

# **PROMOTING POLITICAL CHANGE AND ECONOMIC REVITALIZATION IN THE WESTERN BALKANS: THE ROLE OF THE EUROPEAN UNION**

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TITLE VIII PROGRAM

## **Project Information\***

**Principal Investigator:** Milada Anna Vachudova  
**Council Grant Number:** 820-19g  
**Date:** September, 2006

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\* The work leading to this report was supported in part by contract or grant funds provided by the National Council for Eurasian and East European Research, funds which were made available by the U.S. Department of State under Title VIII (The Soviet-East European Research and Training Act of 1983, as amended). The analysis and interpretations contained herein are those of the author.

## **Executive Summary**

Moving toward joining the European Union (EU) is almost universally recognized by Western governments, international organizations and non-governmental organizations as the only viable strategy for bringing stability, democracy and economic revitalization to the Western Balkans. This article has three parts. First, it explores the politics of enlargement in the EU today, following the failure of the EU constitution and the widespread feeling of ‘enlargement fatigue.’ Second, it explains why the dynamics of qualifying for EU membership make EU leverage so powerful in comparison to the influence of other international actors. Third, it argues that the EU needs to adjust its leverage in four distinct ways in order to make it work in the much more difficult domestic conditions of most Western Balkan states.

The European Union (EU) is presiding over the most successful democracy promotion program ever implemented by an international actor. The track record so far is excellent: every democratizing state that has become a credible future member of the EU has made steady progress toward liberal democracy. Improvements in democratic standards, human rights, and ethnic minority rights have gone hand in hand with better state capacity and economic performance. The convergence toward liberal democracy among the EU's postcommunist candidates stands in contrast to the stunning divergence of regime types – from different forms of democracy to harsh authoritarianism – that have taken hold in the rest of the postcommunist region.<sup>1</sup>

The Western Balkan states of Albania, Bosnia-Herzegovina, Croatia, Macedonia and Serbia-Montenegro are now at the heart of the EU's enlargement process. There is a sweeping consensus among regional elites as well as European and American policymakers, analysts and scholars that the cornerstone of any strategy for stabilizing and revitalizing the region must be the prospect of EU membership. Over the last decade, and especially since 2000, all five states have made progress in building democratic institutions, addressing severe economic backwardness, promoting regional cooperation and improving inter-ethnic relations.<sup>2</sup> Moreover, there are ample signs that political elites in all five states are responding to EU leverage by adopting political and economic agendas that are compatible with the state's bid for EU membership. Reform of state institutions, reform of the economy, the provision of rights for ethnic minorities, better treatment of war refugees and compliance with the

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<sup>1</sup> Milada Anna Vachudova (2005). *Europe Undivided: Democracy, Leverage and Integration After Communism*. Oxford: Oxford University Press, Chapters 1 and 7.

<sup>2</sup> On how the EU and other international actors used conditionality and socialization to change the treatment of ethnic minorities, Judith Kelley (2004). *Ethnic Politics in Europe: The Power of Norms and Incentives*. Princeton: Princeton University Press.

International Criminal Tribunal for the Former Yugoslavia (ICTY) have all been accelerated as governments in each state work to reach the next milestone on the road to joining the EU. In multiethnic states such as Macedonia and Bosnia-Herzegovina, joining the EU has given elites a common project that transcends ethnic divisions. While membership in the EU will certainly be beneficial, it is the *process* of qualifying to join that is bringing fundamental political and economic change.

Yet the Western Balkan states pose a great challenge to EU policy because of the scale of the political and economic problems at hand. And the stakes for the EU here are high: The credibility of the EU's foreign policy stands or falls with the democratization and revitalization of the Western Balkan region. In order to succeed, the EU cannot simply plug these countries into the existing pre-accession process that worked well for Hungary or Slovakia, but that has shown its limitations in Romania. Bosnia-Herzegovina, Serbia-Montenegro, Macedonia and Albania need a more dynamic and far-reaching EU strategy that brings more attention and greater resources to bear on supporting positive changes in politics, the economy and society.

The rest of the essay is divided into three parts. First, I will take a step back and analyze the place of enlargement in EU politics today. Second, I will unpack why the EU's leverage has been effective at promoting liberal democracy and economic reform in the postcommunist candidate states. Third, I will look at four ways that the EU needs to adjust its leverage in order to make its policies in the Western Balkans a success.

## **The Politics of EU Enlargement**

The 1990s marked a decade of remarkable policy innovation for the EU, especially in areas distinct from the common market, such as borders, foreign policy, and enlargement. EU leaders created a common currency, lifted internal border controls, put foreign and security policy at center stage, and paved the way for up to eighteen neighboring countries to join the EU. But all of this activity also demanded broad popular appeals — appeals that never came — as integration encompassed issues at the heart of national campaigns. Now attention has turned to the fallout from the “no” votes in the French and Dutch referenda on the EU’s constitution. Every year or two, the EU is declared “in crisis,” and the failure of the EU constitution is but the latest such episode. Still, observers are taking this setback seriously and, depending on their attitude toward the European integration, are predicting that these referenda have ushered in a period of consolidation, of stagnation, or of deterioration for the EU.

The “no” votes have brought the question of continuing EU enlargement to the fore. Some citizens believe that EU enlargement has caused unwanted immigration, undermined their economic opportunities, and broadened the EU “club” to include people they do not trust. This is but one way that the EU has been charged with moving ahead too rapidly, with little consensus-building or even communication with its citizens. For enlargement, the point is well-taken: few West European politicians ever bothered to try to convince their constituents that enlargement was in the national interest by explaining its economic and geopolitical benefits. As a result, the national debates on enlargement were dominated by fringe parties that connected enlargement — and the EU more generally — with illegal immigration and

unemployment; few moderate politicians bothered to respond by making the case that enlargement helps regulate immigration and spark economic growth. In these circumstances, it is not surprising that further enlargement, especially to Turkey, is unpopular.

Some elites are reflecting once again on the trade-offs between widening (to more members) and deepening (integration) even as they come to grips with the reality of so many new members having joined the EU last year. Few would question that moving forward with European integration is more difficult with 25 members (soon to be 27) than it was with 15, especially since new members will take several years to integrate themselves fully into the EU's institutions and also into the internal market. For certain EU countries, such as France, the dilution of influence in an EU of 25 has inspired dreams of a new "inner core" of states that would wield power over the other members, moving forward on the proverbial bicycle of European integration with no obstacles (except of course their own opposition to a federal EU and the skepticism of their own voters). More seriously, there is a consensus that the EU can absorb only so many new members at once, and a debate about whether to set strict geographic limits on further expansion.

Yet shelving future EU enlargement altogether would be extremely difficult. Romania and Bulgaria have already signed their accession treaties, and will enter in 2007 or 2008. For the Western Balkan states of Croatia, Macedonia, Serbia-Montenegro, Albania, and Bosnia-Herzegovina, moving through the process of qualifying to join the EU offers the only real prospect for stability, democracy, and economic revitalization. For Turkey, Ukraine, Moldova, and other aspiring candidates, however, the current political climate in the EU is a serious setback for their EU membership prospects. Ukraine and particularly Turkey are large states

that, for myriad reasons, would be difficult for the EU to absorb, even if the benefits of doing so would be considerable. Still, it will be hard for the EU to walk away even from Turkey or Ukraine (though walk away it may). The reason is simple: walking away would forgo the opportunity for the EU to exercise its leverage to promote liberal democracy, minority rights, and the free market. In the case of Turkey, this leverage has already moved mountains in the areas of political and economic reform.

Enlargement has clearly turned out to be the EU's most effective foreign policy tool. Abandoning enlargement would have visible costs for the credibility of the EU's emerging foreign policy, and for the geopolitical and economic stabilization of its neighboring regions. Yet to strengthen the EU's foreign policy, national leaders and publics would have to accept, as a matter of course, the immediate domestic costs of pursuing the EU's long-term foreign policy goals — and here the winds certainly do seem to be blowing in the other direction. Whatever course EU enlargement may take over the next decade, it is important to understand how EU leverage has worked in shaping political and economic reforms in credible candidate states.

### **Unpacking the EU's Leverage**

What has made EU enlargement so successful in promoting democracy comes chiefly from what the EU is.<sup>3</sup> The benefits of joining the EU (and the costs of being kept out) sooner or later create the political will for governments to satisfy the entry requirements. The lion's share of these requirements is simply the practices and rules that EU member states have agreed among themselves over the years, with no reference to enlargement. The *potential*

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<sup>3</sup> This section draws on Vachudova, *Europe Undivided*, Chapters 3 and 5.

political will to satisfy the EU's entry requirements sets the stage for the effectiveness of conditionality within the EU's pre-accession process. This process has mediated the costs and benefits of satisfying EU membership criteria in such a way as to make compliance attractive — and noncompliance visible and costly. In addition to the benefits and the requirements of membership, I argue that three characteristics of the pre-accession process — of the way that the EU “delivers” political and economic conditionality — have made the EU's active leverage effective. They are asymmetric interdependence, enforcement, and meritocracy. These characteristics amplify the incentives to comply with the EU's membership requirements, because they make the EU's threat of exclusion as well as its promises of membership more credible. In the run-up to the 2004 enlargement, with certain exceptions, the right balance was struck: candidates were neither too confident (thanks to asymmetric interdependence), nor were they too disingenuous (thanks to enforcement), nor did they despair that the system was stacked against them (thanks to meritocracy).

How does EU leverage translate into domestic political change in conditions of illiberal democracy? I have identified four mechanisms, two that operate before and two that operate after what I call “watershed elections.” These are the elections in which illiberal elites that have monopolized power since the end of communism and hindered European integration lose power decisively, and are forced to leave office. Six examples of watershed elections are Romania (1996), Bulgaria (1997), Slovakia (1998), Croatia (2000), Serbia-Montenegro (2000) and Bosnia-Herzegovina (2006?).

Before watershed elections, moving toward European integration and away from international isolation serves as a *focal point for cooperation* among opposition parties and

groups that have in most cases been highly fragmented and querulous. The second mechanism is *adapting*: the prospect of joining the EU creates incentives for opposition politicians to adapt their political and economic agendas to come closer to satisfying the expectations of the EU and other international organizations such as the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe, and the International Criminal Tribunal for the Former Yugoslavia (ICTY).

After watershed elections, straightforward *conditionality* is at play: moving forward in the EU's pre-accession process and receiving various intermediate rewards is tied to adopting laws and implementing reforms. Second, the process itself serves as a *credible commitment to reform*. Reversing direction becomes very costly for any future government because both economic actors view progress in the pre-accession process as a guarantee that a certain kind of business environment will emerge. As candidates move forward in the process, governments are locked into a predictable course of policymaking that serves as an important signal to internal and external economic actors.

Thus overall EU leverage contributed to a redirection of domestic politics that occurred in two steps: First, the EU and other international actors helped shape the agendas of the opposition parties that were waiting in the wings to win watershed elections. Second, once in power, these parties set in motion a reform process that has sometimes slowed down, but that has never been derailed, and this despite subsequent political turnovers because eventually most formerly illiberal parties go through a process of 'adapting' as well.

## Adjusting EU Leverage for the Western Balkans

Integrating the Western Balkan states into the EU is the cornerstone of the long-term policy of all international actors toward the region. During 2005, the region's states reached important milestones on their road to EU membership: Croatia was invited to begin negotiations on full membership, while Serbia-Montenegro and Bosnia-Herzegovina<sup>4</sup> were finally invited to begin negotiations on a Stabilization and Association Agreement. As I argued in the introduction, there are clear signs that the region's political elites are responding to EU leverage and to the aspirations of their voters in pursuing reforms that are moving their countries closer to the EU. The most visible breakthrough in 2005 has been compliance with the ICTY by the governments of Serbia-Montenegro and Croatia.

Yet, with the partial exception of Croatia, these countries still have a very long way to go before they implement the political and economic reforms that create a strong, efficient state, a functioning market economy, regional integration and ethnic tolerance that is promoted and protected by the state. I argue that there are four pieces to the puzzle of how the EU can improve its strategy towards integration the Western Balkans.<sup>5</sup>

The first is most straightforward: increasing the amount of assistance that government officials receive from the European Commission in designing reforms of the state and the economy that will make it possible to adopt the *acquis communautaire*. Most pressing is the

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<sup>4</sup> On Bosnia-Herzegovina, see Sumantra Bose (2005), "The Bosnian State A Decade After Dayton," *International Peacekeeping*, Vol.12, No.3: 322–335; and Gearóid Ó Tuathail (Gerard Toal) (2005). "Embedding Bosnia-Herzegovina in Euro-Atlantic Structures: From Dayton to Brussels," *Eurasian Geography and Economics*, Vol. 46, No. 1: 51-67.

<sup>5</sup> For conversations on this subject, I am particularly indebted to Judy Batt, Taida Begić, Heather Grabbe, Stefan Lehne, Jelica Minic, and Michael Sahlin. I am also indebted to participants at seminars at the Center for Interdisciplinary Studies in Sarajevo and the Central European University in Budapest.

absence of efficient, competent state institutions. While previous EU candidates were left to rehaul their own state institutions (with mixed results), Western Balkan states need more advice and more conditionality in this area. To this end, the EU should put more people on the ground in its delegations. Only competent state institutions will be able to implement desperately needed economic reforms and recalibrate the role of the state in regulating the economy, gradually bringing economic revitalization and improved living standards.

The second piece of the puzzle is perhaps the most challenging: the EU should treat its policies toward Western Balkan states as an overriding priority of its foreign policy, and not just an extension of its previous enlargement policy.<sup>6</sup> What the Western Balkans need is more communication with the EU through travel, education and trade. But policies that would help end the isolation of the region run into trouble with the preferences of voters in key West European states. Yet to prosecute a foreign policy, the EU must be willing to implement policies – such as lifting visas, funding access to higher education and facilitating agricultural imports – that have some domestic costs.

Most important in the short term is the lifting of visa requirements. Today citizens of Macedonia, Serbia-Montenegro, Albania and Bosnia-Herzegovina are forced to endure long, humiliating and expensive procedures if they wish to travel to EU member states. After queuing for hours and waiting for weeks, a visa requested for attending a conference or business meeting will often be granted for the bare minimum amount of time. Isolation and the feeling of deliberate exclusion hands votes to nationalist and anti-democratic parties. Among young people in the region that grew up with war and racist, stupefying propaganda, this forced

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<sup>6</sup> On Slovakia's role and the future of EU foreign policy, see Vladimír Bilčík (2004). Shaping the EU as an External Actor: Slovakia's Shifting Role Conceptions," *Slovak Foreign Policy Affairs*, Vol. 2004, No. 2.

isolation has intensified intolerance, extreme nationalism, and conspiratorial world views. An entire generation desperately needs not just travel, but access to higher education abroad and better secondary and higher education at home. Meanwhile, the reasons for requiring citizens of these four countries to obtain visas and complicating their access to higher education in the EU are not compelling. The organized criminal networks from the Western Balkans have already infiltrated EU member states; the visa regime slows the process of building strong states and motivated governments that can fight these networks at home. As for potential terrorists, there are likely more of them in any West European city than in these four countries combined.

The third piece of the puzzle involves promoting local ownership of the reform process. One factor that has clearly impacted the success of political and economic reforms has been the extent of domestic pressure for these reforms. Pressure from Brussels and from other international actors cannot alone bring a high quality of reform. Indeed Slovakia's more complete reforms in comparison to Romania's are widely attributed to the vigor of various domestic actors that promoted and shaped reform, using EU leverage to push their own agenda. In the Western Balkans the EU needs to offer more funding and support for the nongovernmental organizations (ngo's) that act as its domestic partners in pressuring political parties to take the pro-European course. Among some Western actors in the region, there is a feeling of ngo fatigue after funding them for over a decade. Yet these organizations are often still a lone voice in presenting certain points of view in Balkan countries, and are needed to act as a catalyst for reform separate from the politicians. Also, there need to be greater opportunities for young people to found new ngo's that have a presence in public life. These

kinds of groups are now more important than ever in pushing for a higher quality of governance along with other kinds of interest groups.

Local ownership also means providing national politicians that make progress toward EU membership with “intermediate rewards” that come well before the distant reward of full membership.<sup>7</sup> The isolation of the region discussed above, however, withholds such rewards and undermines elite support. Economic development is key, and much more could be done at little cost to enable regional producers to export their goods to the EU market. Moderate, pro-EU politicians and other elites are themselves very embittered by the visa regime, and resent having to deal with its consequences for public opinion and election results. Without local elites who are completely invested in the EU project, EU leverage in areas such as ethnic reconciliation, economic reform and the fight against corruption cannot succeed.

The fourth piece of the puzzle is robust, programmatic political competition. Here, the mechanisms outlined in the previous section come into play – and the EU’s influence has been the most diffuse, influencing the strategies of local political parties. The EU and other Western policymakers need to understand that in all previous cases of successful transition in postcommunist Europe we have seen the regular alternation of political parties in power – and the eventual transformation of most illiberal parties into parties that govern their countries on the road to EU accession. This has three implications for the Western Balkan states. First, the alternation of parties in power should be welcomed – most crucially, after the 2006 elections in Bosnia-Herzegovina. Second, parties that are considered extremist, such as the Radical party in Serbia, are unlikely to disappear. The best hope is to encourage them to moderate their

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<sup>7</sup> See also Milada Anna Vachudova (2003). “Strategies for European Integration and Democratization in the Balkans,” in Marise Cremona, ed., *The Enlargement of the European Union*, 141-60. Oxford: Oxford University Press.

agendas, and this requires opening up more channels of communication and creating incentives for them, too, to embark on the process of “adapting” to an EU-compatible agenda. Third, the region’s outstanding territorial and national issues must be solved so that Serbia can move on in its political development.<sup>8</sup> Serbia stands out as the only EU candidate where the results of national elections still threaten to reverse the reform process in case of a coalition government led by the Radicals. And elections in Serbia are still fought almost entirely on questions of nationalism and territory, and not on the state of the economy and the quality of daily life for ordinary citizens. Until the status of Kosovo, the independence of Montenegro, and the indictments of the ICTY are resolved, robust political competition will not be on the horizon for Serbia.

In closing, the most important foreign policy challenge for EU leaders today is to sustain, adjust and improve the EU’s leverage so that it can work even in the much tougher cases in the Western Balkans. For better (and not, so far, for worse), the most powerful and successful tool of EU foreign policy has turned out to be EU enlargement – and with greater attention and resources, it will help usher in a period of democratic stability and economic revitalization in the Western Balkans.

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<sup>8</sup> On Serbia, see Judy Batt (2005). “The Question of Serbia,” *Chaillot Paper No. 81*, Institute for Security Studies, Paris. <http://www.iss-eu.org/chaillot/chai81e.html>