic integration in this area the process of this integration is very slow. The main reasons are of political nature and include:

- Problems with achieving internal political consensus on future economic relations inside Serbia and Montenegro;
- Trade between Serbia and Kosovo, while high in economic potential, can not receive adequate regulatory framework;
- Some unresolved political problems in relations between Serbia and Croatia curtail trade relations;
- Different levels of trade relations of Serbia with two entities in Bosnia and Herzegovina, Republic of Srpska and Federation of Bosnia and Herzegovina, create procedural problems;
- Unwillingness of Croatia to associate in any kind of Balkan integration;
- Dependency of Bosnia and Herzegovina on foreign aid and low development of economy in recent years with low exports and severe foreign trade deficit;
- Unstable political situation in Macedonia between two largest ethnic groups obstruct trade;
- Unstable legal environment for trade in Albania caused by weak state institutions.

One of the reasons for slow progress in achieving trade integration between West Balkan countries is the trade policy of the EU towards these countries. It is an eternal conflict of bilateralism and multilateralism in EU trade relations with the West Balkans. The bilateral concept defeated the EU regional approach when Croatia was singled out from the group of West Balkan countries and aligned with Romania, Bulgaria and Turkey as a candidate country for EU membership. Croatia was more advanced in its economic development and reforms, which made it closer to the EU but this move broke the concept of a regional approach policy and made countries in the region less interested in establishing regional links. The negotiation talks on EU membership with Croatia have been postponed because of political conditionality so again it is in a group of West Balkan countries. Even the EU policy approach towards Serbia and Montenegro changed in 2005 acknowledging that in this country at least two trade entities exists.

The trade integration achieved in the Southeast Europe should be constructed in accordance of the principles of open regionalism, aligned with the conditions of the future membership in the EU and respectful of WTO rules. The EU should really back up future intensive trade integration of these countries and ease their economic restructuring to conditions with significant trade concessions which should be granted to the region and not to each country individually. The policy of the EU should be very clear and predicable. This will stimulate West Balkan countries to cooperate more closely and to capitalise on a liberal trade regime that they enjoy with the EU.

West Balkan countries have to concentrate on their development and to see the EU as one of the factors on that road to economic development and not as an only a destination. EU cannot develop the countries in West Balkans it is their task. Membership in the EU does not carry the same benefits as a few decades back when Spain, Portugal and Greece joined.

3. Trade Relations of Southeast Europe with the European Union

As pointed out earlier, the European Union is the main trade partner of the economies of Southeast Europe. Table 3 shows data on trade between SEE economies and the EU with 15 members (EU15). The share of trade with the EU15 is more than 50% for the whole region and for the all the economies of SEE individually, except Bosnia and Herzegovina. These shares are expected because it is a usual tendency that small and underdeveloped economies trade extensively with larger and more developed economies in their neighbourhood. This is even more so if we have in mind that the EU now has 25 members. The new members of the EU, especially countries former members of the Central European Free Trade Agreement (CEFTA), are significant trading partners of SEE economies.

Table 3:

Exports of Southeast European Economies to the European Union (EU 15) in percentage of total exports of SEE Economies

Economies	1995	1998	2000	2003
Albania	77	83	76	73
Bosnia and Herzegovina	24	41	44	36
Bulgaria	38	46	45	56
Croatia	62	59	56	56
Macedonia	40	36	48	50
Romania	51	58	57	63
Serbia and Montenegro (ex FRY)	72	65	57	50
Southeast Europe	51	55	54	55

Source: IMF and World Bank "Building Peace in South East Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict" Joint IMF-World Bank paper, Second Regional Conference for South East Europe, Bucharest, 25-26 October 2001, p. 36 and The Vienna Institute for International Economic Studies (WIIW) data for year 2003.

From the constitution of European Economic Community (EEC) in 1957 this regional grouping has maintained a Common Trade Policy. This means that all the EU member countries have to follow the unified trade policy of the EU with non-member countries, including SEE economies.

EU trade policy towards SEE has been differently formulated for Romania and Bulgaria, on one side, that were defined as Central and East European Countries (CEEC), and differently for Former Yugoslav republics, on the other side, later joined by Albania. Romania and Bulgaria received candidate country status in late 1990s and have established a free-trade area with the countries of the EU. This free-trade area includes free movement of goods except some agricultural products and some processed agricultural products.

The countries of the Former Yugoslavia, except Slovenia which became member of the EU on May 1st 2004, and including Albania, referred to in EU official document as West Balkan countries, were offered a different treatment by the EU due to their involvement in wars that caused political instability and a break up of relations between these countries. They have to

be stabilised politically prior to the development of a more extensive economic relationship with the EU, like candidacy for membership status, and surely before full membership in the EU. From December 1996 the EU under French presidency started the Royaumont Process to stabilise Southeast Europe. Practically, it was intended as a true “**regional approach**” adopted at the EU general Affairs Council in April 1997 which implied that countries in the targeted region will approach EU membership as a region and not separately. This included a multilateral approach to the countries in the region of the West Balkans and was consistent with EU external policy of developing intraregional relations rather than bilateral relations with non-member countries. This was also a way to stimulate countries in the West Balkan to re-establish political and economic relations between themselves.

But EU also kept the **principle of conditionality** in its relations with West Balkan countries. The EU lay out conditions for each West Balkan country for approaching the EU. This meant that the EU preserved its bilateral relations with each West Balkan country that was in contradiction with proclaimed regional approach policy (Wichmann 2004: 29). The countries in the West Balkan saw this as a sign that the EU is not determined in following its regional approach policy. This conditions set by the EU to West Balkan countries are an extra condition because the general Copenhagen accession criteria proclaimed in April 1997⁹ apply also for West Balkan countries.

This reality of duality in its relations to the West Balkan EU seem to be resolved in May 1999 when the **Stability Pact for Southeast Europe** (SPSEE) was designed. The political stabilisation is once again put in the first place following the resolution of Kosovo crisis, another event that brought instability in the region. EU members acknowledge that a future relationship with the EU is the greatest incentive for reform in the West Balkans` countries. The EU reiterated that counties in the region should establish bilateral relations between themselves and in relation to SEE countries the EU accepted more flexible approach. The EU set a common set of economic and political condition for SEE but allowed each country in the West Balkans to move ahead at its own pace in coming closer to EU membership. This was a reality since Serbia and Montenegro was confronted with the Kosovo crisis and internal problems on the relations between Serbia and Montenegro while Macedonia was later a scene of civil unrest. This caused these countries to lag behind in the process of approaching the EU compared to other countries in the region.

But when all thought that the EU regional approach policy tailored for the West Balkan was passé, the Stability Pact embarked on the very ambitious project of creating a free trade area in Southeast Europe incorporating both the West Balkans and also the East Balkans. It seemed that the regional approach policy was now extended to include the East Balkan countries, Romania and Bulgaria. The plan was to set local regional trade integration by 2002 in order to prepare these countries collectively for EU membership.

In November 2000, the EU launched a new concept of managing relations with the West Balkan countries called the **Stabilisation and Association Process** (SAP). It entailed that countries of the West Balkans should each conclude a Stabilisation and Association Agreement that will lay down the conditions for that country’s accession to EU membership. The Stabilisation and Association Process includes a clear commitment to regional co-operation of acceding countries from the West Balkans but was bilateral in nature. The EU has instructed the West Balkan counties to establish relations among themselves similar to relations existing among EU members, including the formation of a trade block by a network of bilateral trade agreements.

In the Framework of Stabilisation and Association Process the trade regime between the EU and West Balkan countries is defined by **Autonomous Trade Measures**¹⁰. This measure is unilaterally adopted by the EU and represents a reciprocal but asymmetric trade concession that covers 95% of traded goods. It creates a very liberal trade regime between EU and West Balkan countries. The aim is to create a free trade area between the EU and the West Balkans and in some segments it incorporates trade concessions more favourable than concessions the EU granted to candidate countries, like in the area of trade in agricultural products.

The final definition of EU trade relations with West Balkans came about in the Thessaloniki Council during the Greek presidency of the EU in 2004 when the West Balkan countries were offered a clear perspective for EU membership if they persist on the road mapped by the SAP. The privileged relation of the West Balkans to the EU is further strengthened¹¹. But the failure to adopt EU Constitution will slow the process of accession of West Balkan countries to the EU, especially if they are not willing to fulfil political preconditions, like Croatia and Serbia and Montenegro.

The general conclusion is that the EU uses bilateral as well as multilateral approaches in regulating its relations with Southeast European countries. These two approaches are sometimes in conflict and not sufficiently transparent for partner countries in the Balkans. The problem is that the EU proclaimed in 1997 that enhancement of intraregional co-operation in Southeast Europe is a condition to future EU membership and later practically in several occasions followed the bilateral approach. Many of the SEE countries use this situation to abort regional co-operation and just concentrate on bilateral relations with the EU, even if the enhancement of cooperation in SEE is one of the conditions for EU membership. But what SEE countries do not realise is that economic cooperation in the region of Southeast Europe is beneficial for all of them without consideration to its effect on EU membership.

4. Membership of Economies of Southeast Europe in the European Union

The future of West Balkan countries in the EU is certain. As we pointed this aim has been politically confirmed at the Thessaloniki Council in 2004. Also, as a high percentage of SEE trade is with the EU, the future membership of SEE countries in the EU is economically viable. But countries of the West Balkans are not prepared for EU membership at this time and should see this time in the `waiting room` of the EU as a blessing. They have very favourable access to the EU market presently and these concessions granted by the EU are not reciprocal meaning that these countries are not obligated to grant same treatment for EU goods. This is a time for these countries to develop and restructure their economies so they could better exploit the benefits of future membership. Rise in exports of Southeast European countries` to EU market despite this favourable trade regime is curtailed because of the presence of significant non-tariff barriers on European market.

Benefits of the EU membership are obvious from the experience of the new 10 members of the EU and they consist of:

- Rise in trade not only with old EU members but with the rest of the world due to the more favourable trade regime that EU have;
- Rise in competitiveness measured by productivity in industry;
- Rise in foreign direct investment inflows;

- Rise in agricultural earnings (World Bank 2005:3).

But we should be clear that benefits of the EU membership are not the same as before and the simple fact that a country has become member of the EU cannot make it a developed country. The membership of Spain, Portugal and Greece was a decisive factor that turned these countries from underdeveloped to developed economies in few decades. But the EU is not the same as it was before and it is no longer a club that is hard to get invited into with immense club membership rights. And subsequent rounds of new entry are likely to offer progressively lower levels of benefit.

From the period of completion of the monetary union in the EU, integration started to develop in different layers. The policy that Britain so much resisted – Europe in different speeds - has been realised. The core of the EU today are countries of the euro zone which introduced a single currency bringing their trade integration to the level of full economic union. In the other layer are the three remaining EU15 countries that stayed out of the monetary union, Great Britain, Sweden and Denmark, who make with the euro zone a partial economic union. The new member states are in the last layer, even after the countries of European Free Trade Area (EFTA) that participate in European Economic Area (EEA), arrangement which brings them in common market with the EU15.

The membership of new members of the EU that joined in 2004 have several limitations in membership rights compared to the “old” members:

- Limited free movement of Labour for some time, but latest until 2011;
- Agricultural support phased out, starting at 25% and reaching 100% by 2013;
- Regional aid limited: until 2006 new members will only be receiving €137 per annum per capita, compared with €231 in Spain, Portugal, Ireland and Greece. The increase in regional aid to new members is possible after 2006 when a new budget of the EU will be adopted;
- Membership in the monetary union for new members is delayed.

The countries of the West Balkans are on the periphery of the EU or rather the EU will circle them when Romania and Bulgaria join the Union in 2007 or 2008. As we reiterated the main aim of the West Balkan countries is their economic and social development. Membership in the EU is just one of the tools to this aim. They should concentrate in revitalising and restructuring their economies bearing in mind that one day they will become members of the single EU market. They should revive trade flows between them and concentrate on establishing economic co-operation which will allow them to jointly export some products that they developed in former trade regime to the EU using the benefits of a favourable trade regime with the EU. This will help them to solve partially the problem of large trade deficits but principally they should invest in bringing their export to a higher technological level. They could achieve that with attracting technology intensive foreign direct investment. As a trade block they will be more attractive to potential investors than as small and undeveloped countries on their own.

West Balkans countries should look toward development of the service sector and promote a higher share of service in their exports. Services like tourist services in Croatia, Montenegro and Albania and transit transport services in Serbia and Macedonia have a genuine economic potential to influence economic development. Many regional projects can have more impact

than partial, country-oriented, projects in the development of the service sector. This could be the way of rising West Balkans' competitiveness scores in world markets.

There are also some advantages that the position of the EU periphery brings. Many foreign investors are interested in establishing their production and service facilities near the vast market of the EU but in a territory where the costs of operation are significantly lower and also where the transport cost to the EU market are low. Many investors started to reallocate their affiliates from the new EU members to the EU periphery. And where better than to European countries that are the last to become the members of the EU. But in order to attract more of this investment, all the countries in the region of Western Balkans have to work on a regional level to ensure favourable condition for foreign investments. This includes an adequate or even stimulating fiscal regime, a stable legal environment, suitable infrastructure for transport of goods to the EU and a service sector that serves as a supporting sector for foreign investment.

Countries of the West Balkans have other significant trade partners than EU. Serbia and Montenegro have significant trade flows with Russia and have concluded very favourable free trade agreement with this country. Also Bosnia and Herzegovina has been granted significant trade concessions by many Islamic countries. Even if these agreements have been politically influenced, with the establishment of free trade area in Southeast Europe, countries in the region can better exploit these trade concessions jointly. But when these countries become the members of the EU they must comply with Common Trade Policy of the EU, meaning that they should cancel these agreements and adopt trade regime of the EU towards this other significant trading partners. For West Balkan countries this implies giving up on these favourable agreements. Serbia and Montenegro and Bosnia and Herzegovina have not been so successful in exploiting this benefits so far unlike some other countries in the region eg Slovenia and Croatia.

All this should be the doing of West Balkan states and their economic and external trade policy should be tailored to cover this economic interests. But also future EU trade policy towards West Balkans should help in this respect. All the measures of the EU relating to the West Balkan should concentrate more on a regional approach and should group EU support to the West Balkan countries. The regional approach should determine strategic policy while the bilateral approach should be adopted on a tactical level when the EU wishes to determine how individual counties are doing in fulfilling set conditions for EU membership. The EU policy towards West Balkan should create joint framework for accession of all West Balkan countries with conditions and aims so that West Balkan countries themselves determine the speed of integration to the EU by fulfilling this conditions. The fulfilment of condition the EU could observe on bilateral basis.

More than this all EU policies and measure have to be transparent, clear and practically applicable. The West Balkan countries must clearly now what are they are expected to do in the way of approaching the EU and what will they exactly gain when they fulfil these conditions. Many times policies and concrete measures of the EU are not so clear and are ineffective because they lack the backing of all EU members. It would be good to appoint an integration partner to each West Balkan country from the group of new member countries of the EU that will assist and give advise to West Balkan countries on their way to EU membership.

For the future, EU policy towards the West Balkans must prioritise economic development rather than a political agenda. In the past the EU has always put political matters prior to economic matters. The excuse was that the region needed first to complete political stabilisation so there is no possibility of new wars before they fully commit to economic agenda. A typical example can be found in EU pressure for Serbia and Montenegro to politically stay one country but on the other hand the EU did not do anything to speed up the establishment of a common market between Serbia and Montenegro. I am of the opinion that the economy must be in the centre of any policy making of the EU so West Balkan countries could concentrate on economic co-operation, which will bring political stability. Countries that trade and strive for genuine economic prosperity do not have time for war. Economic cooperation can have a major role in resolution of many political problems in the region including the final status of Kosovo.

The policy of the EU towards the West Balkans until now had always ex post approach which means that the EU reacted to scale down problems and to resolve them when they are at their peak. The new policy of the EU for West Balkans should have an ex ante approach meaning that policy should predict and prevent possible future problems in this region.

Conclusions

The EU is the single most important external trade actor in the region of Southeast Europe, including the West Balkans. The trade policy of the EU has a significant impact on the trade policy of the Southeast European countries, including their plan to establish a free trade area in the region. The EU initiated the new regional trade integration under construction in the region and it is one of the conditions for future membership of West Balkan countries in the EU.

But the policy of the EU towards the West Balkans has always been ambiguous and was burdened with constant conflict between two concepts – bilateral and multilateral. The bilateral concept of EU policy was embodied in the Stabilisation and Association process while the multilateral concept can be recognised as the regional approach. This regional approach meant that countries of Southeast Europe are treated as a group. But this multilateral concept often was put in second place, which countries in the region of Southeast Europe perceive as an indicator that regional cooperation as a condition for a EU membership is not so important.

Countries from the East Balkans, Romania and Bulgaria were in front of other countries in the region and they were granted candidate country status in the 1990s. Then the EU Balkan policy focused on the countries in the West Balkans. It is not clear why EU launched an initiative under the auspices of the Stability Pact for the creation of a free trade area in Southeast Europe that will include also Romania and Bulgaria. In 2004 Croatia was given candidate country status by the EU and once again the regional approach was neglected. This ambiguous approach has the effect of slowing regional trade integration in Southeast Europe.

It is certain that the only viable regional trade integration in the Balkans can be achieved between Albania, Bosnia and Herzegovina, Macedonia and Serbia and Montenegro with the full inclusion of Kosovo and possibly Croatia. The EU should be consistent in its regional policy towards these countries and help them integrate faster because there are real economic interests and conditions for creation of a free trade area between these countries.

Policy of the EU towards these countries should be transparent, predictable and consistent. The widest possible range of asymmetric trade concessions for the export of their goods to EU markets should be granted, including the removal of all non-tariff barriers by the EU. Technical assistance should be provided by EU institutions concerning the terms and conditions of selling their goods at EU market. EU policy must pay much more attention to economic cooperation and must try to achieve political stability through economic development. The EU itself was created on the idea that future wars in Europe should be prevented through closer economic co-operation of European countries. The worst mistake for the EU will be to integrate these countries to its membership on a merciful basis.

On the other hand the countries in the West Balkans should recognise the economic benefits of establishing a free trade area and realise that preparation, as a group for EU membership can be more beneficial for all of them. They should use the time that they have until they become members of the EU to develop and restructure their economies so they could benefit more from this membership. The EU periphery status has its benefits and it is up to the countries themselves to use them. Now West Balkan countries can themselves regulate trade relations with other trade partners and have more favourable trade regime. Membership in the EU cannot develop the countries in the West Balkans but can be a powerful tool for achieving that end. The aim of West Balkan countries is to have developed and prosperous economies and EU membership will be there to promote this process. If the West Balkans cannot achieve regional trade integration in their region then EU will be their last chance for any regional integration. But how will they integrate into the EU when they cannot integrate between themselves?

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¹ This paper was written during the author's fellowship at the Centre for the Study of Global Governance, London School of Economics and Political Science, as a part of the FCO/OSI/LSE Faculty Development in South East Europe Programme.

² This is the abbreviated form of the Former Yugoslav Republic of Macedonia (FYROM).

³ Formerly known as the Federal Republic of Yugoslavia (FRY), consisting of two republics – Serbia and Montenegro, and including the territory of Kosovo at present under international rule administered by the UN Mission in Kosovo (UNMIK).

⁴ For further reference see: Jefferson Institute “Konkurentnost privrede Srbije” Beograd, 2004.

⁵ Serbia and Montenegro, legally one country, consists nowadays out of three customs territories which present separate subject in the conduct of international trade relations. After the 1999 NATO intervention against the Federal Republic of Yugoslavia, the Republic of Montenegro unilaterally took over the powers to create and implement its own trade policy creating a separate customs territory from the customs territory of Serbia. This situation was granted international legitimacy with the establishment of the State Community of Serbia and Montenegro in 2003. Also, in 1999 the Serbian Province of Kosovo was placed under International Administration headed by United Nations Mission in Kosovo (UNMIK) and Serbia stopped exercising its sovereignty over the province. Kosovo became a separate customs territory with power to create and implement trade policy vested in UN Mission in Kosovo (UNMIK).

⁶ Economic Cooperation Organization (ECO) is centered on regional trade integration in West Asia.

⁷ Established by the European Union.

⁸ Stability Pact for South East Europe, Working Table II: Economy, Trade Working Group, Ministerial Statement on Trade Liberalisation in South Eastern Europe, Sofia, 10 June 2005.

⁹ EU, General Affairs Council Conclusions, 29-30 April 1997.

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¹¹ Council Conclusions, The Thessaloniki Agenda for the West Balkans: Moving towards European Integration, 16 June 2004.