Go West: The Western Balkans towards European integration

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April 2005

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ABSTRACT

When we talk about the Balkans we think of war, suffering, ethnic cleansing and hatred. And up to a rather recent point in time this was not a misleading idea. Unfortunately, this has been the reality in the Balkans. If one tries to imagine the map of the European Union in 2007 something would come in front of the eyes. An area in the Balkan Peninsula washed by the Adriatic Sea and circulated by Greece, Bulgaria, Romania, Hungary and Slovenia, all of them EU Member States. The Union has already coined a brand new name for this area, the "Western Balkans". The principal aim of this work is to introduce the reader to this region. It is a rich mixture of civilisations and ethnic groups, with affiliations to Christianity, both Orthodox and Catholic, and Islam and cultural influences ranging from Roman, Ottoman and Austro-Hungarian to Greek and Italian. Who are the Albanians, the Croats, the Serbs, the Macedonians, the Montenegrins and the Bosniaks, and how many of them live in the Western Balkans? Which is their origin and what languages do they speak? This work tries to answer all these questions. An overview of the economy, with a particular attention to the Foreign Direct Investments, is then given. The size of the economy of the region or the GDP is around EUR 50 billion with Croatia being the largest economy. The area grows faster than the rest of Europe. Nevertheless it, with the exception of Croatia, remains among the poorest in the continent. The EU has in several moments sustained the idea that a future enlargement process will welcome these countries in the family. It has put in place the Stabilization and Association Process as a long-term policy tool in order to facilitate and help the WB tackle the challenges of reforming democratic institutions, promoting the development and combating corruption, ethnic violence, poverty and social exclusion. CARDS is the financial arm of this policy. The perspective of the region to join the EU within the present decade however, seems rather unrealistic. Nevertheless, to avoid that the gap between the Western Balkans and their neighbours and the Europe grow wider the EU should include the WB countries in the scheme of pre-accession financial assistance and, moreover, consider them as full Candidate Countries when they conclude a Stabilisation and Association Agreement.

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Abbreviations

AP – Autonomous Province

B&H – Bosnia and Herzegovina

CARDS – Community Assistance for Reconstruction, Development and Stabilisation

CIA – Central Intelligence Agency

DG – Directorate General

EC – European Community

ECHO – European Community Humanitarian Operations

ESI – European Stability Initiative

EU – European Union

FYROM – Former Yugoslav Republic of Macedonia

ICG – International Crisis Group

ICTY – International Criminal Tribunal for the former Yugoslavia

ISPA – Instrument for Structural Policies for Pre-Accession

OHR – Office of the High Representative

PHARE – Poland and Hungary Action for the Reconstruction of Economy

SAA – Stabilisation and Association Agreement

SAP – Stabilisation and Association Process

S&M – Serbia and Montenegro

SAPARD – Special Accession Programme for Agriculture and Rural Development

UNCTAD – United Nations Conference on Trade and Development

UNDP – United Nations Development Programme

UNFPA – United Nations Population Fund

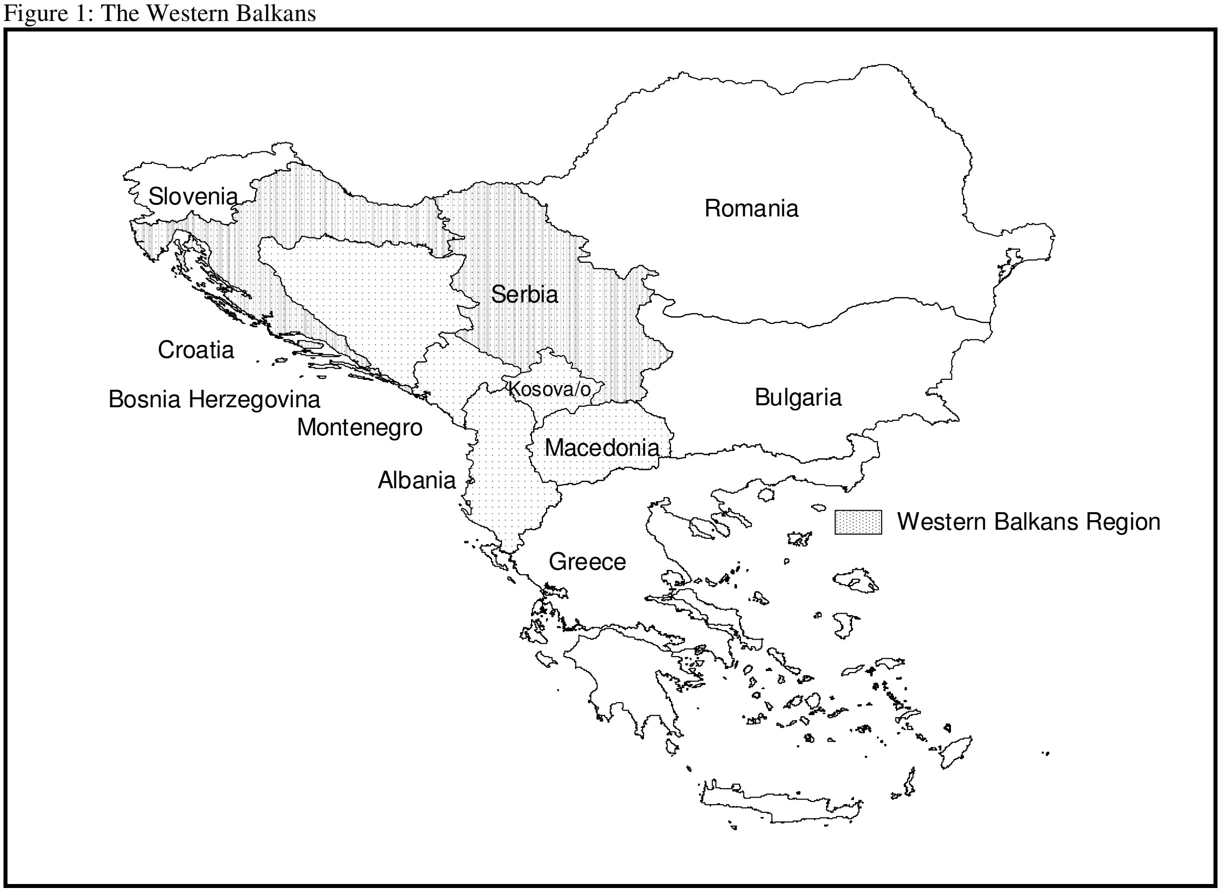
WB – Western Balkans

Introduction

After the last wave of enlargement that took place on 1 May 2004 with the accession of ten new Member Countries now the EU stretches from the Atlantic Ocean to the Carpathian Mountains, and from the northern Lapland down to the Mediterranean coasts. Nevertheless the map of the European Union has still to cover a big area, i.e. the Balkan Peninsula. At the moment, there are two countries that, at least physically, could be placed in the Balkans, namely Greece and Slovenia, which are EU Member States. The rest of the countries in the region are preparing to accede and are in different points during the accession path.

In this paper we will not refer to the whole region, but only to some of the Balkan countries. The countries under study here are the following: Albania, Bosnia and Herzegovina, Croatia, Kosova/o, Macedonia, Serbia and Montenegro. These countries constitute an area in the western side of the Balkan Peninsula lately referred to as "Western Balkans". This brand new term has been coined by the European Union to comprise those countries that were formerly part of the Socialist Federal Republic of Yugoslavia, less Slovenia, but adding Albania.

Figure 1: The Western Balkans



Source: Author's elaboration

The Western Balkans constitute an area of almost 264.000 square kilometres. This area lays from the Adriatic coast of Albania, Montenegro and Croatia in the West to the Balkan Mountains in the East. WB border with the European Union in the South (Greece) and in the North (Slovenia and Hungary) and with two Candidate Countries (Bulgaria and Romania) in the East.

Virtually this work could be divided into two parts. After having given a classification of the terminology which we will refer to in terms of geography and "politeness", the first part deals with the people who live in the area of the Western Balkans. It gives an overview on the main ethnic groups, their languages and history. Moreover, it deals with the social situation in the region and the level of human development reached by the countries. Furthermore, it takes into consideration the economy giving a particular attention to the Foreign Direct Investments considered a measure of political stability and of economic outlook of these countries.

The second part is concentrated entirely on the accession perspectives of the WB into the EU. All the countries of the region seem to have a strong European vocation and see their future within the European Union. On its side, the EU has already made clear its point of view on the Western Balkans considering these countries, together with Turkey, as part of the not-yet-concluded enlargement process. It has given to them an open prospect of accession. The framework within which this process takes place is the Stabilisation and Association Process.

The region

Geographically talking the Balkan Peninsula lays in the South-eastern part of the European continent. It is a triangular peninsula with a wide border in the North, narrowing to a tip as it extends to the South. The region takes the name from the mountains that characterise its geography, in particular the Balkan mountain range in central Bulgaria, and the name itself is a derivation of the Turkish word for "*a chain of wooded mountains*". The natural boundaries of the peninsula are generally accepted to be in the North the Kupa, Sava and Danube rivers, which bisect Croatia and Serbia and form a natural boundary between Bulgaria and Romania. North of that line lies the Pannonian plain and (in the case of Romania) the Carpathian mountains. The Balkan land mass is surrounded by the Adriatic, Ionian, Aegean, Marmara and Black seas from the southwest, south and southeast. While it is not a model peninsula as it has no isthmus to connect it to the mainland Europe, this definition is often used to denote the wider region[2].

The Balkans include, going southwards from the Northwest side and then northwards to the Northeast side, the following countries: Slovenia, Croatia, Bosnia Herzegovina, Serbia and Montenegro, Albania, Greece (the mainland), the Former Yugoslav Republic of Macedonia[3], Kosova/o[4], Bulgaria, Romania, Moldova and the European part of Turkey (known as the Eastern

[2] "Balkans" in Wikipedia – The Free Encyclopedia

[3] The name, which is the official one with which the United Nations refers to the country from 1993, is still under a dispute between the country itself and Greece which claims that an official recognition of the constitutional name "Republic of Macedonia" could lead to territorial pretences on the Greek region with the same name. Greece sustains that the name Macedonia is a Greek one and put a heavy pressure on the country in order to change the flag which initially used the sixteen-ray Vergina Sun. In 1995 FYR Macedonia substituted it with a 8-ray star and amended the Constitution in order to gain membership to the UN and lift the Greek embargo imposed in 1994. The United States of America officially recognised the constitutional name of the Republic on 4 November 2004. The EU has been more cautious in this respect due to pressure from Greece which has firmly protested against this recognition. In this paper we will refer to the country with the name its own people have decided to refer to their country, i.e. Macedonia. For more information consult the voices "Macedonia", "Republic of Macedonia" and "Vergina Sun" in Wikipedia.

[4] Though the Albanians use the name version ending with "a", i.e. Kosov**a**, nowadays the most common name version which the country (or the entity, province, region as one prefers) is referred to is Kosov**o**, ending with "o" (the Serbian version). To be correct we will use the a/o ending form. Kosova/o formally proclaimed its independence from Former Yugoslavia on 2 July 1990 and its Assembly adopted a Constitution in 7 September of the same year (in the town of Kaçanik). One year later, in the period 27-30 September 1991, a referendum on the

Thrace or called with the traditional name of Rumelia). Romania is conventionally included as a successor state to the old Ottoman Empire, which formerly ruled the whole region, whereas the inclusion of Slovenia is more controversial, but it has often been regarded as Balkan due to its association with the former Yugoslavia.

The distinct identity of the Balkans owes as much to its fragmented and often violent common history as to its mountainous geography. The region has perennially been on the edge of great empires. Its history being dominated by wars, rebellions, invasions and clashes between "super powers", from the times of the Roman Empire to the latter-day Yugoslavian wars. Its fractiousness and tendency to splinter into rival political entities led to the coining of the term "balkanize"[5] (or balkanization). The term Balkan commonly connotes a connection with violence, religious strife, ethnic clannishness and a sense of hinterland[6].

Due to the aforementioned connotations of the term "Balkan", many people prefer the term South-eastern Europe instead. The use of this term is slowly growing. For example, an European Union initiative of 1999 is called the Stability Pact for South Eastern Europe[7], and the online newspaper Balkan Times renamed itself Southeast European Times in 2003[8]. Nevertheless, the use of this term to mean the Balkan peninsula (and only that) technically ignores the geographical presence of northern Romania and Ukraine, which are also located in the South-eastern part of the European continent.[9]

The major part of the Balkan countries themselves do not prefer to be addressed with the term. Some of them have in many respects rather distinct features from the rest of the region. Slovenia, for example, has always seen itself nearer to Austria and Hungary and to the wider region of Mittel-Europe than to the peninsula. Greece considers itself as belonging to Europe, due to the fact that it is a Member State of the EU, and it is not surprising to see very often the Greeks' disapproval in being called Balkanic. Romania has stronger ties with Eastern Europe and the inclusion into the Balkans is considered conventional rather than historically based. Even Croatia has the tendency to seek other adjectives and other points of reference rather than accepting to being called a Balkan country. It may happen to hear Albania and Montenegro refer to themselves as Adriatic, or even Mediterranean countries. Only Serbia seems to accept this geopolitically problematic terminology without problems.

The people

With an overall population of nearly 24,4 million inhabitants the region is demographically comparable to Romania (circa 22 million inhabitants). The density of the population is 92 inhabitants for square kilometre (Table 1). This datum may appear meaningless since there are

independence of the region was held. Around 80% of the electors voted actually, of which 99,89% were in favour of independence. Since the end of the 1999 war, the country has been under UN administration according to the UN Security Council Resolution 1244. We will treat the case of Kosova/o separately from S&M, so in all the cases in which data are available we will present them in this way. In this work we will adopt both versions of the spelling in most of the case where both languages, the Albanian and the Slavic, are official ones. This seems to be the model used by the international community when deal with this kind of situations.

[5] In fact it means "to break up (as a region or group) into smaller and often hostile units" according to Merriam-Webster Online Dictionary.

[6] "Balkans" in Wikipedia – The Free Encyclopedia.

[7] Web site www.stabilitypact.org .

[8] Web site www.balkantimes.com .

[9] Balkans in Wikipedia – The Free Encyclopedia.

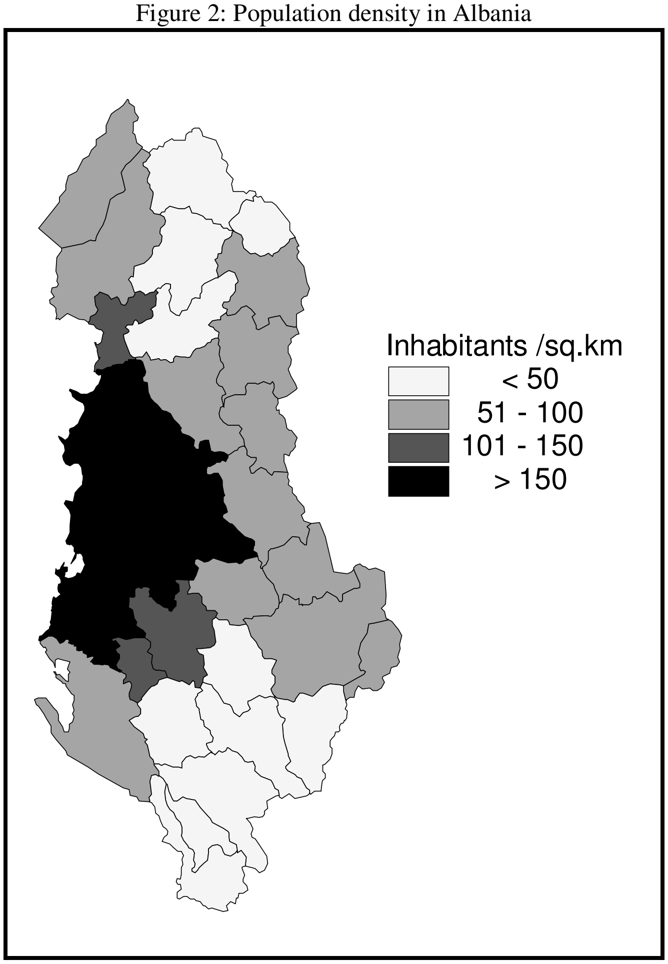
dramatic differences, to the magnitude of threefold, between the less inhabited area of Montenegro (49 inh./km^2) and the most densely inhabited area of Kosova/o (193 inh./km^2). These data are nevertheless averages and differentials within countries themselves must be taken into consideration.

Table 1: Total and density population in the Western Balkans

Country	Population	Total Area (km^2)	Density (inh./km^2)
Albania	3.544.808*	28.748	123,3
Bosnia and Herzegovina	4.007.608*	51.129	78,4
Croatia	4.496.869*	56.542	79,5
Kosova/o	2.100.000§	10.877	193,1
Macedonia	2.071.210*	25.333	81,8
Montenegro	672.656#	13.812	48,7
Serbia	7.498.001#	77.474	96,8
Total	**24.391.152**	**263.915**	**92,4**

Source:* CIA Factbook, 2004 estimations; § UNFPA 2003; # Census data (2003 for Montenegro and 2002 for Serbia)

Figure 2: Population density in Albania

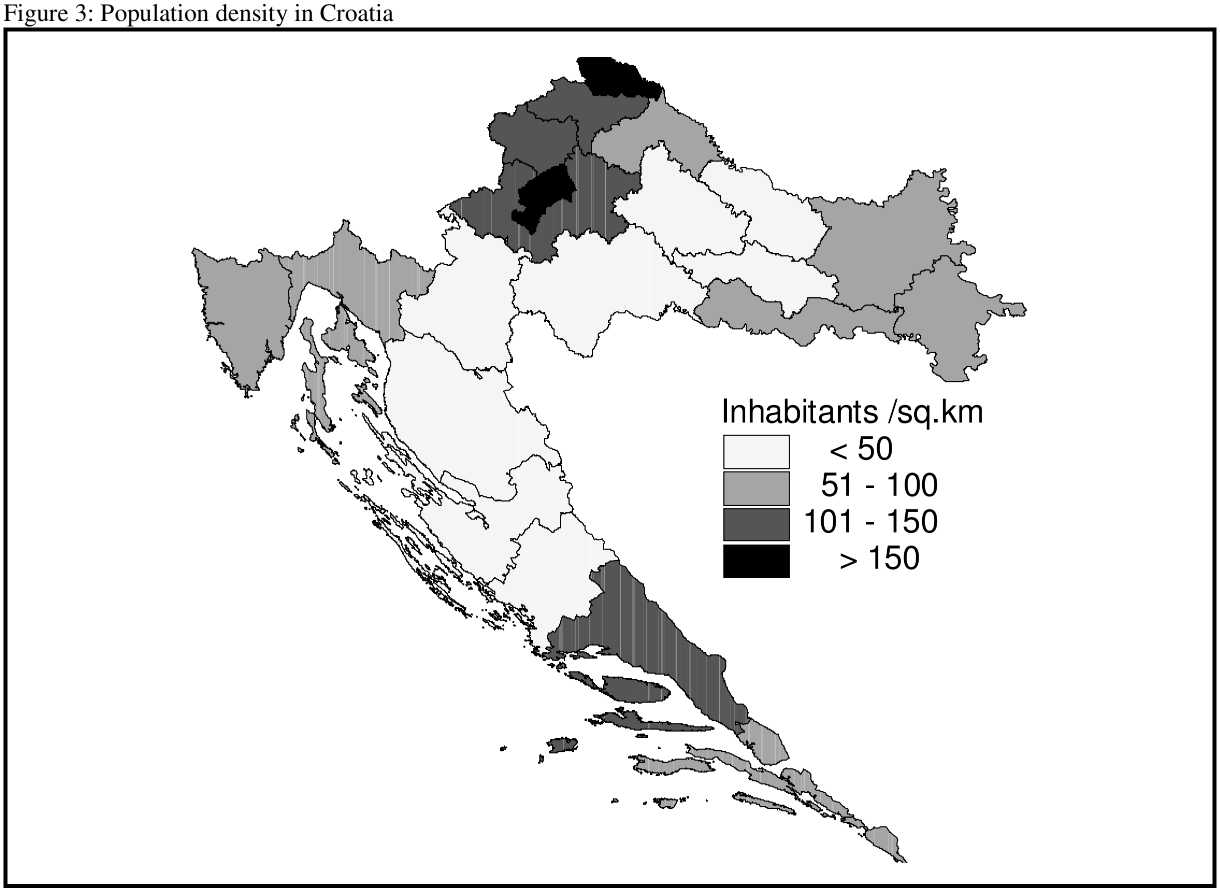


Source: Author's elaboration on data from 2001 Census on Population.

For example, the datum of the population density in Albania may appear insignificant considering that the density varies in a tremendous way in different parts of the country (Figure 2). In fact, it passes from 21 inh./km^2 in the District of Kolonjë in the South-eastern Albania to 423 inh./km^2 in the District of Tiranë, the Capital city in Central Albania. The Albanian population is generally concentrated in the plain coastal zone of the country[10]. Other important cities such as Durrës and Vlorë are situated in this area.

Another example is Croatia. According to the last Census of Population (2001) the average density of population is 78,4 inh./km^2. The country is, nonetheless affected by consistent differentials in the distribution of the population in the territory (see Figure 3). The less densely inhabited County is Lika-Senj with just 10 inh./km^2, whereas the most densely populated County in the country is Medimurje with more than 162 inh./km^2. Not to mention the City of Zagreb, the Capital City of Croatia, which alone is home for 17,6% of the total population of the country and where the density exceeds 1.215 inh./km^2. The Croatian population is concentrated in four main areas of the country. The first one is the area around Zagreb, administrative, financial and cultural centre of the country. The other areas are Istria (North-west) and Dalmatia (South), which are both well known for their tourist attractiveness. And fourth, the area around the city of Osijek (North-East).

Figure 3: Population density in Croatia



Source: Author's elaboration on data from 2001 Census on Population.

The situation is not much different in Serbia where, against an average population density of 97 inh./km^2, there are areas in which the density of population is only 8 inh./km^2 as in the case of

[10] Ninka (2003)

the municipality of Crna Trava (in the District of Jablanica) to arrive at the most densely inhabited area of the City of Belgrade (which constitutes together with the surrounding municipalities a separate District) with an average of 489 inh./km^2. Some areas of the Belgrade have an impressive density of population. For example, Novi Beograd has a density of 5.312 inh./km^2, whereas in Vracar, in an area of only 3 km^2 there live nearly 60.000 people.

We expect to find similar patterns of population distribution also in Macedonia. In fact data from the last Census of Population (year 2002) depict a country with several municipalities in rural areas in which the density of population is just 1 inh./km^2. On the contrary, in the urban areas with cities such as Manastir/Bitola, Kumanovë/Kumanovo, Kërçovë/Kicevo, Struga and Ohër/Ohrid the density exceeds three to eight times the average density of the country (82 inh./km^2). Furthermore, in the bigger cities of Tetovë/Tetovo and Gostivar the density arrives at 814 and 991 inh./km^2 respectively. In the Centre of Shkup/Skopje, whose total population arrives at slightly less than half million inhabitants, the density exceeds 4.589 inh./km^2.

At the end we have a look at Montenegro. The small Republic of the State Union of Serbia and Montenegro has a population of 672.000 people in an area of less than 14.000 km^2, having an average density of nearly 50 inh./km^2. Nevertheless, due to its mountainous relief, its population is concentrated on the coast. In fact, all the municipalities with a relatively high population density (more than 100 inh./km^2) lay on the coast. The Municipality of Podgorica, Montenegro's Capital City, has a density of 121 inh./km^2, while the most densely populated municipality is Tivat with 340 inh./km^2. In this respect, other important municipalities are Herceg Novi (155 inh./km^2) and Budva (140 inh./km^2).

Unfortunately there exist not reliable data on population at municipal level (or other administrative division) for Bosnia Herzegovina and Kosova/o. The last reliable population census in Kosova/o was conducted in 1981. Another one was conducted in 1991, but its accuracy is questionable due to a broad boycott by the majority of ethnic Albanians. A new Population and Housing Census is urgently needed in Kosova/o for several reasons and have become a top priority of the Statistical Office of Kosova/o.

The last Census of Population in Bosnia Herzegovina has been carried out 15 years ago, in 1991. Due to wide movements of population caused by war and ethnic cleansing all the data on population are calculations and estimations so it is obvious the vital importance of a new Census.

Table 2: Population dynamics in Western Balkans year 2004

Country	Population growth rate %	Birth rate ‰	Death rate ‰	Net migration rate ‰
Albania	0,51	15,08	5,02	-4,93
Bosnia and Herzegovina	0,45	12,56	8,33	0,31
Croatia	-0,02	9,51	11,3	1,58
Kosova/o	…	…	…	…
Macedonia	0,39	13,14	7,83	-1,45
Serbia and Montenegro	0,03	12,13	10,53	-1,33

Note: the data on Serbia and Montenegro include Kosova/o
Source: CIA Factbook, 2004 estimations

With an annual population growth rate of 0,51% Albania ranks first among the Western Balkan countries. Follows Bosnia Herzegovina and Macedonia (respectively 0,45% and 0,39%). In fact, these three countries have high birth rates in front of death rates lower than the regional average. Serbia and Montenegro scores a very low growth rate of its population, while Croatia has a negative one. Both of them have higher death rates than the rest of the countries in the region (see Table 2).

An important and interesting aspect to be taken into consideration is the population of the capital cities. Table 3 depicts a situation in which, in average, the population in the capital cities in Western Balkans has grown in a considerable manner between the last two Censuses of Population (17,6 per cent). With the exception of Serbia's capital, Belgrade, which has grown by only 1,8 per cent (in a context where the total population of Serbia has decreased by 1 per cent) the other capital cities' population has grown by more than 3 per cent. Belgrade is also the biggest among the capital cities in WB in absolute terms with a population that exceeds 1,5 million inhabitants. The smallest is Podgorica of Montenegro (179.000 inh.). In the city lives 27 per cent of all the country's population.

Table 3: Population in Capital cities of the Western Balkans

	Population in Year §	Population in Year #	Increase in %	% on total Pop Year #
Belgrade	1.548.275	1.576.124	1,8	21,0
Podgorica	152.288	178.843	17,4	26,6
Prishtinë/Priština	108.083	500.000	362,6	23,8
Sarajevo	429.672	444.800	3,5	11,1
Shkup/Skopje	444.760	470.642	5,8	22,7
Tiranë	238.000	343.078	44,4	9,7[11]
Zagreb	753.200	779.145	3,4	17,3
Western Balkans	3.674.278	4.293.132	16,8	17,6

Author's elaborations on the following sources:
Population Census Data: Belgrade, Podgorica, Shkup/Skopje, Tiranë and Zagreb; Estimations for Prishtinë/Priština and Sarajevo
§ Population Census Data: 1994 (Macedonia); 1991 (Serbia, Montenegro, BiH, Croatia); 1989 (Albania); 1981 (Kosova/o)

The population of Prishtinë/Priština has increased by 363 per cent in 24 years. In this period there have been mass movements of population towards the Kosova/o's biggest city as a result of poverty, lack of security and of employment opportunities in the rural areas and more recently as a consequence of the war. People left without a house where to live found a shelter in Prishtinë/Priština.

Tiranë, Albania's capital, is another example of similar patterns with respect to internal migration of population. Among others, exploding unemployment caused by the closure of the factories and the dissolution of the agricultural cooperatives have been the principal factors that forced people to abandon the countryside and search for a better life in the big cities of Albania, mainly in Durrës and Tiranë[12].

[11] According to the local Government of the Municipality of Tiranë (WWW site: www.tirana.gov.al) the total population at the end of year 2003 was 518.143 inhabitants or 14,3% of Albania's estimated total population. Others believe that, if the unregistered inhabitants are included, the population of Tiranë arrives to 700.000 or 19,7% of the whole population of the country.
[12] Ninka (2003)

The overall picture of the Western Balkans that comes out is the one of a rural area with a few big cities (normally the Capital Cities) which face high concentration of population and act as cultural centres and attractive poles of employment.

The ethnic groups

The Balkans can be considered as a melting pot in terms of populations, languages spoken, cultures and religions. In this paragraph we present the ethnic composition, though not exhaustive, of various countries and the ethnic structure of Western Balkans as a whole (Table 16). In any case one must consider the fact that these countries have recently been, and to a certain extent still are, subject to important population movements. This changes have taken various forms of internal migrations from one region to another, or from one country to the other (sometime spontaneous in search of better life and more possibilities, very often due to war or ethnic cleansing), or internal movements within countries themselves, emigration to Western Europe and North America. The later has brought as a result the fact that, in some cases, there are strong ethnic communities from the Western Balkans living abroad. For example, it is estimated that around 2,8 million[13] Albanians, 2,6 million Serbs and 4 million Croats live in countries of Europe (mostly within the European Union borders), North America (mainly in USA and Canada), Australia and South America (mainly in Argentina, Chile, Peru, Brazil).

Table 4. Ethnic structure of population in Western Balkans (in percentage)

Country	Albanian	Greek	Serbian	Slovene	Croatian	Bosniak	Macedon.	Hungar.	Monten.	Roma	Turkish	Other	Total
Albania	98,0	1,8	*				*		*	*		0,2	100
Bosnia H.			37,1		14,3	48,0						0,6	100
Croatia	0,3		4,5	0,3	89,6	0,5	0,1	0,4	0,1	0,2	0,01	3,9	100
Kosova/o	88,0		7,0			*				*	*	5,0	100
Macedon.	25,2		1,8			0,84	64,2			2,7	3,8	1,5	100
Monteneg	7,1		30,0		1,1	9,4			40,6	*	*	11,8	100
Serbia	0,8		82,9	0,1	0,9	1,8	0,4	3,9	0,9	1,4		6,9	100

Data on Albania refer to 1989 Population Census; Data on Macedonia refer to Census release on 1 December 2003. Data on Croatia refer to year 2001 Census; Data on Serbia refer to year 2002 Census on population.
Data on Montenegro refer to year 2003 Census on population.
*included in Other (the group may include, according to each country and differently one from the others, Yugoslavs, Bulgarians, Bunjevac, Vlachs, Goranci, Moslems, Germans, Romanians, Russians, Ruthenians, Slovaks, Ukrainians, Czechs, not affiliated, unknown, not declared).

The focus of this work will be on the main ethnic groups in the Western Balkans, namely the Albanians and the South Slavs i.e. the Croatians, the Serbs, the Bosniaks, the Montenegrins and the Macedonians.

The Albanians

The modern Albanians are believed to be the unique and direct descendants of the Illyrians who are generally known as to have been living in Western Balkans since 1200 BC. After 1200 BC,

[13] In this count are not considered the Albanians who live in Turkey who, according to a declaration of the Minister of Education of the Turkish Government, amount at about five million.

classical Greek records describe the Illyrians as a non-Greek population to the North and West. Based mostly in archaeological and linguistic evidence the historians affirm that Illyrians inhabited the lands which today make up Albania and the Former Yugoslavia. The mountainous areas of Albania have been continuously inhabited by the descendents of the Illyrians since 1200 BC. In other parts of Former Illyria other populations took their place.

Albanians are divided into two main distinct groups with proper dialects, social structures and habits: the Ghegs (or Gegs) and the Tosks. There is not quite a clear division line between the two groups, though the River Shkumbin(i) is considered like that one. Along this river passed the line, the so called Theodosius' line, that divided the Roman Empire of Orient from the Roman Empire of Occident and territories inhabited by Albanians almost in half. The Albanians living in Former Yugoslavia and in the northern part of the country are Gheg, while those in the south are Tosk. The standard written Albanian is based on Tosk dialect and it is used also in Kosova/o and Macedonia, whose population is Gheg.

Table 5: Main ethnic groups in the Western Balkans

Ethnic Groups		**Total**		**%**	
Albanians		5.967.854		24,5	
South Slavs	*Serbs*	16.841.452	*8.289.992*	69,1	*34,0*
	Croats		*4.681.297*		*19,2*
	Other Slavs		*3.870.163*		*15,9*
Other Ethnic Groups		1.687.569		6,4	
Western Balkans		**24.391.152**		**100**	

Source: Author's calculations on data presented in Table 16.

Albanian is an Indo-European language, but stands in its own distinct from other language groups. Albanian is believed to be the only surviving language descended from ancient Illyrian, but the linguistic evidence is not simple in this case and relies on fields like onomastics.
Based on archaeological and linguistic sources and evidence on one hand and on the lack of recorded migration to the area by other groups on the other hand, historians believe that the Illyrians became the modern Albanians.

Situated in a place that is a crossroad between West and East, Albanians were under the influence of the Roman Catholic and Byzantine Orthodox Churches and also of Islam. During the 2nd century of the Christian Era, Illyria (part of which is modern Albania) was Christianised. In 732 AD Pope Gregory III placed the Albanian churches under the leadership of the patriarch of Constantinople. The Christians became part of the Eastern Orthodox church. In 1054, following the Schism between the Eastern and Western churches, there was a split in the Albanian church. Southern Albania remained associated with Constantinople, and northern Albania reunited with Rome.

In the XV century, the Turks introduced Islam. The Turks viewed Roman Catholicism as a threat to their rule. Roman Catholics were required to pay higher taxes so probably some choose to convert to Islam, while others, the so called "crypto-Christians" behaved like Muslims in public in order to escape the taxes, continuing to practise the Catholic faith in their home. But many Albanians left Albania, like the Arbëresh who settled in Southern Italy.

Nowadays Albanians are mostly Muslim, with Catholic communities in the North and Orthodox communities in the South. The Muslim community itself is divided in two parts: the Sufi Bektashi sect and Sunni Muslims[14]. There are no exact figures on the demographical distribution of the three main religious communities. The figures generally reported are 75 years old and object to speculation. One must bear in mind that for about a quarter of century (1967-1990) Albania was officially proclaimed an atheist State and religion was banned from the social life. As a consequence generations of children were brought up under impressive antireligious propaganda and where mixed marriage unions were seen favourably by the Government, and often there were moral incentives to this aim. Albania is a clear example of a secular country where three religions coexist in a pacific way. Those who stress the importance and the supremacy of one religion over the other two (or more) do it with the aim to destroy such a harmonious existence.

There are about 6 million Albanians living in the Western Balkans today. Accounting for 24,5% of the total population they constitute the second biggest ethnic group. Around 3,5 million Albanians live in Albania. Slightly more than half a million live in Macedonia, concentrated in the western part of this country. Approximately 1,85 million live within the borders of Kosova/o. There are also about 47.000 Albanians living in Montenegro and slightly more than 60.000 in Serbia, almost all living in Preshevë/Preševo, Medvegje/Medvedja and Bujanovac, three municipalities in Southern Serbia.

The Slavs of South

The Slavs of South (or Yugo Slavs[15]) first appeared in the Balkans in times when the Roman Empire was undergoing a process of irreversible decline. They entered in different waves between 500 and 700 AD and their settlements were located in vast Balkan areas from the northern part of Adriatic coast to the South and going eastward reaching the Black Sea. These groups were divided into tribes before they arrived, but there was little variation between one group and its neighbours. Most of nowadays distinctive features of these people are predominantly a product of the last two centuries, and sometimes even of the last decades.

In this work we will deal with two main groups of the Slavs of South, namely the Croatians and the Serbs. We will not talk here about the other two main groups of Slavs that became the Slovenes (or Slovenians), which arrived first in the Balkans, around 500 AD, and the Bulgarians that appeared in the early 600s AD.

The Serbs, together with the Croatians, were the two main tribal groups of Slavic populations that settled firstly in the Central Europe, North of River Danube. The first major invasions took place in the half of VI century AD. In 547 and 548 they invaded the territories of modern Kosova/o and then, probably through Macedonia and central Albania, arrived to the city of Durrës in the Albanian Adriatic Coast. More consistent invasions have been registered around

[14] Albania's Bektashian community was proclaimed independent in 1921. The Muslim community decided on its division from both Caliphate and the World Headship of Islam through a congress held in 1923. Albanian Orthodox believers proclaimed their autocephaly in 1922. The Catholic community has not taken such initiative, but in a certain way has realized it de facto, as the clergy of the Franciscan Church have held links mainly with Austria, unlike Jesuits and Dominicans that maintained links with the Vatican.

[15] From Yug - South

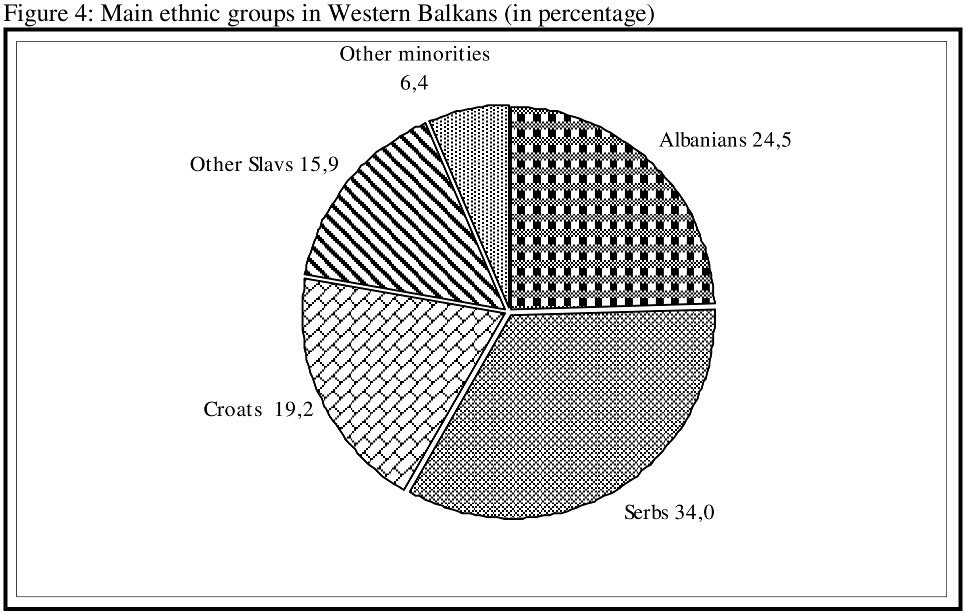
580.[16] In the first two decades of the VII century the Serbs and the Croatians fought against the tribes of Avars and consequently took their abandoned territories. The Croatians were settled in the territories of modern Croatia and western Bosnia while the Serbs occupied the region of modern Montenegro and North-western side of Kosova/o.

The Croatians

The South Slavic Croatians (or Croats), as mentioned above, reached the Balkans between the 500s and early 600s AD. The Croatians are Roman Catholic. The origins of their Catholicism can be found in the 800s when they fell under the control of Charlemagne. As a result many missionaries, especially Frankish ones, operated in the region inhabited by the Croatians. In 879 AD a Croatian State was recognized by the Pope.

Because of the influence of the religion the culture of the Croatians has Central European and catholic features. The language is Croatian and is used primarily by the Croats. It is an official language also in Bosnia and Herzegovina and in the Serbian AP of Vojvodina. The Croatian language is a language of the western group of South Slavic languages. It is one of the standard versions of the Central-South Slavic dia-system, formerly (and still frequently) called Serbo-Croatian. Croatian is based on the Štokavian dialect (with some influence from Čakavian and Kajkavian) and it has been written in along the centuries in Glagolitic[17], Cyrillic[18] and Latin. At the present time the standard Croatian language is written with the Latin alphabet.

Figure 4: Main ethnic groups in Western Balkans (in percentage)



Source: Author's elaboration on data presented in Table 16.

[16] Malcolm (1998), page 54.

[17] The Glagolitic alphabet or Glagolitsa is the oldest known Slavonic alphabet. It was created by Saint Cyril around 862-863 in order to translate the Bible and other texts into the Old Church Slavonic language. The name comes from the Old Church Slavonic glagolu, meaning word. Source: Glagolitic Alphabet in Wikipedia – The Free Encyclopedia.

[18] The Cyrillic Alphabet is derived from the Early Cyrillic Alphabet, which itself derived from Glagolitic. Its birth is attributed to the Saints Cyrillis and Methodius, and from here the name. Nowadays, apart from the Slavic languages, several other languages are written with this alphabet. Among them there are some Caucasian, Turkic, Mongolian and even Romance ones (in Moldova, but not in use since 1989).

Nowadays the Croatians live mostly within the borders of the Croatian state and in Bosnia and Herzegovina, where they are one of the three constitutive nations. There are slightly more than 4 million Croatians in Croatia and about 600 thousand in Bosnia and Herzegovina. Seventy thousand Croatians live in Serbia and some thousands in Montenegro. Summing up, there are 4,7 million Croatians living in the Western Balkans.

The Serbs

The South Slavic Serbs (or Serbians) were closer to the Byzantium so their culture and state organization resembled the Byzantine one. This fact led to another distinctive feature of the Serbs, the religion. Being influenced by the Eastern Orthodox Church the Serbs were converted to the Orthodoxy. Historically, the religion has been the key factor in creating a Serbian identity. The Serbian Orthodox Church, that became independent from the Greek Orthodox Church in 1346 AD, has played an important role in the cultural life of the Serbs along the centuries[19].

The Serbian language, as the Croatian one, is a standard version of the South Slavic language dia-system. It is mainly spoken in Serbia, Montenegro, Bosnia and Herzegovina (mainly in Republika Srpska) and in other countries where there live Serb minorities. It is written both in Cyrillic and Latin alphabet, but Cyrillic is preferred as to distinguish the language from Croatian which is now only written in Latin alphabet[20].

The Serbian people nowadays inhabit mainly the Central Serbia, the Autonomous Province of Vojvodina (where they are 65% of the population) and Bosnia and Herzegovina, where they are one of the three constitutive nations with 37% of the total population. The 2002 Census of the Republic of Serbia[21] (data refer to Central Serbia and the AP Vojvodina) counted circa 6,2 million Serbs (slightly less than 83% of total population).

According to the last Census of the Republic of Montenegro (year 2003), circa 202.000 inhabitants were declared as Serbs, counting for 30 % of total population. One must bear in mind that only a decade before, in the 1991 Census, only 57 thousand people (9,3%) declared themselves as Serbs. This dramatic, and for many observers rather surprising, increase of Serbian population is obviously not demographic, but has a political valence. It means that some 20% of the inhabitants of Montenegro revised their ethnic identity and declared themselves as Serbs[22].

Furthermore, there are around 1,5 million Serbs in Bosnia and Herzegovina, mainly in Republika Srpska, circa 204 thousands live in Croatia, 147 thousands in Kosova/o and 37 thousands in Macedonia. In total, in the Western Balkans live slightly less than 8,3 million Serbs. They account for about one third of the total population being the biggest ethnic group in this region.

The Montenegrins

Montenegrins[23] are those South Slavs who are primarily associated with Montenegro. The matter of Montenegrin nationhood is a controversial issue, primarily among the Serbs. With regard to

[19] Malcolm Noel, Kosovo a short history, 1998, Italian Edition by Bompiani, page 43.
[20] The Statistical Office of Serbia publishes in Cyrillic version of Serbian and in English. The WWW Home page of the Serbian Government offers the possibility to read the page in both versions of written Serbian, whereas the site of the Montenegrin Government is uniquely in Latin.
[21] Final results of the census 2002, Communication N. 295, Republic Statistical Office, 24 December 2002
[22] There have been several speculations suggesting that many changed their ethnic membership as a sign of protest against the Montenegrin Government that pushes towards complete independence of the little Republic from Serbia.
[23] Sometimes the term refers to an inhabitant of Montenegro without regard to the ethnic identity or nationality.

history, language, religion and ethnic origin, Montenegrins are most closely related to the Serbs, although there are links with the other South Slavs, too. We shall not enter into these disputes and shall consider as Montenegrins those who declared themselves as such in the population censuses along the Western Balkans. There are almost 350 thousand Montenegrins in the area. Most of them (79%) live in Montenegro where they are 40% of the total population. Other two important groups could be found in Serbia (70.000) and in Croatia (5.000).

The Macedonians

The Slavic Macedonians are an "ethnic" group that mainly inhabits the region in which nowadays is situated the Republic of Macedonia. It is generally accepted that these Slavs of South reached Macedonia around 600s AD. The Macedonia/n is an explosive term since it is claimed from many parts as proper and it is font of ambiguity for several reasons. First of all, the name derives from the old name Macedon, the ancient kingdom of Alexander the Great. There is a Region in Greece called Macedonia and Greece claims its ownership on the name. Even the existence of a Macedonian nation is put into discussion. The people who lives in these territories are often called Macedonians, and still this is ambiguous at a certain extent, since several different ethnic groups inhabit the region, such as Albanians, Bulgarians, Greeks, Turks, Vlachs, Serbs and Roma/Gypsies.

The Macedonian language makes part of the South Slavic languages group. It is closely related to the Bulgarian language and it has also some similarities with Serbian, though the "Serbo-Croatian" on the one hand and the "Bulgarian-Macedonian" on the other hand can be considered as two separate subgroups. The differences from Bulgarian have been deliberately emphasized and the region's historical figures were promoted by the Yugoslav communists as being uniquely Macedonian (rather than Serbian or Bulgarian). Macedonian is the official language in the Republic of Macedonia, but native speakers are also found in Serbia and Montenegro, Greece, Croatia and Albania. A modified Cyrillic script, the Macedonian Cyrillic, with 31 letters is used for writing.

The issue of the Macedonian language, as that of the nation itself, is also controversial and font of hatred between Balkan States. Bulgaria has refused to recognise the existence of a separate Macedonian nation and a separate Macedonian language. The arguments put forward in their favour are that the language of the Macedonian Slavs has been usually regarded as a Bulgarian dialect before the 1940s. The Bulgarians claim that Macedonian linguists have come even to falsifications of history and documents to prove the existence of a Macedonian language before that time.

The Greek Government on its side consider the use of the name as offensive to the Greek cultural and historical inheritance. They assert that the dialect spoken by Alexander the Great in ancient Macedon is the only "Macedonian language". They further argue that since Slavic immigration to the region did not begin until well after the decline of the Macedonian Empire, it is historically inaccurate to refer to a Slavic language as Macedonian.

The Slavic Macedonians are generally associated with the Macedonian Orthodox Church. This fact is considered as to have been a political move of Marshal Tito in order to weaken Serbia's dominance over Yugoslavia and the authority of the Serbian Orthodox Church, from which it descended. In fact, the Socialist Republic of Macedonia became a republic of the Socialist Federal Republic of Yugoslavia in 1946 with the city of Shkup/Skopje as Capital city.

Nowadays there are circa 1,4 million Macedonians in the Western Balkans with the overwhelming majority living in the Republic of Macedonia. Small minority groups reside in Albania, Croatia and Serbia (around 26.000 people).

The Bosnians, the Bosniaks and the Muslims.

As for many other things in the Balkans, even in this case the terminology could be misleading and may appear rather ambiguous. So the names Bosnian, Bosniak and Muslim, though similar (the first two), have distinct meaning and could refer to the same person as much as to different persons.

Though some disputes on terminology are not settled yet, with the term "Bosnian" (natively Bosanci) we call nowadays a person whose country is Bosnia and Herzegovina, without making any further reference to ethnic identity or religious belief. Putting it in this way we have a Bosnian who can be a Bosnian Serb, a Bosnian Croat or a Bosnian Bosniak, but also a member of any other nationality. Officially the Bosnian people do not exist. The Constitution of Bosnia and Herzegovina, in its Preamble, makes an explicit reference to the "*Bosniacs, Croats, and Serbs, as constituent peoples (along with Others), and citizens of Bosnia and Herzegovina*"[24]. But in the reality, there are today many people who prefer to call themselves as Bosnians[25]. The break up of Former Yugoslavia into several independent Republics and Entities brought as a consequence that people considering themselves simply as Yugoslavs were left without a homeland[26]. In fact, there have been reported cases of refugees and internally displaced persons that in the moment of returning home and being registered by the local authorities were asked to choose between citizenships identified along ethnic lines. Those people could not identify themselves in any of the options offered.

By the term "Bosniak" or "Bosniac" (natively Bošnjaci), on the other hand, we refer to the South Slavs who descend from those who converted to Islam during the Ottoman period (15th-19th century). The term "Bosniak" had a few hundred years ago the meaning that the term "Bosnian" has today, i.e. an inhabitant of Bosnia. Many of the people in Bosnia once called themselves "Bosniaks", including Catholic and Orthodox Christians, but this meaning has not been in use since then. It is important to note that the Bosniaks are not the only Muslims in the Western Balkans. There are other groups of Slavic Muslims (such as the Pomaks) as well as non-Slavic Muslims like the Albanians (partially), the Turks, the Roma and the Sinti[27].

Muslim with capital "M" was adopted in 1968 as a term for a member of a nation rather than "muslim" which is used in order to refer to adherents to Islam. It was used for the first time in the Census of Population of Yugoslavia in 1961 as an option for ethnic group membership by referring to it as "*Muslim in ethnic sense*". In the following years two different ways of thought or philosophies have been developed around the Bosniak national identity and two schools of thought emerged. On one hand, there were they who continued to consider themselves as secular Muslim nationalists. On the other hand, there were they who sought a kind of revival of the Islamic belief.

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[24] Dayton Peace Agreement, The General Agreement Framework: Annex 4 "Constitution of Bosnia and Herzegovina" 14 December 1995.
[25] See "Bosnians" in Wikipedia.
[26] In the Yugoslav Population Census of 1981, more than 1,2 million people or 5,4% of total population were declared as Yugoslavs.
[27] See "Bosniaks" in Wikipedia.

In September 1993, the Congress of Bosnian Muslim Intellectuals adopted the term "Bosniak" instead of the previously used "Muslim" in a tentative to differentiate the ethnic identity from denominational loyalty, in order to resolve the crisis of identity of this people after the demise of Yugoslavia.

The Bosnian language is mutually intelligible with Croatian and Serbian and derives, along with the latest two, from the Štokavian dialects. The question of standard language of Bosnia and Herzegovina is resolved in such a way that the three constituent nations have their educational and cultural institutions in their respective national standard languages: Bosnian, Croatian and Serbian.

The Bosniaks make 48% of the total population in Bosnia and Herzegovina, arriving at 1,9 million, but this figure is estimated. They are also 9,5% of the population in Montenegro (63.000 people) and 1,9% in Serbia (136.000 people). Other 21.000 live in Croatia, 17.000 could be found in Macedonia and another minority group lives in Kosova/o. In the Western Balkans there is nowadays an estimated population of circa 2,2 million Bosniaks.

Other nationalities in the Western Balkans

There are several minor ethnic groups in the Western Balkans which have been present in the area since ancients times. One of the most important (except those nationalities that have a national state and mentioned at the end of the paragraph) are the Vlachs which could still, nowadays, be found in the mountains of Northern Greece, Macedonia and Albania. The name *Vlach* was a Slavic word used from the Slavs to indicate people that didn't speak their language, mostly the Latin. The Vlachs are connected to the Romanians. In fact they call themselves Aromanian and the language they speak is mutually intelligible with the Romanian. They have been for centuries nomadic people, taking care of their flocks of sheep or horses.

Another group are the Gypsies or Roma who, with their origins in the far Northern India, date back their presence in the Balkans in 1300s. They were nomads and have been traditionally employed as metalworkers and entertainers. As e result of discrimination, the statistics about them could be inaccurate. The censuses also had the tendency to undercut the real consistence of this minority. Nowadays a little less than 200 thousand "*Western Balkanians*" declare themselves as Roma, though some estimates reach the number of quite 3 million, scattered along the whole Balkan region. Probably many of them declare a nationality of a Balkan State instead of declaring the Roma one.

Other minor groups are the Hungarians (more than 300.000, living especially in Serbian AP of Vojvodina), the Turks (80.000), the Greeks (63.000). Follow the Slovenes, the Jews, the Russians, the Ukrainians, the Czechs, etc.

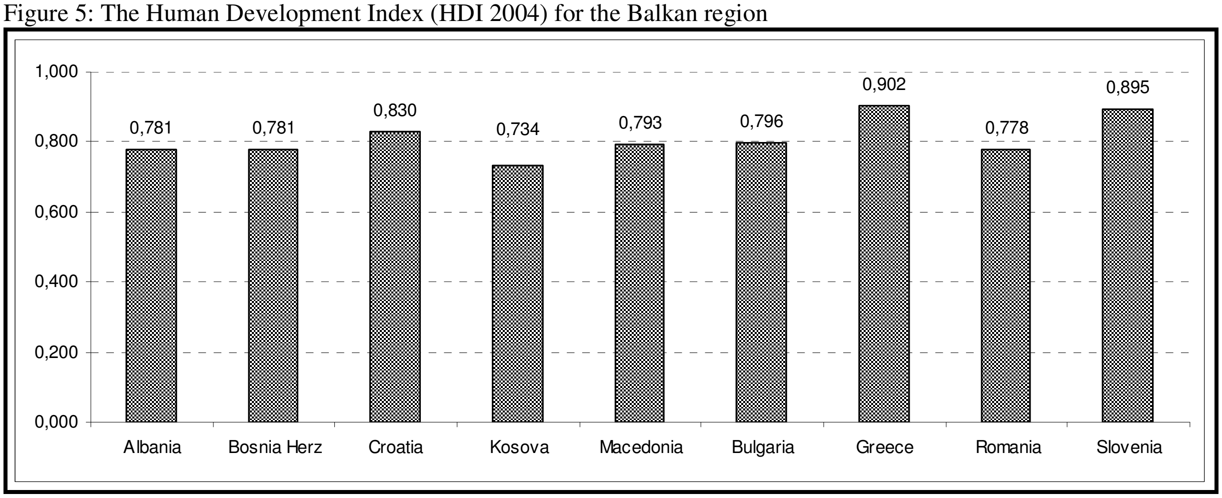
The social situation

In this part will be given a short overview on the social situation in the Western Balkans. A particular emphasis will be given to the human development measured by the Human

Development Index (HDI) of UNDP[28]. As already mentioned, due to statistical shortcomings, data on Kosova/o are results of surveys carried on by different international institutions.

With a HDI of 0,830 Croatia is the only country from the Western Balkans to rank at a high level of human development (above 0,800). Greece and Slovenia are the other two Balkan countries to share the same high ranking with Croatia. The rest of the Western Balkans ranks at a medium level of human development along with Bulgaria and Romania. Serbia and Montenegro do not have a HDI rank (see Table 17 and Figure 5). In terms of the Balkan region as a whole Kosova/o lies at the lower end of the spectrum. Still, the level of human development in these countries is more similar to countries in the high band, such as Norway, rather than those in the low level band, such as Sierra Leone.

Figure 5: The Human Development Index (HDI 2004) for the Balkan region



Source: UNDP (2004a); for Kosova/o UNDP (2004b).
Note: HDI = ⅓(Life Expectancy Index) + ⅓(Education Index) + ⅓(GDP Index)

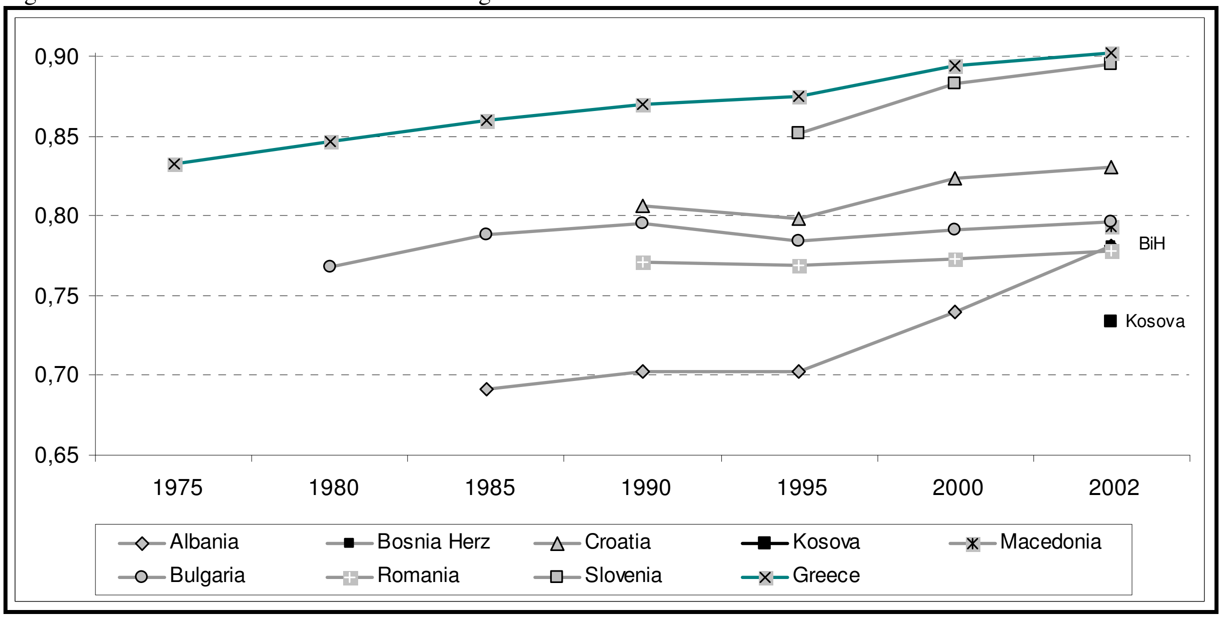
Figure 6 depicts the trend of HDI for all of the Balkan countries (with the exception of S&M). An important note to be made is that the HDI is not available for all the periods for all the countries. From the Western Balkans region only Albania and Croatia had the HDI calculated in 1990 (Albania also for 1985). The rest of the region had the HDI calculated for the first time in 2002. As it is shown below, there has been an increase in the HDI during the last decade. Albania has registered a higher improvement with respect to Croatia, but this better performance in relative terms could be attributed to a lower starting point (in 1990 the difference was of 0,104 points while in 2002 it was reduced to 0,049 points).

The components of HDI are shown below (in Table 17). HDI consists of the Life Expectancy Index (LEI), the Gross Domestic Product Index (GDPI) and the Education Index (EI). As a basic indicator of whether people are enjoying a long and healthy life, the LEI is one of the fundamental components of the HDI. According to the last Human Development Report[29] and

[28] The HDI is perhaps the best-known measure of human development. It was introduced in the first Human Development Report (HDR) from the UNDP published in 1990. The idea behind was to provide a measure of the human development other than economic growth rates like GDP or income. The HDI incorporates the GDP (adjusted for purchasing power), but also includes life expectancy and educational attainment. The HDI ranks countries on a scale of 0 to 1. Countries are ranked at high, medium and low levels of human development based on their HDI score. Countries scoring closest to 1 have a higher level of human development. In 2004 Norway scored the highest level of human development being ranked first with a HDI value of 0,956 while at the bottom level was ranked Sierra Leone with a HDI value of 0,275 (Source UNDP "Global HDR 2004").
[29] UNDP (2004a).

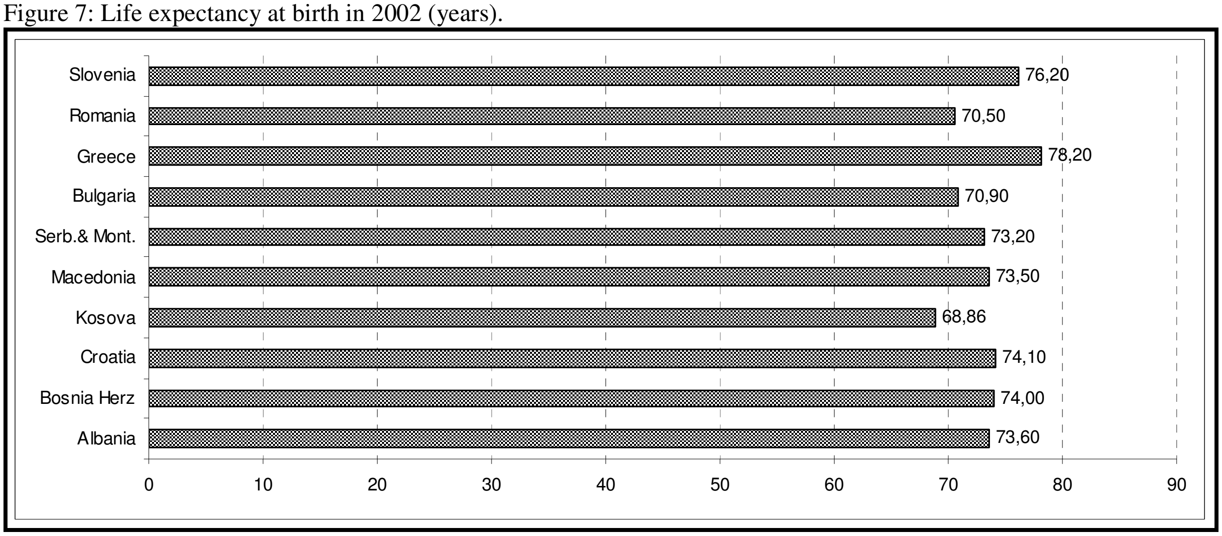
the Human Development Survey on Kosova/o[30], average life expectancy is over 70 years for the whole Balkan region with the exception of Kosova/o for which the figures are levelled at 68,8 years[31] (67,8 for men and 69,9 for women). Greeks and Slovenians expect to live longer (78 and 76 years in average) than the others. In the Western Balkan the average expected life is of circa 73-74 years. Surprisingly, people in the Western Balkans can, on average, expect to live longer (two to three years) than people living in Bulgaria and Romania, two Candidate Countries (see Figure 7).

Figure 6: The trend of the HDI in the Balkan region.



Source: UNDP (2004a); for Kosova/o UNDP (2004b).

Figure 7: Life expectancy at birth in 2002 (years).



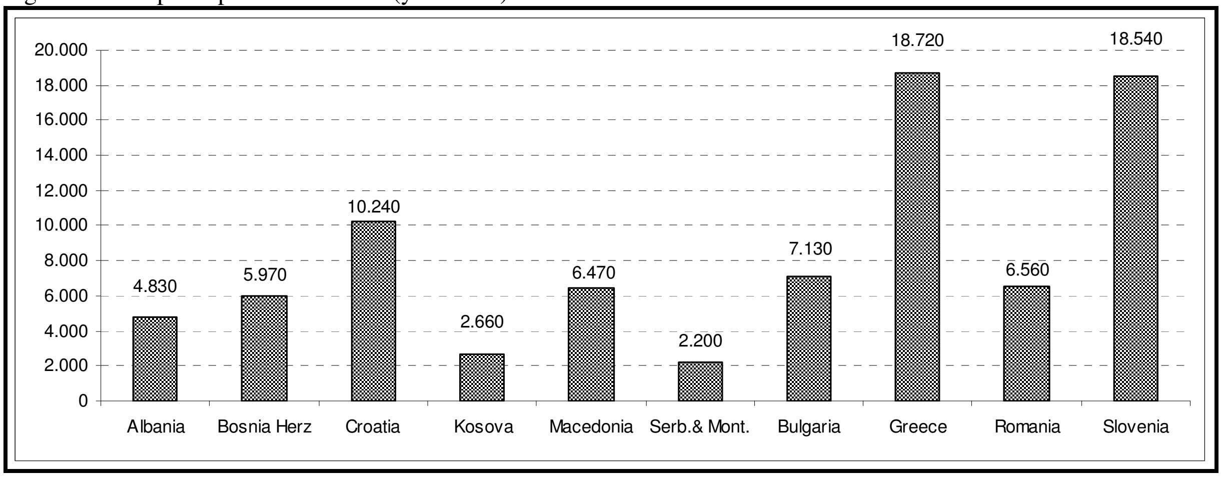
Source: UNDP (2004a).

[30] Data are reported in UNDP (2004b).

[31] LEI is HDI's most susceptible component to exogenous shocks, such as the outbreak of conflicts or epidemics. Thus, it takes a long time for improvement in life expectancy to manifest itself in aggregate statistics, compared to deterioration trends, which can manifest rapidly in the short-term. In fact, before the armed conflict of 1998-1999 expected life for people in Kosova/o was higher than 70 years, in line with the rest of WB. The impact of the war was a sharp decrease of nearly 5 years in life expectancy (see UNDP 2004b).

The next component of HDI taken into consideration here is the GDP per capita. An overview on the trend of GDP growth rates across the Western Balkans and the forecast of growth for the year 2005 will be given below in the paragraph on Economy. Here will be considered the level of GDP in Purchasing Power Parity USD. Data refer to year 2002 (see Table 17 and Figure 8).

Figure 8: GDP per capita in PPP USD (year 2002)



Source: UNDP (2004a); For Serbia & Montenegro: CIA (2004) est.

The level of GDP per capita (in PPP) in the Western Balkans ranges from the lowest USD 2.200[32] of Serbia and Montenegro and USD 2.660 of Kosova/o to USD 10.240, the highest level, reached by Croatia (see Table 17). The enormous difference in GDP per capita sheds light on the differentials of development within the region and between the region as whole and the new Member States from Central and Eastern Europe, not to mention Western European countries. In fact the level of GDP per capita of Croatia, though much higher than that of Bulgaria and Romania, is nearly two times lower than the per capita GDP level of its neighbour, Slovenia.

The economy

Among all the countries in transition of Central, Eastern and South-eastern Europe, the countries of the Western Balkans had the hardest way to go. Coming out from one of the most isolationist regimes in the world, in the case of Albania, or from the wars that accompanied the dissolution of former Yugoslavia, in the case of the other countries, though with different grades of intensity, made their transition longer and the economic recession deeper. A problem this area faces today is the integration between these countries characterised by different levels of development and which are culturally different. The birth of new States from the ashes of the Socialist Federal Republic of Yugoslavia led to the creation and the definition of new economic spaces and to institution building processes that retarded and still are retarding the recovery.

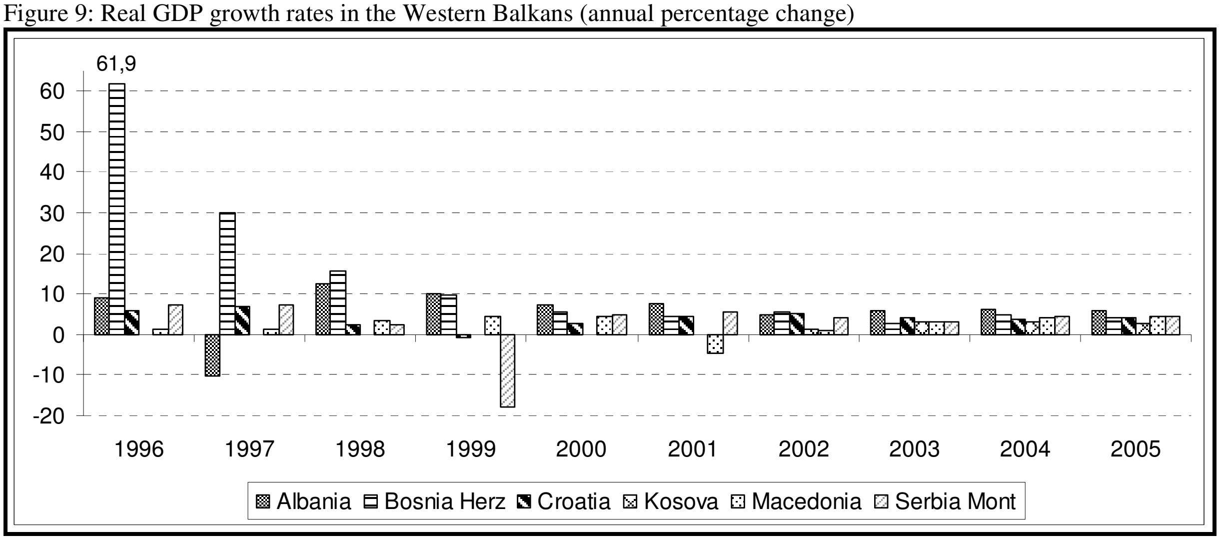
The armed conflicts in Bosnia and Herzegovina and in Kosova/o created an unfriendly environment, not particularly favourite to the investments in general, and in particular to the foreign investments in the region. Moreover, the political and financial crisis of Albania (1996-

[32] This figure may not be comparable to those of the rest of the Balkan region because the sources are different and probably Kosova/o could have been considered when it was calculated, so the datum may be underestimated.

1997)[33] and Croatia (1997-1998) put in light the weak capacity of control of the institutions (financial and political) and the spread level of corruption[34]. With the end of the armed conflicts the area seems to have turned the page definitively.

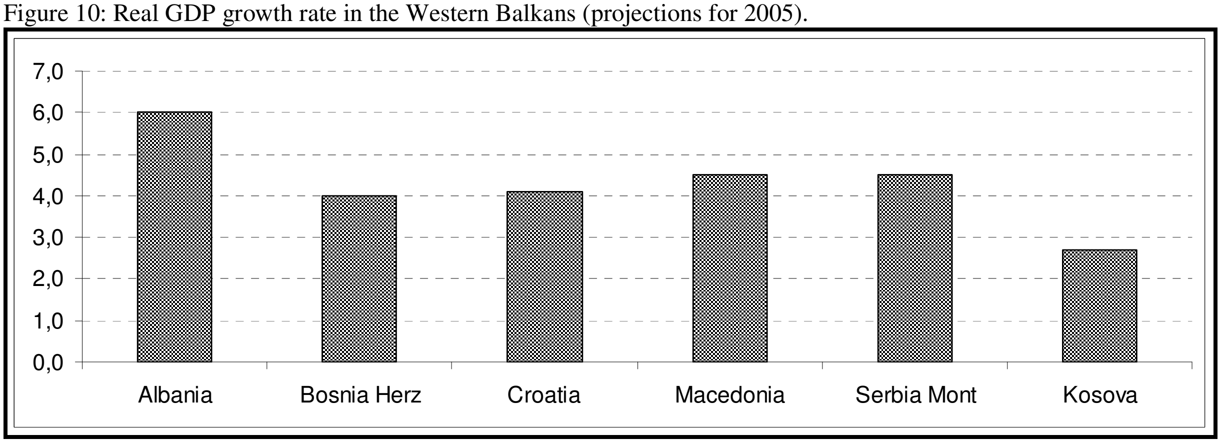
Despite a general context of weak economic growth in Europe, the economy of the Western Balkans continued to grow in 2004 signing the fifth consecutive year of good performance[35]. The economic growth in the region was 4,5 % in 2002 and above 4% in 2003. As for 2004, data are not available yet, though some estimation for each country expect Albania to have had the highest growth of real GDP at 6,2%, while Kosova/o was levelled at 3,2% (see Figure 9).

Figure 9: Real GDP growth rates in the Western Balkans (annual percentage change)



Source: IMF (2004b); Source of data for Kosova/o: IMF (2004a) 2001-2003 are estimates, 2004-2005 are projections.
See Table 19 for further reference.

Figure 10: Real GDP growth rate in the Western Balkans (projections for 2005).



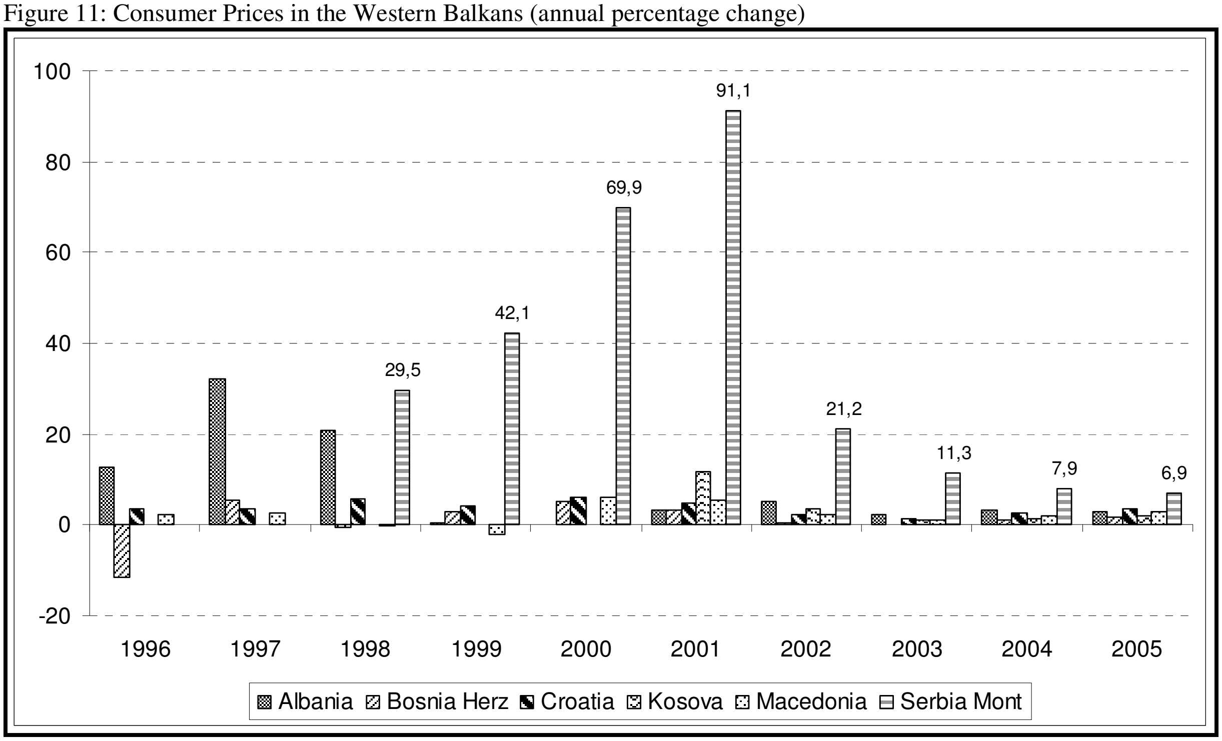
Source: IMF (2004b); Source of data for Kosova/o: IMF (2004a) 2001-2003 are estimates, 2004-2005 are projections.
See Table 19 for further reference

[33] In 1996 the political elections in Albania were not considered free and fair by the International Community, while in 1997 the country faced a popular revolt against the Government as a result of the ban of several pyramidal financial schemes previously politically supported by it. The estimated loss was around USD 2 billion.
[34] A special paragraph is dedicated to the plague of corruption in the area.
[35] With the exception of Macedonia that registered a negative growth rate in 2001 (-4,5%), probably as a consequence of the ethnic insurrection.

Furthermore, projections for the year 2005 depict a picture similar to the one of the previous years. Albania is still the best performer with an expected growth rate of 6%. All the others follow with annual growth rates in the range of 4 - 4,5%. Kosova/o, with its expected 2,7%, is ranked at the bottom line (see Figure 10).

Inflation in the Western Balkans is rather low and under control, far distant from the three digit figures of the nineties (see Figure 11). During the year 2004 the countries in region are expected to have shown a good performance with regard to inflation. The best performer was BiH with an increase of CPI of 0,9%. Follows Kosova/o with 1,5% and Macedonia with 2,0%. The highest increase was registered in S&M (7,9%). Estimations for the 2005 prospect a rose situation with the figures ranging from 1,7% of Bosnia and Herzegovina and 2,0% of Kosova/o to 3,5% of Croatia and 6,9% of Serbia. The relatively small increase in the Consumer Price Index is an effect of tight monetary policies, external anchors and improvements in the macroeconomic situation, especially that of Serbia and Montenegro (the inflation in S&M has been in average 91% in 2001).

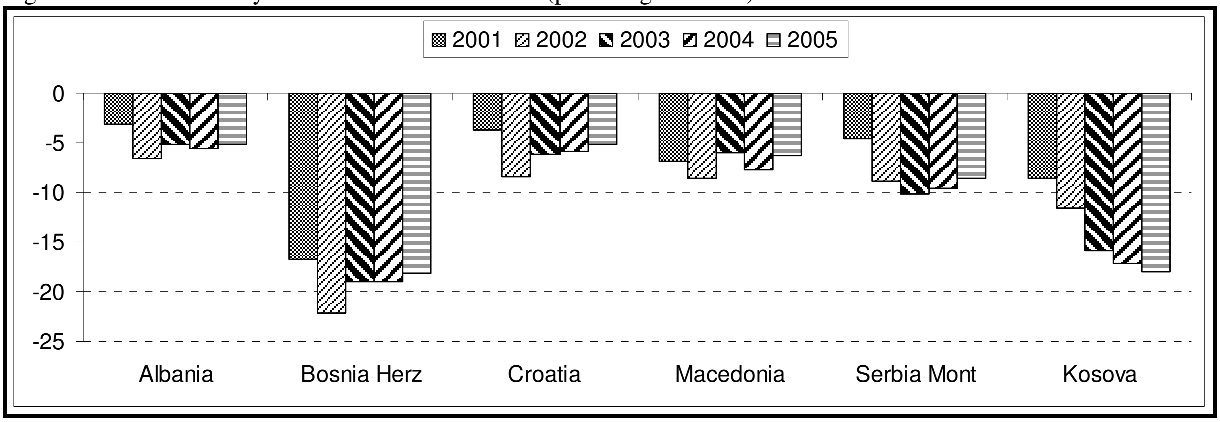
Figure 11: Consumer Prices in the Western Balkans (annual percentage change)



Source: IMF (2004b); Source of data for Kosova/o: IMF (2004a) 2001-2003 are estimates, 2004-2005 are projections.
See Table 19 for further reference.

Problematic seem to be the balances of payments. As shown in Figure 12, the Western Balkan countries face negative balances of payments. The main reason is the negative trade balance of these countries where the level of imports is far higher than the level of exports. Even the remittances and the transfers from the Donors do not manage to bring the current accounts' balance into positive levels. Bosnia Herzegovina and Kosova/o (respectively -18,2% and -18,0% of GDP in 2005) have the hardest way to go as they rely heavily on foreign assistance. Current account balance before remittances and foreign assistance in Kosova/o is expected to be levelled at -61% of GDP in 2005[36].

Figure 12: Balance of Payments on Current Accounts (percentage of GDP)



Source: IMF (2004b); Source of data for Kosova/o: IMF (2004a) 2001-2003 are estimates, 2004-2005 are projections.
See Table 19 for further reference.

The region is affected by "sustained high rates of unemployment"[37]. The transition from centralized to market economy has been characterized along the region by the closure and the dismantlement of the old and obsolete factories. This process led to the loss of a considerable number of jobs and to new forms of poverty[38]. According to various estimations circa 20-25% of the population in different countries in the region live below the poverty line[39]. New economic activities which should create new jobs and help reduce unemployment are lagging. The process of economic restructuring is not yet accomplished and huge amounts of investment are needed. There has not been significant progress on structural reforms in WB. In most of the countries privatisation of small and medium sized enterprises is well advanced. The same could not be said for the privatisation of the large state owned or socially owned companies. Economists have different opinions about this process. On the one hand, there are they who believe that the process of the privatisation of the large enterprises must speed up, while, on the other hand, other economists believe that the Governments should undertake a process of (further) restructuring of these large companies and must be more aware of the pros and cons of the privatisation and proceed in a more cautious way.

Intra-regional trade remains rather limited, due to (but not only to) similar patterns in specialization (Table 6 and Table 7). Bosnia Herzegovina is the only Western Balkan country to have a considerable share of its imports coming from the rest of the region (31,7% against 36% from the EU), mainly from Croatia (22% of the imports come from this country). Bosnia Herzegovina exports to Croatia nearly 16% of its overall exports finding in Croatia an important trade partner.

[36] IMF (2004a).
[37] COM (2004e).
[38] The unemployment rates (as % of total labour force) in 2001 were: Albania 22,7%; Croatia 15,8%; Macedonia 30,5%; Serbia and Montenegro 22,3%. Source WDI 2004, CD.
[39] Each country decides its own poverty line, but for international comparisons it is used the poverty line (USD 2 a day per person) and extreme poverty line (USD 1 a day per person).

Table 6: Balkan trade: Imports as % of total (2003)

from: / of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	SLO	GRE	ITA	EU
Albania		0,0	0,0	0,0	0,3	0,0	0,1	0,0	0,0	0,1	0,0
Bosnia Herz.	0,0		0,0	1,6	0,2	0,0	2,7	0,5	0,1	0,1	0,0
Bulgaria	1,9	0,3		0,3	7,2	0,7	2,9	0,3	0,9	0,4	0,1
Croatia	1,6	22,2	0,3		3,4	0,1	2,5	3,8	0,2	0,4	0,1
Macedonia	1,1	0,5	0,2	0,5		0,0	3,5	0,2	0,2	0,1	0,0
Romania	1,2	0,4	2,2	0,9	0,5		1,9	0,7	1,0	1,5	0,5
Serbia & Mont	0,9	9,0	0,3	0,5	9,2	0,1		0,5	0,2	0,2	0,1
Slovenia	1,2	14,2	0,5	7,4	8,9	0,4	5,7		0,1	0,6	0,3
Greece	21,5	0,5	8,9	0,5	17,2	1,5	3,3	0,3		0,5	0,3
Italy	38,2	11,0	11,5	17,8	6,2	19,7	12,4	19,7	12,0		5,3
WB	3,6	31,7	0,8	2,6	13,1	0,2	8,8	5,0	0,7	0,9	0,2
EU	73,1	35,9	56,4	56,0	50,7	62,7	49,7	74,2	54,4	57,1	

Note: all imports: c.i.f.
Source: WIIW.

Macedonia imported in 2003 13% of the total imported goods from the Western Balkans, trading mostly with Serbia and Montenegro. Outside the Western Balkans its main trade partner is Greece and the EU as a whole (50,7% of the imports comes from EU). WB countries counted for nearly 31% of the Macedonian exports, while the EU counted for 53,3% (Table 6 and Table 7).

Table 7: Balkan trade: Exports as % of total (2003)

to: / of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	SLO	GRE	ITA	**EU**
Albania		0,1	0,7	0,4	1,5	0,2	0,6	0,1	2,7	0,2	0,0
Bosnia Herz.	0,0		0,2	14,2	1,8	0,1	15,9	4,6	0,1	0,2	0,1
Bulgaria	0,0	0,1		0,4	1,7	1,3	1,1	0,4	6,2	0,4	0,2
Croatia	0,1	15,8	0,6		5,4	0,7	3,1	7,4	0,4	0,8	0,3
Macedonia	1,5	0,4	2,2	1,1		0,1	8,9	1,5	2,7	0,0	0,0
Romania	0,0	0,0	2,8	0,3	0,1		1,1	0,7	2,6	1,5	0,5
Serbia & Mont	2,3	15,7	3,0	3,1	22,1	0,8		3,2	1,8	0,3	0,1
Slovenia	0,1	5,7	0,5	8,1	2,3	0,5	2,7		0,3	0,9	0,4
Greece	4,2	1,9	5,8	0,6	7,6	2,4	3,7	0,3		2,2	0,9
Italy	73,2	24,8	14,8	25,3	11,4	23,5	21,9	13,0	10,5		6,1
WB	3,9	32,0	6,7	18,8	30,8	1,9	28,5	16,8	7,7	1,5	0,5
EU	88,5	55,9	53,2	52,9	53,3	67,1	54,3	59,7	46,5	53,6	

Note: all exports: f.o.b.
Source: WIIW.

The EU is, in fact, the main trading partner for the Western Balkans accounting for circa 60% of the total trade of the area (ranging from 45% of Bosnia and Herzegovina to 80% of Albania). Making up less than 1% of EU's total trade the Western Balkan countries remain modest trade partners (see Table 8). The application to these countries of the Common Commercial Policy by the new member states will offer more opportunities for duty free exports to the EU[40]. The overall trade deficit is large across the region. In 2003 it was more than 25% of GDP spanning from 17% of Macedonia to almost 95% of Kosova/o[41].

Table 8: Volume and market share of WB exports to the EU in 1999 and 2002

	Exports (€ million)		Change (%)	Share of EU imports (%)	
Country	1999	2002	2002/1999	1999	2002
Albania	228	330	44	0,030	0,035
Bosnia Herzegovina	358	624	75	0,047	0,066
Croatia	1.892	2.357	25	0,251	0,250
Macedonia	591	552	-7	0,078	0,058
Serbia Montenegro	563	1.87	129	0,075	0,136
Western Balkans	3.663	5.150	42	0,481	0,545

Source: Eurostat.

Countries in the region have achieved good progress in the area of trade liberalization which is an integral part of EU accession process and of the SAP. In the context of the Stability Pact for South East Europe, a Memorandum of understanding on Trade Liberalization was signed in June 2001 by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Serbia and Montenegro. The countries signatory of the Memorandum have already completed a network of Free Trade Agreements (FTA), but some still need to be fully implemented.

The formation of a regional free trade area, as well as the rehabilitation of key infrastructures, such as a regional network of transport and energy, are considered as crucial in order to establish an integrated economic space, which in turn would represent an important stimulus to attract FDI in the Western Balkan countries.[42]

Another problem that is characteristic to all the countries in transition is the informal sector or the grey economy, as sometimes it is referred to. The consequences of an informal economy are less income for the state because of reduced tax base, therefore less investments in education, public healthcare and infrastructure in general. There are not exact figures on the magnitude of the phenomenon, but unofficial sources declare, for example, that the grey economy contributes for the 60% of the Albanian GDP.

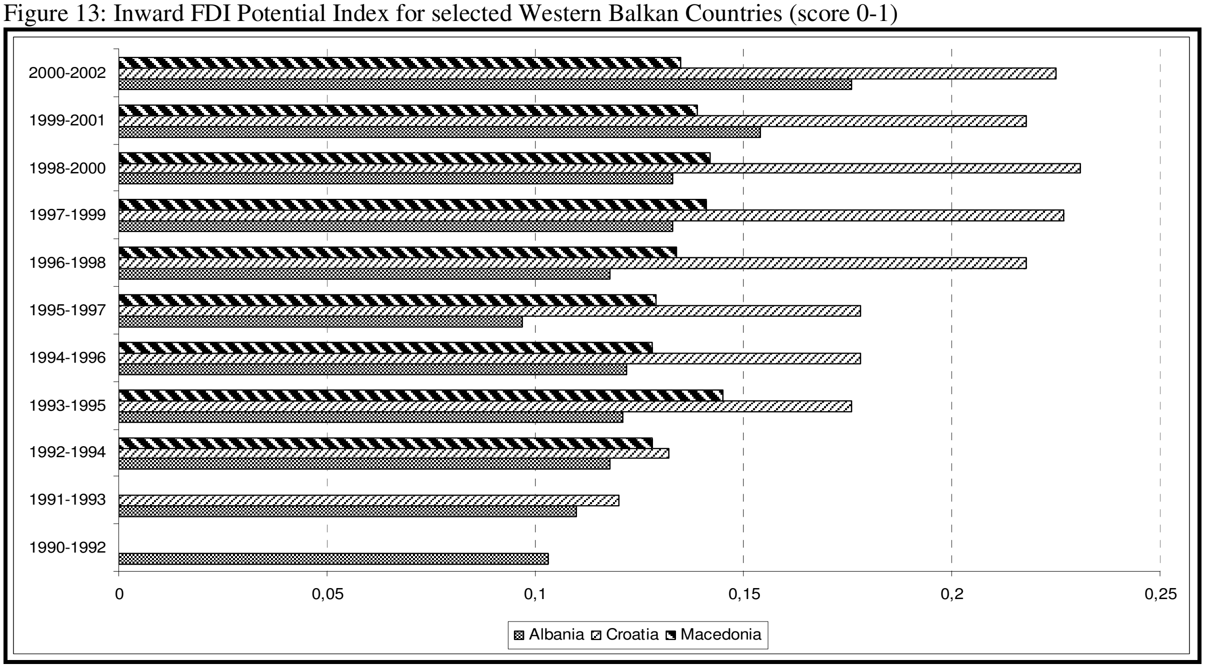
Foreign Direct Investments in the Western Balkans.

This paragraph provides a quick overview of the inflows of Foreign Direct Investments in the Western Balkans, for their importance on the future development of the area, over the period 1990-2003. Kosova/o is excluded from the analysis since there are not reliable data. However, there are not reported any significant flows of foreign direct investments towards Kosova/o. Probably, having solved the final status of the region (expected to happen on early 2006) and having restarted the privatization process (which has been blocked for long time), some positive results could be expected from late 2006 hopefully.

[40] COM (2004e).
[41] COM (2004e).
[42] COM (2004f).

The capacity to attract FDI will be a crucial aspect of any growth strategy for the Western Balkans. FDI are, and will continue to be, an important source of financing of large trade and current account deficits that afflict the region (see above). They become even more vital in the light of declining foreign assistance for the years to come and growing import needs. Furthermore, FDI have beneficial effects to the hosting economy. Positive spillovers of the presence of foreign investors span from the transfer of technology and of know-how to higher productivity, increased local competition, job creation and improvements in the exporting capacity of the country.

Figure 13: Inward FDI Potential Index for selected Western Balkan Countries (score 0-1)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

An interesting aspect to consider firstly could be the FDI Potential Index and the FDI Performance Index, both presented in Figure 13 and Figure 14 respectively[43]. Unfortunately, these indexes are calculated only for three WB countries, namely Albania, Croatia and Macedonia. Data for other four Balkan countries are presented in Appendix II.

As expected, Croatia has shown the highest potential in attracting the foreign investors. After a sharp increase in the early nineties the index has remained stable for three periods (1993-1997). Croatia improves its inward potential in the period 1996-1998 and has remained more or less stable since then.

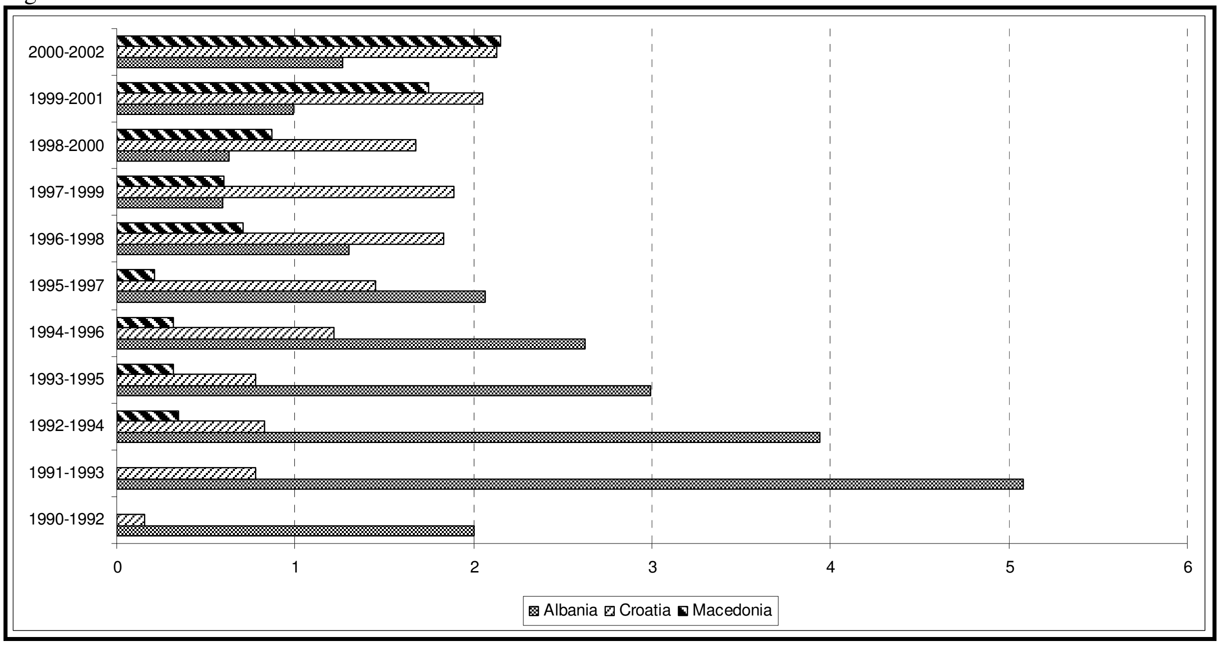
Albania has registered a moderate increase with a fallback in 1997 (due to the financial and democracy crisis). As for Macedonia, it has a shown a invariant potential during the last decade, with some slight ups and downs.

The other face of the medal is the performance. Albania seems to have done much better than its neighbours in the early nineties exceeding five times its potential, but its performance has been rather poor towards the end of the last century falling to a value of the index lower than one. In

[43] A detailed description of both the indexes is given in Appendix II.

the first two years of 2000 it seems to have improved its inward FDI performance, probably as a consequence of the privatization of some major state owned companies.

Figure 14: Inward FDI Performance Index for selected Western Balkan Countries

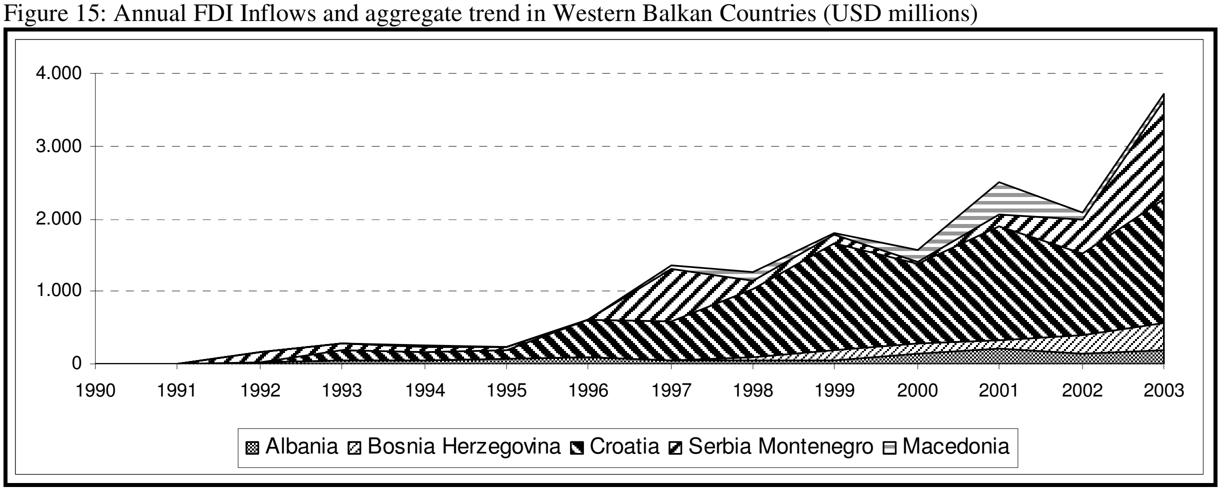


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

After a not particularly impressive start Croatia has shown to have taken advantage of its potential to attract investments. Macedonia too has not shown a good performance in the last decade, but it has improved its performance dramatically since 1999.

FDI inflows in the Western Balkans have shown an overall positive trend since 1992 (even though there have two major downfalls in 2000 and 2002). Figure 15 show that the FDI inflows in the WB area were irrelevant until 1996, they started to take off in the period 1997-1999, soared in 2001 and peaked in 2003.

Figure 15: Annual FDI Inflows and aggregate trend in Western Balkan Countries (USD millions)

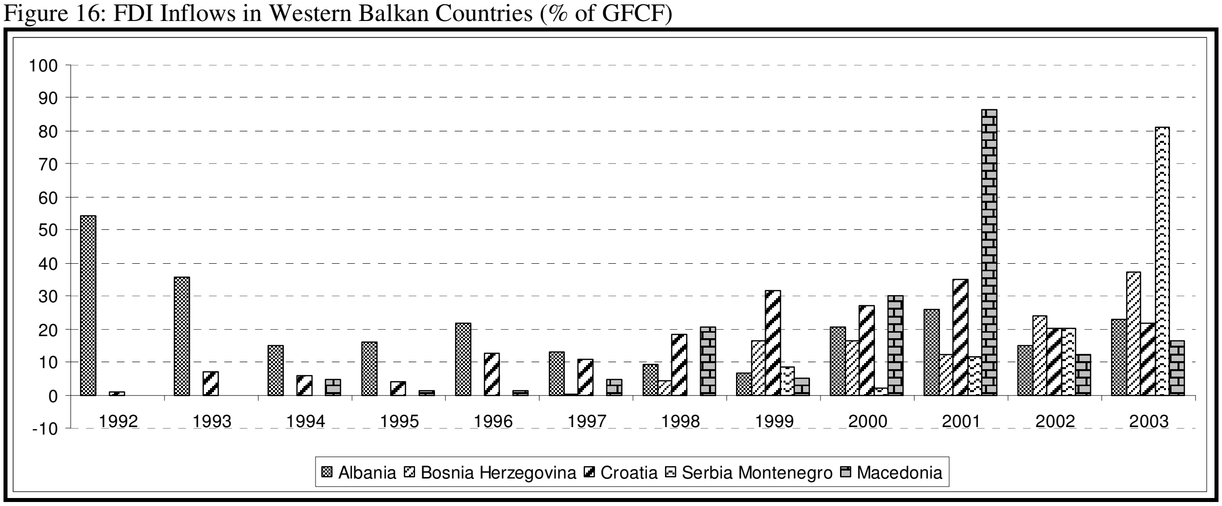


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

It is important to note, however, that the picture may be distorted by some large transactions, result of the privatisation process, that have taken part (and not yet concluded) in these countries, mainly in the banking and telecommunications sector. Therefore, the past does not help in predicting the future of the FDI inflows in the WB area. Extrapolation of current trends into the future seems to be quite hazardous.

Large privatisations in the sector of services were behind the upsurges in FDI in 1997, 1999 and 2001. In 1997 Serbia and Montenegro received 55% of the whole FDI inflows as a result of the privatisation of the Serbia telecom company. In 1999, Croatia had the lion's share (81% of the total) by the sale of a majority share (66%) of a bank of Zagreb and the sale of a 35% stake of the Croatian telecommunication operator to Deutsche Telekom. In 2001, the same German telecommunication company bought another 16% stake in Croatia telecom (for around EUR 500 million), while another important acquisition took place in Macedonia where a Hungarian company bought the majority stake of Macedonia's telecom operator (investing circa EUR 350 million).[44]. From 1993 to 2003 (with the exception of 1997) Croatia has received the bulk of the FDI in the Western Balkans region.

Figure 16: FDI Inflows in Western Balkan Countries (% of GFCF)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

During the period 2001-2003, Macedonia and Serbia and Montenegro were the region's leaders in terms of the ratio of FDI to Gross Fixed Capital Formation (GFCF). This ratio was 86,5% in 2001 for Macedonia and 81% in 2003 for Serbia and Montenegro. It was followed in 2003 by Bosnia and Herzegovina with 37,4%. The other countries were levelled around 20% (see Figure 16). Probably all of these high ratios reflect small national economies.

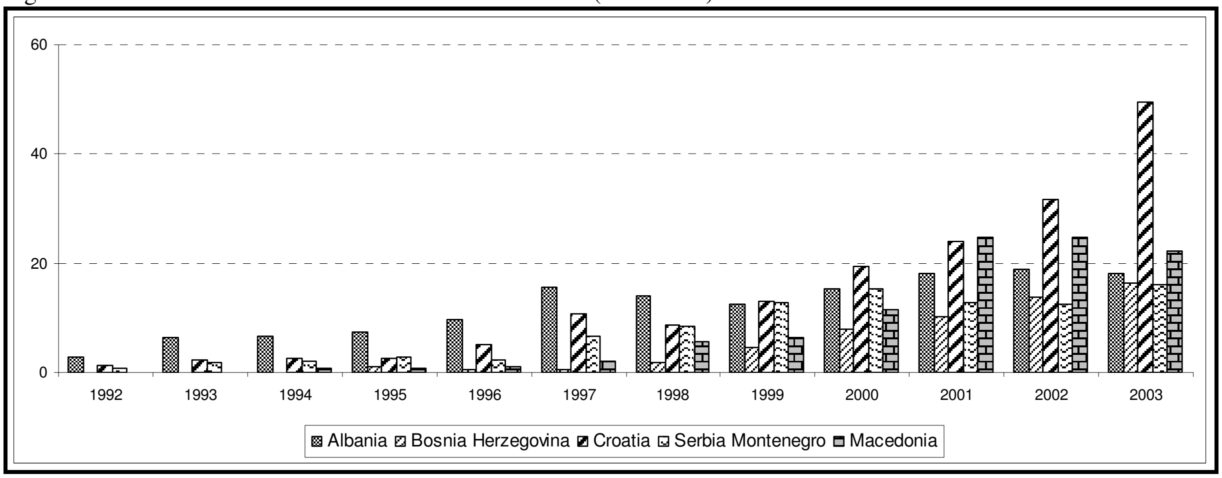
In 2003, the volume of FDI directed towards the Western Balkans reached USD 3.729 million (EUR 3.296 million)[45]. This level corresponds to around USD 153 per capita[46], and represents an increase in nominal terms by 80% compared to the previous year[47]. As mentioned above, Croatia received 46% of the total inflows followed by Serbia and Montenegro who received 36%. The

[44] COM (2004f).
[45] For comparison, Poland alone received in the same year USD 4,2 billion, Hungary USD 2,5 billion and Slovakia USD 0,6 billion.
[46] Calculated on the total WB population.
[47] Note that the incremental rates are in nominal terms and may differ consistently had we calculated them with values expressed in EUR rather than USD. For example, the increase in nominal terms in 2003 compared to 2002 and with amounts in EUR is only 50% (respect to 80% when USD are used).

latest nearly triplicated (+186%) the FDI compared to the year 2002 due to an intensive privatization activity across several sectors of the economy.

Bosnia and Herzegovina has also shown a positive trend in the last two years (+104% and +44% on previous year respectively). The country received in 2003 nearly USD 380 million, which is more than 4,5 times its average since 1990. On the other hand, Albania and Macedonia, though having shown a positive performance in 2003 with respect to 2002 (+34% and +22% respectively), are under their level of FDI of year 2001. Macedonia received in 2003 4,6 times less FDI than in 2001.

Figure 17: FDI Inward stock in Western Balkan Countries (% of GDP).



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

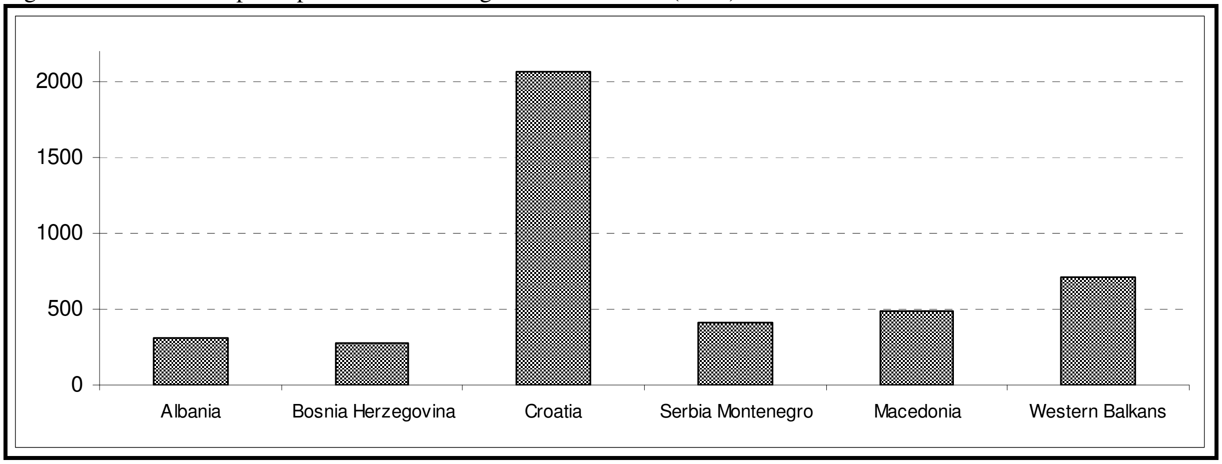
In terms of the ratio of FDI stock on GDP, Croatia ranks first reaching in 2003 almost 50%. It is followed by Macedonia with 22% and Albania with 18%. The rest of the region, namely Bosnia and Herzegovina and Serbia and Montenegro are placed at the bottom with a FDI stock to GDP ratio of slightly more than 16% (see Figure 17).

The total cumulative inflow of FDI in the Western Balkans since 1990 is equal to USD 15,9 billion (EUR 15,3 billion), which corresponds to an annual average inflow of USD 1,13 billion (EUR 1,09). If we consider the period from 1997 to 2003 these figures nearly double, since the first half of the nineties did not score particularly high levels of foreign investments.

Croatia alone, as the largest economy of the region, received around USD 9,3 billion (EUR 9 billion) or 59% of the total, followed by Serbia and Montenegro, the second largest economy, which received USD 3,3 billion (EUR 3 billion) or 20% of the total. Albania, Bosnia and Herzegovina and Macedonia together attracted around USD 3,3 billion (EUR 3,2 billion), 21% of inward foreign investment in the whole region, sharing this amount almost evenly among them (around 7% each).

In per capita terms, the Western Balkan region attracted USD 712 (EUR 685) of cumulative inward FDI since 1990 (Figure 18). Croatia, the best performer as already mentioned, has attracted almost USD 2.067 (EUR 2.004). The other Western Balkan countries lag behind with significantly lower per capita figures (all under USD 500). USD 494 in Macedonia, USD 406 in Serbia and Montenegro, USD 308 in Albania and USD 283 in Bosnia and Herzegovina.

Figure 18: Cumulative per capita FDI in WB region and countries (USD).



Source: see Table 30

It is clear that the region has not yet exploited its own potential fully. The legacy of war and the political and social instability that has accompanied the region during the last decade have kept potential investors out. The adoption of the full body of EU laws necessary to gain full EU membership (which is what the region is or should be trying to do) will bring as a consequence on the one hand an improvement in business environment and on the other hand a probable increase in the costs of doing business (due to the application of labour and environmental standards).

The Political Climate

With the electoral victories of democratic forces in Croatia and in the former Federal Republic of Yugoslavia, now State Union of Serbia and Montenegro, the Western Balkans turned definitively an important page in their modern history. For the first time, the whole region is being administered by governments which are output of elections considered, up to a certain extent and notwithstanding minor irregularities, “free and fair” by international observers and international institutions.

All WB countries have joined, or are in the process of joining, important international organizations. Except Kosova/o, which is not an independent state yet, the other countries are already members of the UN Organization, the Organization for Security and Cooperation in Europe, Council of Europe, World Trade Organization (Albania, Croatia and Macedonia), International Monetary Fund, World Bank Group, and Interpol (see Table 9).

All are eligible for support from the International Financial Institutions like the two Bretton Woods Institutions, the EU’s European Investments Bank and the European Bank for Reconstruction and Development (see Table 9).

There have been sign of a regional cooperation between the countries of the region. Most of the countries have already signed free trade agreements with the rest of the region. There have been agreements on the return of the refuges and an cooperative behaviour towards the ICTY.

Table 9: Situation of Western Balkan Countries with regard to membership in international organisations

Country	UN	WTO	IMF	WB Group	OSCE	Interpol	EBI	EBRD	Council of Europe	NATO
Albania	*1955	*2000	§*1991	§*1991	*1991	*	§	§*1991	*1995	#1994
Bosnia Herzegovina	*1992		§*1992	§*1993	*1992	*	§	§*1996	*2002	
Croatia	*1992	*2000	§*1992	§*1993	*1992	*	§	§*1993	*1996	#2000
Kosova/o			§	§			§	§		
Macedonia	*1993[48]	*2003	§*1992	§*1993	*1995	*	§	§*1993	*1995	#1995
Serbia Montenegro	*2000[49]		§*1992	§*2001	*2000	*	§	§*2001	*2003	

Note:* membership and year (when available); § indicates that the country is eligible for support; # member of Partnership for Peace and year.

Nevertheless many problems still persist in the region. They range from weak border control, to increasing criminal offences and organised economic criminal activities like smuggling, illegal trafficking of migrants and drugs from the region to the EU member countries, weak institutions and particularly weak law enforcement[50]. Although all the Governments have expressed their willingness to operate in the direction of implementing the strategies and fulfilling the obligation that derive from the SAA, their attitude towards their electors is often considered as irresponsible. It is common to listen to the political parties, both the ruling and opposition ones, proclaim that they work to see their countries in the European Union. Nevertheless, they do not do much in order to progress towards this secular aspiration of their people. The accession is perceived as to be very distant in time and to require too much efforts and strong willingness which is not a feature that distinguishes the Governments of some of the countries in the region. This simply means that, if only ten years were needed to join the EU, at least two legislatures must pass before touching the promised land. The situation worsen if the process, as it seems, will take more than ten years. It is not an easy task to find such an altruist Government and local politicians with a clear vision on the path that would lead their country in Europe.

Politicians in WB are commonly perceived as corrupted and distant from the people (see paragraph on corruption below). Often the only thing that bothers them is their own profit and their political survival. This crisis of political representation in the case of Albania, for example, may be emblematic. The country is ruled since 1997 by the Socialist Party after having tried for 5 years the Democratic Party. The democrats brought the country to the collapse in early 1997 after having manipulated the 1996 political elections and had tight connections with the fraudulent pyramid financial schemes. The party has always been an “one man show” since its

[48] By resolution A/RES/47/225 of 8 April 1993, the General Assembly decided to admit as a Member of the United Nations the State being provisionally referred to for all purposes within the United Nations as “The former Yugoslav Republic of Macedonia” pending settlement of the difference that had arisen over its name. UN Official WWW site.
[49] The Federal Republic of Yugoslavia was admitted as a Member of the United Nations by General Assembly resolution A/RES/55/12 of 1 November 2000. Following the adoption and the promulgation of the Constitutional Charter of Serbia and Montenegro by the Assembly of the Federal Republic of Yugoslavia on 4 February 2003, the name of the State of the Federal Republic of Yugoslavia was changed to Serbia and Montenegro. UN Official WWW site.
[50] See COM (2001).

chief, Sali Berisha, a former local communist secretary, has in different occasions purged the party from its internal opposition factions, which turned to become independent parties.

The ruling party instead may appear to the public as to be more democratic and more compact, but this is only a façade view. The chief of the party and Prime Minister Fatos Nano, also a former communist, has changed several times the composition of its team just to bring back in office people which he had previously heavily attacked in public as connected to the organised crime. The Albanians have no choice between these two political "dinosaurs" of the past regime. This is the reason the turnout in the political elections has dramatically decreased and the party of the non-voters is the first party in the country.

As a well-known think-tank has argued (ESI 2002), in the WB countries politicians are reluctant to engage with the issues which are clearly predominant in the lives of the electorate. There is a clear incentive for the political elite to fill the public agenda with other issues such as historical disputes and attacks to their political opponents on allegations of corruption. This kind of democracy has been characterised by Thomas Carothers as "feckless"[51].

Corruption in Western Balkans

It is a common finding in the theoretical and empirical literature that corruption affect economic growth negatively having a direct impact on the economy and society[52]. Corruption[53] is rampant across the Balkans. In 2004, a total of eight countries score less than 5 against a clean score of 10, according to the Corruption Perceptions Index 2004[54] by Transparency International[55]. The CPI score relates to perception of the degree of corruption as seen by business people and country analysts from around the world, including experts who reside in the evaluated country. The score ranges between 0 (highly corrupt) and 10 (highly clean).

In the Balkans only Slovenia has a decent score similar to that of countries like Estonia and Botswana. Far away from its neighbour, Austria, that scores 8,4 (perceived as the thirteenth less corrupted country in the world), but much better than its other two neighbours, Hungary and Italy, which with their meagre 4,8 have nothing to be proud of.

As for the countries of WB the data are available only beginning from 1999 and non complete for all of the countries considered. For example, the first CPI for B&H was built in 2003. The same holds for S&M which is a rather new Union. The previous indexes refer to Yugoslavia (or better say Federal Republic of Yugoslavia) and it is not clear whether the index comprises the

[51] "The alternation of power seems only to trade the country's problems back and forth one hapless side to the other. Political elites from all the major parties are widely perceived as corrupt, self-interested, dishonest, and not serious about working for their country. The public is seriously disaffected from politics, and while it may still cling to a belief in the ideal of democracy, it is extremely unhappy about the political life of the country" Carothers (2002)
[52] See Pellegrini and Gerlagh (2004)
[53] The definition is the one used by TI "the abuse of public office for private gain". More information could be found at the TI web site www.transparency.org.
[54] The TI Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing om corruption-related data in expert surveys carried out by a variety of reputable institutions.
[55] TI is a leading non-governmental organization which is fighting corruption worldwide since 1993, the year of its first index.

data for Kosova/o or only those for Serbia and Montenegro. Data lack for Albania for the years 2000 and 2001 and for Macedonia for the period 2000-2002.

Table 10: Corruption Perceptions Index in Balkan Countries (1997-2004).

	1997	1998	1999	2000	2001	2002	2003	2004
Western Balkan Countries								
Albania	...	...	2,3	...	...	2,5	2,5	2,5
Bosnia & Herzegovina	...	...	...	...	...	...	3,3	3,1
Croatia	...	...	2,7	3,7	3,9	3,8	3,7	3,5
Macedonia	...	...	3,3	...	...	...	2,3	2,7
Serbia & Montenegro[56]	...	3,0	2,0	1,3	...	...	2,3	2,7
Other Balkan Countries								
Bulgaria	...	2,9	3,3	3,5	3,9	4,0	3,9	4,1
Greece	5,4	4,9	4,9	4,9	4,2	4,2	4,3	4,3
Romania	3,4	3,0	3,3	2,9	2,8	2,6	2,8	2,9
Slovenia	...	...	6,0	5,5	5,2	6,0	5,9	6,0

Source: CPI, Transparency International – The coalition against corruption.

Among these countries, except Albania, whose level of corruption is perceived to be acute as it seems static in its sad 2,5 score, two of them, namely Bosnia Herzegovina and Croatia are perceived as to be more corrupted than in the previous year. There is not much to say about B&H. As for Croatia, being an official candidate country for EU membership, this fact leads to a certain concern.

The other two countries, i.e. Macedonia and the Union of Serbia and Montenegro have done both a step ahead though starting from a very low level. Nevertheless both countries are perceived as more corrupted than in the first year the index has been available (respectively 1999 and 1998).

In 2002 people from all over the world were asked: *"If you had a magic wand and you could eliminate corruption from one of the following institutions, what would your first choice be?"* The results for some of the Balkan Countries are given below.

Table 11: What people think about corruption (data in percentage, the highest value in bold).

	Business licensing	Courts	Customs	Education system	Political parties	Utilities	Medical service	Police	Private sector	Tax revenue	Immigration, passports, other
WB											
B&H	14,5	17,0	4,2	6,6	**24,2**	2,4	20,4	4,8	1,7	3,5	0,6
Croatia	12,9	21,6	0,4	2,8	18,6	4,2	**22,5**	4,9	3,4	2,5	6,1
Macedonia	8,5	15,4	17,9	9,4	**28,2**	2,7	8,5	2,8	0,6	3,3	2,7
Other											
Bulgaria	9,9	19,8	16,5	4,8	**20,2**	3,3	14,3	4,1	1,8	2,7	2,6
Romania	15,1	20,2	2,7	2,9	**24,3**	1,6	12,6	6,4	1,9	9,3	2,9

Source: TI Global Corruption Barometer 2003.

[56] The score for the years 1999-2000 refers to Yugoslavia which included Serbia, Montenegro and Kosova/o.

In four out of five Balkan countries, if citizens had a magic wand, they would most like to eliminate corruption from political parties. As for the Western Balkan countries for which survey data are available, nearly 19% of the citizens in Croatia, more than 24% of the citizens in Bosnia and Herzegovina and more than 28% of the citizens in Macedonia indicated the political parties as the main institutions in need for democratic reforms within them. Medical services were singled out by one in five respondents in Bosnia and Herzegovina and Croatia, while in Macedonia they were picked by one in eleven. The courts were identified by one in six in B&H and in Macedonia and by one in five in Croatia. The data on the other two Balkan countries, i.e. Bulgaria and Romania, are in line with those of WB (Table 11).

The Stabilisation and Association Process so far.

What do the treaties say?

Though the Treaty establishing a Constitution for Europe has not yet been ratified by all the EU member states, with high probabilities the association of the Western Balkan countries will take place within the framework of this treaty.

Article I-58 of the aforementioned treaty states in the first paragraph that "*The Union shall be open to all European States which respect the values of the Union and are committed to promoting them together*"[57]. The values of the Union are mentioned in article I-6. "*The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail*[58]".

Furthermore, Article I-58 explains that the European Council (i.e. the Governments of the Member States), "*shall act unanimously after consulting the Commission and after obtaining the consent of the European Parliament*". It is clear that the Council can set what kind of conditions it considers appropriate for each applicant country.

For the last wave of Enlargement, that engaged eight former socialist countries from Central and Eastern Europe and Baltic area plus Cyprus and Malta, the conditions were not only those stated in the Treaty (of Maastricht) on European Union[59]. Some other specific conditions, better known as the "Copenhagen Criteria"[60] were added in 1993. This battery of criteria, which are often

[57] Treaty establishing a Constitution for Europe, Title IX "Union Membership", Article I-58 "Conditions of eligibility and procedure for accession to the Union", paragraph 1.
[58] Treaty establishing a Constitution for Europe, Title I "Definition and Objectives of the Union", Article I–2 "The Union's Values"
[59] Articles 49 and 6(1).
[60] Conclusions of the Presidency, European Council of Copenhagen, June 1993: "…Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required. Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."

referred to as the political, economic and *acquis* criteria, are notably tougher that those of the several treaties.

The “Copenhagen Criteria” are applied to the actual Candidate Countries, namely Bulgaria, Romania, Turkey and Croatia and also to the countries of the Western Balkans, since they have already become a fundamental part of the EU’s doctrine. Moreover, WB countries must satisfy some other requirements like “Regional Cooperation”, a full cooperation with the ICTY[61] in The Hague and operate in order to accomplish the peace agreements of Dayton, Erdut, Ohrid and UN Security Council Resolution 1244 (the first two in 1995, the following in 2001 and 1999 respectively).

In addition to the “Copenhagen Criteria”, another criterion was added by the European Council of Madrid in 1995. This criterion, known as the “Madrid Criterion” requires that the candidate country must have created the conditions for its integration through the adjustment of its administrative structures. It underlines the importance of an effective implementation of the legislation through appropriate administrative and judicial structures.

The Central and Eastern Europe countries had signed Europe Agreements with the European Union, while Malta and Cyprus signed Association Agreements in view of a pre-accession strategy set up by the EU with the clear aim to bring these countries to membership[62]. These agreements provided the framework for bilateral relations between the Union and its Member States on one side and the Candidate Countries on the other. Turkey also has signed an Association Agreement in September 1963, while Bulgaria and Romania signed them in 1993[63].

The Europe Agreements covered trade-related issues, political dialogue, legal approximation and other areas of cooperation, including industry, environment, transport and customs. Their aim was to progressively establish a free-trade area between the EU and the associated countries over a given period, on the basis of reciprocity but applied in an asymmetric manner. These agreements included also a formal structure of political dialogue between the representative institutions of the Union and the candidate countries (the European Council and the European Parliament on one side and the national governments and parliaments on the other side, respectively).

For the countries of the Western Balkans another type of agreement has been conceived, the Stabilisation and Association Agreement, which is part of the Stabilisation and Association Process[64]. The SAP was introduced in the 24 November 2000 Zagreb Summit and is considered as a tool to bring durative peace and security in the Western Balkans. The Stabilization and Association Agreement combines provisions much similar to those covered by the Europe Agreements with the stabilization part and adds two new features: the cooperation on Justice and Home Affairs issues and the component of the regional cooperation.

The prospect of EU membership is the most important incentive for the Western Balkans countries to participate in the SAP. By fulfilling the conditions of the SAA, which is the

[61] Cooperation with ICTY is a legal obligation under UN Security Resolution 827 of 1999 and under General Framework Agreement for Peace of Dayton/Paris.
[62] As defined by the European Council in Essen, 1994.
[63] Turkey’s Europe Agreement came into force in December 1964, those of the two Balkan countries in February 1995. Turkey made its official application for EU membership in April 1987, Romania in June 1995 and Bulgaria in December of the same year.
[64] For an overview on the process see the European Commission’s web page: http://europa.eu.int/comm/external_relations/see/actions/sap.htm

"*cornerstone*" of the SAP and a "*key step*" to its completion, the countries adopt EU standards and bring themselves close to membership.

The European Union has, already in many occasions, expressed his vision on the future of the Western Balkan countries. Considered as potential candidates, the countries of the Western Balkans were given the prospect of membership of the EU, for the first time, in a clear and straight manner, at the European Council meeting in Santa Maria de Feira in June 2000[65]. Moreover, "*a clear prospect of accession*" once the relevant conditions have been met, linked to the progress in regional cooperation, was foreseen at the Nice Summit in December 2000[66]. The Copenhagen European Council in December 2002 reaffirmed this perspective, while the Brussels European Council (March 2003) concluded that "*the future of Western Balkans is within EU*".

The European Council in Thessalonica in June 2003 gathered Heads of State and of Government of the EU members countries, the acceding and candidate countries and the countries of the Stabilization and Association Process. The Council confirmed the European perspective of the five SAP countries. It "*reiterated its determination to fully and effectively support the European perspective of the Western Balkan countries, which will become an integral part of the EU, once they meet the established criteria*"[67]. In Thessalonica the Stabilization and Association Process and the enlargement were linked together, stressing the principles of differentiation based upon "own merits" and the possibility to "catch up" with the more advanced countries in the process of accession. Furthermore, the Thessalonica Agenda[68] introduced elements from the last enlargement process in order to "*strengthen*" and "*enrich*" Union's Stabilisation and Association policy so that it can "*better meet the new challenges, as the countries move from stabilisation and reconstruction to sustainable development, association and integration into European structures*". The Union's thus enriched policy of Stabilisation and Association, including the Stabilisation and Association Agreements, "*will constitute the overall framework for the European course of the Western Balkan countries, all the way to their future accession*".

The Thessalonica Agenda was a significant step in the relations with the countries of the region and offered to these countries new perspectives. Romano Prodi, former President of the European Commission, put it this way in a speech to the South-Eastern European Cooperation Summit in Belgrade: "*the historic process of Europe's unification will not be complete until the countries of the Balkans join the union.*" He went further in explaining Europe's vision by affirming that "*Europe's history is your history, Europe is your home. Our peoples all want and deserve the same things: democracy, peace and prosperity. Enlargement is based on sharing of these values – and we want to share these values with all the countries in the region*"[69]. Moreover, Prodi underlined this vision again in its speech in Thessalonica[70].

The statement of Romano Prodi shows the strong commitment of the EU towards the Western Balkans. Though the Union grew to 25 Member States from 15, with Bulgaria and Romania to join in a couple of years, it is clear that the enlargement process is not an accomplished mission

[65] "The European Commission confirms that its objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilisation and Association process, political dialogue, liberalisation of trade and cooperation in Justice and Home Affairs. All the countries concerned are potential candidates for EU membership." Conclusion of Presidency

[66] Conclusions of Presidency, 7-9 December 2000, Nice.

[67] Conclusions of Presidency, 19-20 June 2003, Thessaloniki.

[68] The Thessaloniki Agenda for the Western Balkans: moving towards European integration. Adopted by the European Council, Annex A of the Conclusions of Presidency. See the note above.

[69] "South-Eastern Europe's turn", Belgrade, 9 April 2003.

[70] Speech by Romano Prodi, EU-Balkan Summit, 21 June 2003, Thessalonica.

yet. After a period of violent conflicts in the region, Europe realised that the only way to convince the WB countries to accept a common existence, to bring stability and economic and social development was to offer to these countries a true perspective of membership.

The last act towards this aim was transferring the Western Balkans from the responsibility of DG External Relations under the umbrella of DG Enlargement[71]. Moreover, the Commission has put in place another instrument by signing with the countries in the region Framework Agreements for opening the Community Programmes to the participation of these countries. Furthermore, EU is trying to simplify the pre-accession financial assistance and make a more rational use of its resources. An innovative proposal to build a unified pre-accession instrument, or IPA, has already been developed. This instrument will substitute the actual pre-accession programmes, namely PHARE, SAPARD and ISPA, and the CARDS programme. It will cover the potential candidate countries of the Western Balkans, as well as the already Candidate Countries[72].

Where are we now?

At the moment there are four Applicant Countries candidate for EU membership, namely Bulgaria, Croatia, Romania and Turkey. Two of them, Romania and Bulgaria, are expected to be in the position to join the EU on 1st January 2007. Regarding Turkey, the negotiations are expected to be opened on 3rd October 2005, but on condition that the Turkish Government recognizes formally the Republic of Cyprus. The European Parliament in a resolution adopted on 15th December 2004 declared that the EU should begin accession negotiations with Turkey "*without undue delay*" and referred to earlier conclusions of EU government leaders which affirmed that "*the Union's capacity to absorb new members, while maintaining the momentum of European integration, constitutes an important criterion for accession, from the point of view both of the Union and of candidates for accession*". The EP noted that Turkey could only become a member after the EU's long-term budget planning for the period from 2014 onwards has been decided upon.[73]

The opening of negotiations on an SAA is normally preceded by a Feasibility Study carried out by the European Commission. The first Feasibility Study reported unfavourably on Albania in 1999. It reported then favourably on Macedonia in 1999, on Croatia in 2000, and on Albania in 2002 (Table 12).

On 18 November 2003 the Commission published its Feasibility Study on Bosnia and Herzegovina. The Commission hoped that it would be in a position to recommend to the Council the opening of the SAA negotiations in 2004 and now probably in 2005 on condition that BH make significant progress in addressing 16 reform areas identified in the Study.

As for Serbia and Montenegro, the Feasibility Study is still under preparation. This process suffered from delays related to the not definitively resolved constitutional situation of the two republics and from some disagreements between the governments over fundamental matters such as custom tariffs.

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[71] Speaking at the EU-Western Balkan Forum in Brussels in November 2004 Rehn declared that "*the move of the Western Balkans to DG Enlargement is a strong signal to the countries concerned that you are part of the process of European integration, and our shared goal is your future membership in the EU.*"
[72] COM (2004g)
[73] Report on the 2004 regular report and the recommendation of the European Commission on Turkey's progress towards accession.

Kosova/o, though not an independent state, has its role to play in promoting peace in the region. The European perspective is offered also to Kosova/o. It is included in the SAP through the Tracking Mechanism (STM) which was officially launched by the European Commission in November 2002 in order to keep Kosova/o anchored to the Stabilization and Association Process and bring it closer to EU.

The only country from the Western Balkans that is officially awarded the Candidate Country status is Croatia. Croatia applied for EU membership in February 2003. In April 2004, the European Commission issued a positive opinion (*avis*) on this application and recommended the opening of accession negotiations. This recommendation was endorsed by the June 2004 European Council who decided that Croatia is a Candidate Country and that the accession process should be launched.

Croatia had already expressed in the past the willingness to join the EU by 2007, together with Bulgaria and Romania, though many observers considered this time schedule too tight for Croatia in order to fulfil all the requirements. The December 2004 European Council requested the Council to agree on a negotiating framework with a view to opening the accession negotiations with Croatia on 17 March 2005 provided that there was full cooperation with ICTY, which unfortunately did not happen. Another date would probably be in June or July 2005. Croatia now aims to conclude accession talks in 2007, and expects talks to head directly towards EU membership. A possible date for its accession would be in 2009.

As for the other countries, they are all falling behind and seem to have a long way to go in the stabilisation process. One exception is obviously Macedonia which, as mentioned above, has signed the SAA. It has been already ratified by the Member State's and Macedonia's parliaments and entered into force in 1 April 2004. The country has applied for EU membership, but there is not a date for the negotiations to be formally opened yet.

It is generally accepted that the countries of Western Balkans, with the exception of Croatia obviously, would not be ready for membership before 2013 or even 2015. In the political circles of Europe sometimes comes out the year 2020 as the most realistic.

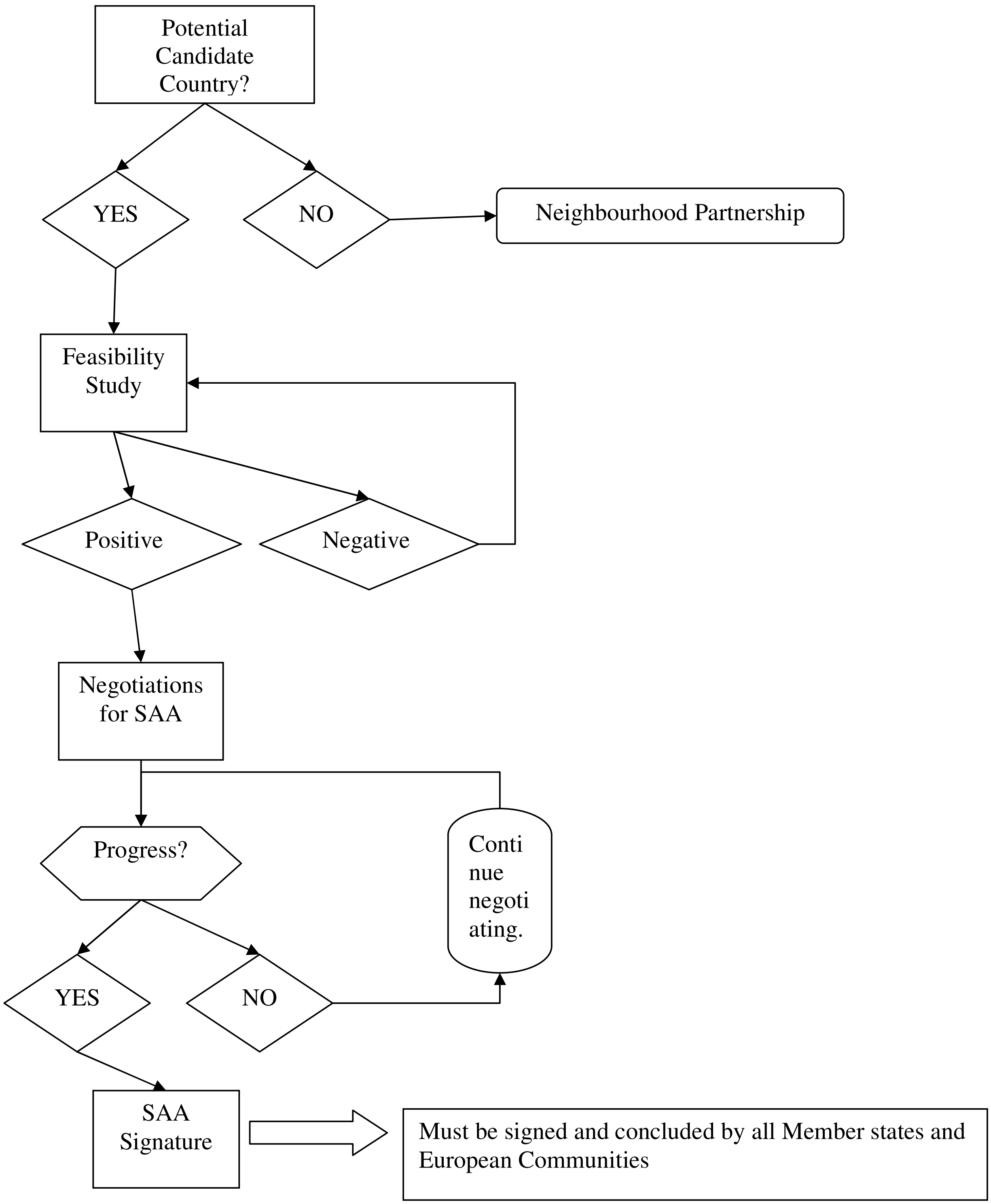
Chris Patten, the former EU External Commissioner, expressed his vision on the probable accession time of Western Balkans affirming that his "*hope and* his *aim is that children starting at primary school today in Albania, in Bosnia, in the former Yugoslav Republic of Macedonia and in the Federal Republic of Yugoslavia, will, when they come to leave school, be living in countries – their own countries – that are radically changed for the better; prosperous, stable European democracies, at peace with each other and at peace with themselves, either members of EU or well on the road to membership.*"[74]

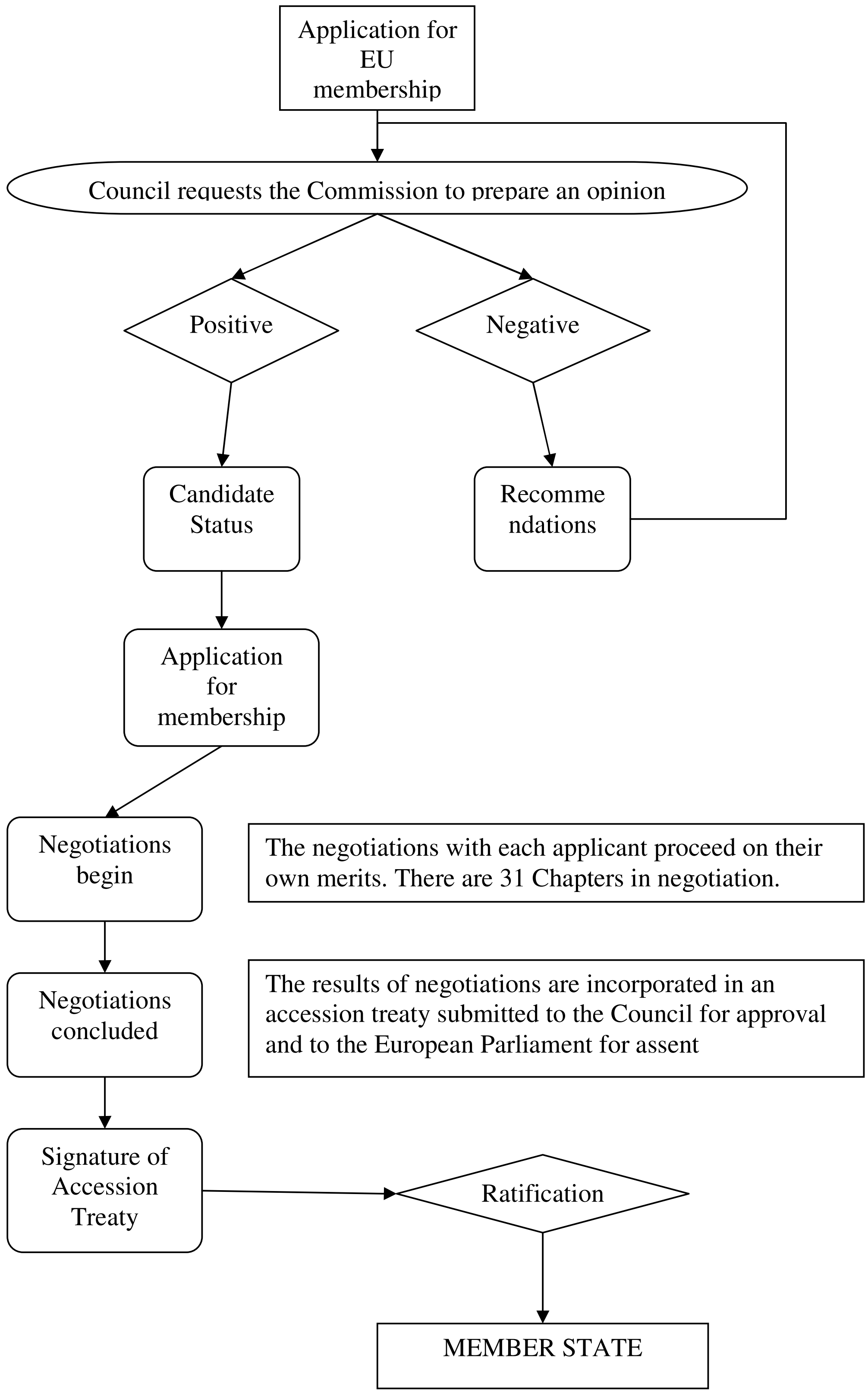
According to ICG[75], an optimistic time scale for EU membership for Albania, Macedonia and Serbia and Montenegro must be considered to be 2010 at the very earliest, assuming that absolutely everything goes right. Whereas, for Bosnia and Kosova/o, in case it become an independent State, 2015 could be given as an optimistic earliest possible EU accession date. Everyone understands that these dates show, at first, how far in the horizon is the membership and, secondly, being considered as "at the earliest", they affirm that the process may be further

[74] "EU Strategy in the Balkans", speech to ICG, Brussels, 10 July 2001.
[75] ICG (2003)

delayed and postponed. Recent developments in the region indicate how optimistic this time schedule is and it is clear that it must be revised.

Figure 19: Scheme of accession path.





Source: Author's elaboration

In fact, Olly Rehn, the member of the European Commission responsible for Enlargement made clear his, and Commissions', point of view on the Western Balkans accession agenda declaring that his goal for his mandate "*is to ensure that…negotiations with Croatia…get onto track, that we get started at least with FYROM, too;…and that the pre-accession strategy for the Western Balkans is consolidated and moved forward, based on...previous work on enlargement*"[76].

The European Union has in several occasions (the already mentioned Conclusions of Presidency of several European Councils, speeches and statements of Commissioners for Enlargement and the President of the European Commission, assessment and annual reports) that every country will be assessed for its "*own merits*" and will be given member status in accordance with the fulfilment of its duties. This means that, in the case of Croatia for example, it "*should join the EU when it meets the accession criteria, and should not have to wait until the last country in Western Balkans is also ready*"[77].

Table 12: Situation of Western Balkan Countries regarding the SAP to EU membership

Country	Situation	SAA signature	Membership application	Candidate Status	SAA entry into force	Membership negotiations opening date
Albania	SAA negotiations opened on 31 January 2003	2005 (forecast)				
Bosnia & Herzegovina	Feasibility study finalised on November 2003. It identifies 16 measures in which BH needs to progress, before the Commission can recommend opening the negotiations on an SAA					
Croatia	Candidate Country	29 October 2001	20 February 2003	18 June 2004	1 February 2005	To be decided[78]
Kosova/o	**S**AP **T**racking **M**echanism (STM) established					
Macedonia	Signed the SAA	24 November 2000	22 March 2004	Late Autumn 2005 (expected)	1 April 2004	
Serbia & Montenegro	Feasibility study under preparation					

Source: EU documents and official EU Portal.

[76] Rehn (2005b)
[77] Verheugen (2003).
[78] The first date which had been decided was 17 March 2005. The official opening of the negotiations has been postponed due to unsatisfactory collaboration of Croatia with The Hague ICTY.

Nevertheless, it does not seem as a complete nonsense to prospect a scenario in which the countries left out after Croatia's accession in 2009 will be, in a certain way, encouraged to join EU as a group. Their economic and demographic size is, for example, much smaller than that of Poland[79]. Practically, it would be easier for the EU to embody these countries as a whole in one single moment for several reason (political ones such as avoiding a negative impact on countries left out, and practical ones). In fact, this modus operandi was put in practise when, in the last wave of enlargement, countries, which were not perfectly in the same level of readiness to membership were allowed to join. Moreover, though only Bulgaria managed to technically complete its negotiations in the early 2004, Romania was given formal approval too, in light of last-minute compromises between the country and EU.

EU engagement: from PHARE to CARDS and beyond.

The international community has played a vital role in assisting the countries in the Western Balkans with financial aid. It has provided more than EUR 10 billion only in the first decade of transition from central planning to market economy.

Table 13: EC support to WB 1991-2000 (EUR million)

	Total 1991-1995	Total 1996-2000	TOTAL
Albania	458	454	912
Bosnia and Herzegovina	712	1.448	2.160
Croatia	244	123	366
Serbia and Montenegro	211	480	690
Kosova/o	0	783	783
Macedonia	131	280	411
Regional	119	111	230
TOTAL	1.874	3.678	5.553

Note: see Table 20 for a disaggregate level and year by year distribution.
Source: COM (2001).

Table 13 summarizes the total aid (from the European Community) received by the WB region in the lapse of time from 1991 to 2000. As it is shown in the table, by the end of the period the EU had provided more than EUR 5,5 billion in aid to the region. In any case, the aid was not equally distributed among the countries or equally spread over the period.

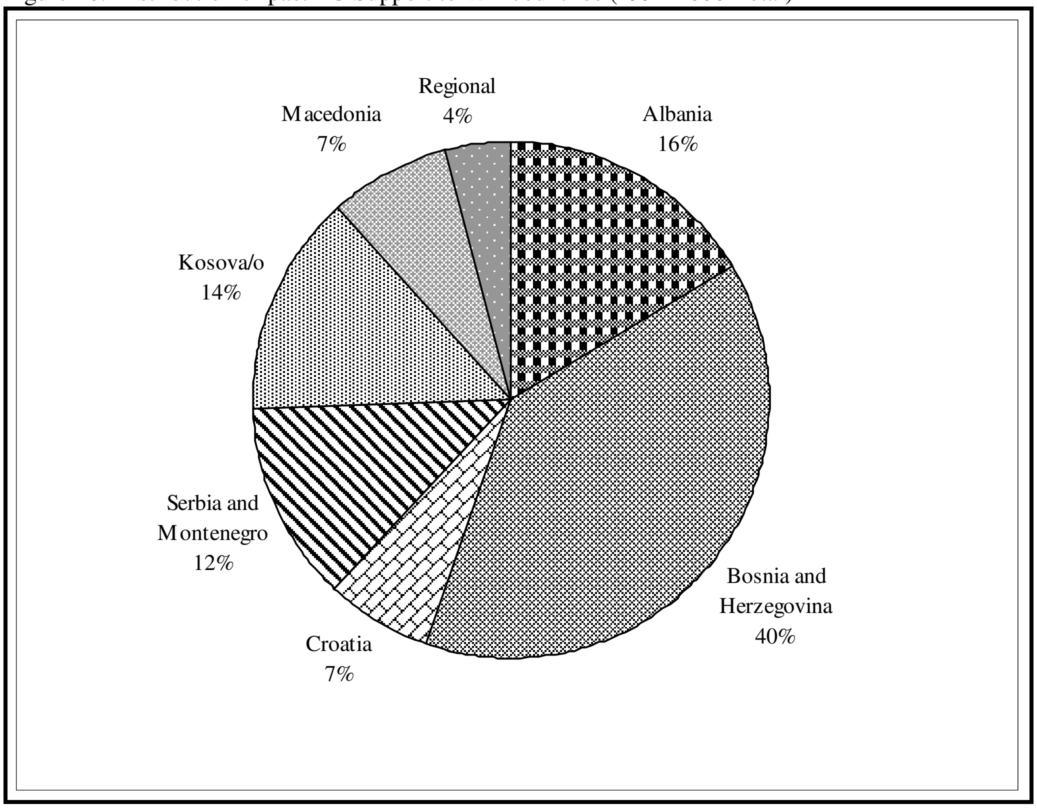
During the first half of the nineties, there were provided in the form of aid nearly EUR 1,9 billion, or circa one third of the total. In this period the EC focused mainly on emergency support through the ECHO and OBNOVA programmes. The aim was to contribute to the restoration of the stability in the region and in the implementation of the Peace Agreements (see Table 13 and Table 20). ECHO was mostly active in providing humanitarian aid in the form of emergency supplies and technical assistance, while the main objectives of OBNOVA were reconstruction, rehabilitation and reconciliation between parts in the several conflicts which took place in the Former Yugoslavia.

[79] In fact, Poland has a population of 38,5 million inhabitants (versus 24,4 million of WB) and an area of circa 313 thousand square km against 264 thousand square km of the whole Western Balkan countries. Obviously, without Croatia this area is even more smaller.

The PHARE, which was at beginning designated for Poland and Hungary and later extended to other former acceding countries, included as of 1997 and until 2000 the countries of the WB. Some EUR 2,6 billion have been provided by the EC through both PHARE and OBNOVA. The total aid from the EC nearly doubled in the second half of the last decade reaching EUR 3,7 billion (see Table 13).

Those countries which suffered macro-financial crisis have benefited from macro-financial support. To this aim EUR 255 million have been offered to some of the WB countries, namely Albania, B&H, Croatia and S&M. Moreover, some EUR 30 million have been provided in the period 1991-2000 in order to support the media, while other EUR 51 million have been disbursed in support of Democracy and Human Rights actions (see Table 20).

Figure 20: Distribution of past EC Support to WB countries (1991-2000 Total)



Source: Author’s elaboration on data presented in Table 13.

Bosnia and Herzegovina is the biggest recipient of the EU’s aid receiving nearly EUR 2,2 billion or 40% of the total aid to the region. Follows Albania with 16% of the total, Kosova/o which has received 14% and Serbia and Montenegro with 12%. Croatia and Macedonia are levelled at 7% of the total aid to the region, while other 45 were provided in the form of Regional aid and cooperation (see Figure 20).

In 1999 the EU decided to move the WB countries from the responsibility of ECHO, PHARE and OBNOVA programmes. Since 2000, the aid towards the region has been streamlined through the newly established programme CARDS[80]. The principal aim of this programme is to support the participation of the WB countries in the Stabilization and Association Process.

[80] Adopted with the Council Regulation (EC) No 2666/2000 of 5 December 2000.

The CARDS programme budget for the period 2000-2006 is EUR 4,65 billion. The financial aid is channelled through two main lines that are the national CARDS support programmes and the regional CARDS programme. The national support is guided by the Country Strategy Papers, one for each country in the Western Balkans, and receives the bulk of the support. The Regional Strategy Paper, instead, provides the strategic framework for the programming of the regional support.

These two dimensions, the national and the regional ones, are seen as complementary to each other and are expected to bring better results considering, in the one hand, that many problems to be faced are cross-border ones and, on the other hand, that working at a regional level, rather than uniquely at a national one, would result in "*significant gains to be obtained in terms of efficiency or enhanced impact*."[81]

Table 14: CARDS Annual Programme Allocation (2001-2003 and 2002-2004; million EUR)

	2001	2002	2003	2004	2005	2006	TOTAL
Albania	37,5	44,9	46,5	58,5	…	…	187
Bosnia and Herzegovina	105,2	71,9	63,0	65,0	…	…	305
Croatia	60,0	59,0	62,0	76,0	…	…	257
Kosova/o	316,6	137,9	53,0	60,0	…	…	568
Macedonia	56,2	41,5	43,5	51,0	…	…	192
Montenegro	16,3	13,0	13,5	19,0	…	…	62
Serbia	193,8	179,7	229,0	218,0	…	…	821
Regional	20,0	43,5	31,5	0,0	43	42	95
TOTAL	806	591	542	548	43	42	2.487

Note: An additional amount of €105,15 million from the regional funds has been allocated to the country programmes for integrated border management for the period 2002-2004.
Source: Web Site EUROPA – EuropAid – CARDS Programme – Financial Statistics; CARDS regional multi-annual indicative Programme (MIP) 2005-2006.

To this aim, EUR 95 (4%) million have been allocated through the regional programme in the period 2001-2004. An additional amount of circa EUR 105 million from the regional funds has been allocated to the country programmes for integrated border management for the period 2002-2004. In total up to the end of 2004, the regional support totalled EUR 200 million.

For the period 2005-2006 the amount allocated to the regional dimension totals EUR 85 million evenly divided, whereas the allocation at country and sectoral level within the countries is not available yet.

At the end of 2004 nearly EUR 2,5 billion had been allocated. Serbia and Kosova/o together have received the bulk of the total support by the end of the year (circa EUR 1,4 billion or 56%). The next biggest recipient is Bosnia and Herzegovina to whom, in the period 2001-2004, have been allocated EUR 305 million or 12%. To Croatia has been allocated 10% of the total support allocated, while Albania and Macedonia dispose 8% each (Table 14 and Figure 21).

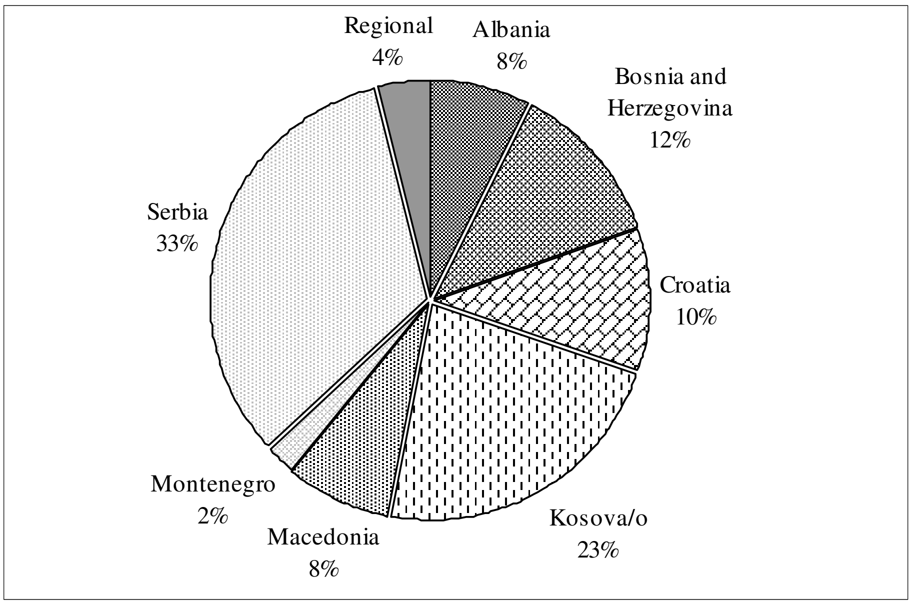
As already mentioned, the programmes of support and pre-accession assistance PHARE, ISPA, SAPARD, Turkey and CARDS Regulation will be replaced by a new, unified pre-accession instrument called Instrument for Pre-Accession Assistance or IPA. To this aim, the European

[81] COM (2001).

Commission has already presented a Proposal for a Council Regulation which is still a draft Regulation and is currently being discussed. It will be in line with the new budget and its period of application will be 2007-2013. The total commitment is around EUR 14,6 billion.

The aid and the financial support to the Western Balkan countries will be streamlined through this instrument. There is a clear distinction between the countries considered as either Candidate Countries or potential Candidates Countries (pre-candidate), and in the kinds of assistance offered to them accordingly.

Figure 21: Partition of CARDS support (2001 - 2004 cumulative)



Source: Author's elaboration on data presented in Table 14.

Potential Candidate Countries, all the region with the exception of Croatia, will continue to receive assistance along the lines currently laid down in the CARDS Regulation. They will benefit only from the first two components of IPA, namely Transition Assistance and Institution Building and Regional and Cross-Border Co-operation. The assistance will be offered to strengthen the Copenhagen political criteria, enhance administrative and judicial capacity and it will selectively promote some alignment with the *acquis* in areas of mutual advantage. The overall aim of the support is to prepare them for Candidate Country status[82].

Table 15: Components of IPA

	Pre-Candidate	Candidate
Transition Assistance and Institution Building	YES	YES
Regional and Cross-Border Co-operation	YES	YES
Regional Development	NO	YES
Human Resources Development	NO	YES
Rural Development	NO	YES

Source: COM (2004g).

[82] COM (2004g).

The Candidate Countries, instead, will benefit from the five components of the Pre-Accession Instrument with the aim to prepare them for full membership (see Table 15). Therefore, the alignment with the *acquis* will be total rather than selective[83]. Moreover, the Candidate Countries will receive far higher level of funding than the Pre-Candidates. What is even more important, Candidate Countries will receive assistance in the preparation for the implementation of Structural and Rural Development Funds after Accession. This kind of assistance has been denied to the Pre-Candidate Countries.

It is clear that this strict division in the kind of assistance according to the status will deepen the differentials of social and economic development in the Western Balkans. If things remain as they currently stand, Croatia, which is the largest economy in the region and the first runner in the race to membership, will be the biggest beneficiary of the EU support. The gap between this country, and Europe in general, and the rest of the region will grow wider. Albania, B&H, Macedonia, S&M and Kosova/o, "the politically least stable part of the European continent would fall further behind and become the ghetto of Europe," an area "behind a wall of visa restrictions to block desperate people seeking work elsewhere[84]".

We believe that it is extremely important to treat all the countries in the area equally. A first measure that could be taken is to shorten the time lag and the gap between the SAA signature and the Application for membership (see Figure 19). In this respect proposals have been made to offer, from 2007 onwards the status of EU Candidate to every country from the Western Balkans that concludes a Stabilisation and Association Agreement whether it meets or not the criteria to begin full membership negotiations[85].

In addition to that, ESI has in several moments (2002, 2003, 2004, 2005a, 2005b) called for a strong commitment of the EU towards the WB in terms of financial assistance. This could be reached by making all the five components of the IPA available to all the WB countries, irrespective of their status. Without doubt it is of vital importance for the WB to receive assistance levels and funds sufficient to ensure that the gap between them and the present Candidate Countries from the Balkans, i.e. Bulgaria, Romania and Croatia, does not grow further. Moreover, cohesion in the whole Balkan region should be an explicit objective of EU policy and this could be done by extending the Regional Development component of IPA to all the WB region[86].

Some conclusive considerations

In 1913 the Great Powers designed the borders of what nowadays is called the Western Balkans region, leaving half of the ethnic Albanian population out of the borders of the just born Albanian State. The Albanians have always considered this fact as one of the biggest injustices committed towards their nation. Whole areas inhabited by ethnic Albanians became object of shameful exchanges between the Great Powers and given to Albania's neighbours as a prize for their alliance and fidelity. In this way the Albanians have been living in 5 different countries in

[83] Ibidem.
[84] ESI (2005b).
[85] ESI (2004).
[86] See ESI (2004), ESI (2005b).

the Balkans[87]. The issue of the Albanian Nation is still unresolved and needs a definitive solution.

Europe turned the back to the Western Balkan countries in the moment they needed its support more than ever before. During the last Balkan Wars, in the early 90s of XX century, Europe was impotent, passive and divided. It acted unwillingly and slowly, while Yugoslavia was breaking into bits. It completely failed to act unanimously and speak with one voice. The results were dramatic and breathtaking. At first in Croatia, then in Bosnia and Herzegovina and at the end in Kosova/o, some of the most dark pages of modern European history were written in blood. Christopher Patten, former External Relations Commissioner, described in this way the consequences of Europe's refusal to get involved. "*The shattered ruins of Vukovar. The ghastly siege of Sarajevo. The charnel house of Srebrenica. The smoking villages of Kosovo. The European Union did not commit these crimes. But 200 thousand or more fellow Europeans died in Bosnia and Herzegovina alone. As Europeans we cannot avoid a heavy share of responsibility for what happened*"[88].

Europe learnt the lesson, or at least we hope it has done so. It appears clear that the best way to promote definitively the peace and the democracy in the Western Balkans is to welcome them inside the large democratic European family. Only doing so, the borders, for which so much blood has been shed in centuries, will finally belong to the past. In so doing, Europe will repair the injustice committed to the Albanian nation at the beginning of the XX century. It will finally give them the possibility, probably for the first time in history, to live and to prosper without walls and borders (whether physical or psychological) between them. It will give to the Balkan peoples the possibility to live in peace with themselves and with their neighbours and to feel part of the European culture and democratic spirit.

The 2005 is an important year. The European Union will sign the Accession Treaties with Bulgaria and Romania. After Greece and Slovenia, two more Balkan countries will belong to the Union. Moreover, negotiations will begin with another Balkan country, Croatia, and with Turkey, the country which more than others has shaped the history of the Balkan Peninsula.

The 2005 marks the 10th anniversary of the Dayton Peace Agreement that ended the war in Bosnia and Herzegovina. Calls from prestigious think-tanks are launched towards the international community to come to a decision within this year to end the extraordinary powers of the OHR. It will make of Bosnia and Herzegovina a fully sovereign state able to apply for EU membership[89].

Furthermore, negotiations on the final status of Kosova/o will start in early Autumn hopefully. The 2005 is considered to be the year of Kosova/o. So many times we have heard it repeated that "*everything begun in Kosova/o and everything will finish there*" referring to the (in)famous speech of Mr. Milosevic in front of the Kosova/o's Serbs in 1989. We strongly believe that an independent Kosova/o will turn to be a factor of peace in the region[90]. It will, at the end, allow Serbia to stop spending energy and resources trying to keep a Status Quo in Kosova/o and help it see the reality without distorting glasses. It will allow Serbia and Montenegro to focus the

[87] namely Albania, Greece, Serbia (within the borders of Kosova/o and in Serbia itself), Montenegro and in the regions of today's Republic of Macedonia, not to mention the several millions living in Turkey, most of them forced to move to this country.
[88] Patten (2004).
[89] ESI (2005a).
[90] A particularly interesting and helpful reading on the Kosova/o's future status is ICG (2005).

attention on their own Union of States and decide, without external or internal pressure, on what to do of that union.

When Europe at the Helsinki Summit in December 1999 decided to treat all the thirteen countries as Candidate Countries it sent a very powerful political signal to those countries. Dramatic changes and transformations took place. Reforms were accelerated and a wide consensus was reached in order to address a variety of subjects and on policy issues to be undertaken. It earmarked a very significant moment in time, the "*Helsinki Moment*" the one "*reached when a state is offered a place at the European table and an opportunity to become full member of the EU family*"[91]. It is important that the countries in the Western Balkans experience their "Helsinki Moment". Europe can do that offering to these countries the chances it has already offered to the previous and current Candidate Countries. Europe can do that treating WB countries as EU Candidates and to apply to all of them the pre-accession instruments in a process which is not simply of State-building, but a process of "*Member State-building*".

And at the end, at least we hope, the term "*Balkanization*" will belong to history. Definitively.

[91] ESI (2005b).

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Annex I: Social, Economic and EU Support Data

Table 16: Ethnic structure of population in Western Balkans (in number of people)

Country	Albanian	Bosniak	Croat	Serb	Macedonian	Montenegrin	Hungarian	Roma	Greek	Turkish	Slovene	Other	Total
Albania	3.473.912			*	*	*		*	63.807			7.090	3.544.808
Bosnia H.		1.923.652	573.088	1.486.823								24.046	4.007.608
Croatia	15.289	21.135	4.030.544	204.158	4.497	4.947	16.638	9.443		450	13.491	176.277	4.496.869
Kosova/o	1.848.000	*		147.000				*		*		105.000	2.100.000
Macedonia	521.945	17.398		37.282	1.329.717			55.923		78.706		47.638	2.071.210
Montenegro	47.682	63.272	7.063	201.892		273.366						79.381	672.656
Serbia	61.647	136.087	70.602	6.212.838	25.847	69.049	293.299	108.193			5.104	515.335	7.498.001
Total	**5.967.854**	**2.144.146**	**4.681.297**	**8.289.992**	**1.360.061**	**347.362**	**309.937**	**173.559**	**63.807**	**79.156**	**18.595**	**1.018.573**	**24.391.152**

Notes: * means that there is a presence of the ethnic group, but counted in "Other" because of lack of specific data.
The total population for each country is that of Table 1.
Population shares are those of Table 4.
Please refer to the notes and sources of the tables mentioned above for more information.

Table 17: Human Development Index 2004 for the Balkan region

Country	Life expectancy at birth (years) 2002	Adult literacy rate % age 15 and above	Combined gross enrolment ratio % 2001/02	GDP per capita (PPP US$) 2002	Life expectancy index	Education index	GDP index	Human Develop. Index value 2002
				Western Balkans				
Albania	73,6	98,7	69	4.830	0,81	0,89	0,65	0,781
B. and H.	74,0	94,6	64	5.970	0,82	0,84	0,68	0,781
Croatia	74,1	98,1	73	10.240	0,82	0,90	0,77	0,830
Kosova/o	68,86	94,22	88,52	2.660	0,73	0,92	0,55	0,734
Macedonia	73,5	96,0	70	6.470	0,81	0,87	0,70	0,793
S. and M.	73,1	98,0	74	2.200[92]	…	…	…	…
				Other Balkan Countries				
Bulgaria	70,9	98,6	76	7.130	0,77	0,91	0,71	0,796
Greece	78,2	97,3	86	18.720	0,89	0,95	0,87	0,902
Romania	70,5	97,3	68	6.560	0,76	0,88	0,70	0,778
Slovenia	76,2	99,7	90	18.540	0,85	0,96	0,87	0,895

Source: UNDP (2004a); for Kosova/o UNDP (2004b).

Table 18: GDP composition by sector in the Western Balkans (year 2004, %)

Country	Agriculture	Industry	Services
Albania	47,5	24,6	27,8
Bosnia and Herzegovina	13	40,9	46,1°
Croatia	7,9	30	62,1
Macedonia	11,3	32,1	56,6
Serbia and Montenegro	15,2	28,2	56,5

Source: CIA Factbook, 2004; ° 2001 estimated.

[92] Source: CIA Factbook 2004, the figure is estimated and refers to the State Union of Serbia and Montenegro including Kosova/o.

Table 19: Main economic trends in the Western Balkans 1986-2005

	Average 1986-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
					Real GDP growth (annual percentage change)*						
Albania	-1,2	9,1	-10,2	12,7	10,1	7,3	7,6	4,7	6,0	6,2	6,0
Bosnia Herz	…	61,9	30,0	15,8	9,6	5,5	4,4	5,5	2,7	5,0	4,0
Croatia	…	5,9	6,8	2,5	-0,9	2,9	4,4	5,2	4,3	3,7	4,1
Kosova/o	…	…	…	…	…	…	…	1,2	3,1	3,2	2,7
Macedonia	…	1,2	1,4	3,4	4,4	4,5	-4,5	0,9	3,1	4,0	4,5
Serbia Mont	…	7,3	7,4	2,5	-18,0	5,0	5,5	4,0	3,0	4,4	4,5
					Consumer Prices (annual percentage change)§						
Albania	26,9	12,7	32,1	20,9	0,4	0,0	3,1	5,2	2,4	3,4	3,0
Bosnia Herz	…	-11,5	5,6	-0,4	2,9	5,0	3,2	0,3	0,2	0,9	1,7
Croatia	…	3,5	3,6	5,7	4,1	6,2	4,9	2,3	1,5	2,5	3,5
Kosova/o	…	…	…	…	…	…	11,7	3,6	1,0	1,5	2,0
Macedonia	…	2,3	2,6	-0,1	-2,0	6,2	5,3	2,4	1,2	2,0	3,0
Serbia Mont	…	…	…	29,5	42,1	69,9	91,1	21,2	11,3	7,9	6,9
					Balance of Payments on Current Accounts (percentage of GDP)						
Albania	…	-6,3	-8,7	-3,9	-3,9	-4,4	-3,2	-6,5	-5,1	-5,5	-5,2
Bosnia Herz	…	…	…	-8,6	-9,3	-13,3	-16,7	-22,1	-19,0	-19,0	-18,2
Croatia	…	-4,8	-12,5	-6,7	-7,0	-2,5	-3,7	-8,4	-6,1	-5,8	-5,2
Kosova/o	…	…	…	…	…	…	…	…	…	…	…
Macedonia	…	-8,8	-7,9	-7,5	-0,9	-2,1	-6,8	-8,5	-6,0	-7,7	-6,3
Serbia Mont	…	…	…	-4,8	-7,5	-3,9	-4,6	-8,8	-10,2	-9,6	-8,5

Source: IMF (2004b); Source of data for Kosova/o: IMF (2004a).
2001-2003 are estimates, 2004-2005 are projections.
* Data for some countries refer to real net material product (NMP) or are estimates based on NMP. For some countries, figures for recent years are IMF staff estimates. The figures should be interpreted only as indicative of broad orders of magnitude because reliable, comparable data are not generally available. In particular, the growth of output of new private enterprises of the informal economy is not fully reflected in the recent figures.
§ For some countries, inflation for the earlier years is measured on the basis of a retail price index. Consumer price indices with a broader and more up-to-date coverage are typically used for more recent years.

Table 20: European Community support to the Western Balkans 1991-2000 (€ million) continue…

COUNTRY	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
PHARE	10,00	75,00	40,00	49,00	53,00	53,00	70,40	42,50	99,90	35,45	528,25
Democracy & Human rights					1,00	0,60	0,40	0,80	0,17	0,52	3,49
Specific actions									2,60	1,92	4,52
Humanitarian Aid (ECHO)		4,13			1,15	1,65	16,30	11,00	97,07	3,40	134,70
FEOGA (DG AGRI)		120,00									120,00

Food security (DG DEV)					10,80		5,50		16,30
Macroeconomic (DG ECFIN)	35,00 35,00		35,00						105,00
ALBANIA	**368,13**		**90,15**	**55,25**	**97,90**	**54,30**	**205,24**	**41,29**	**912,26**
PHARE/OBNOVA				228,12	207,07	188,26	118,36	100,85	842,66
Specific actions			70,00	65,40	39,90	15,00	30,90	3,96	225,16
Media		0,21	0,65	1,65	4,09	2,24			8,84
Democracy & human rights			0,70	4,80	4,80	1,80	0,79	0,62	13,51
Humanitarian Aid (ECHO	495,26		145,03	142,45	105,00	87,95	58,90	0,40	1034,99
Macroeconomic (DG ECFIN)							15,00	20,00	35,00
BOSNIA HERZEGOV.	**495,47**		**216,38**	**442,42**	**360,86**	**295,25**	**223,95**	**125,83**	**2.160,15**
OBNOVA				10,99	8,59	15,00	11,50	18,34	64,42
Media		0,09	0,31	0,72	1,67	0,59			3,39
Democracy & human rights				0,70	2,20	0,60	0,21	0,97	4,68
Specific actions						1,00	0,42		1,42
Humanitarian Aid (ECHO)	204,77		38,43	21,15	14,50	6,95	6,50		292,30
CROATIA	**204,86**		**38,74**	**33,56**	**26,96**	**24,14**	**18,63**	**19,31**	**366,20**
OBNOVA						5,00	26,90	208,95	240,85
Media		0,37	1,18	0,37	3,83	5,38			11,12
Democracy & human rights			1,90	0,70	0,80	2,50	2,05		7,95
Specific actions							1,76		1,76
Humanitarian Aid (ECHO)	170,25		36,87	23,40	13,50	11,20	93,70	59,64	408,56
Macroeconomic (DG ECFIN)								20,00	20,00
SERBIA MONTENEG.	**170,62**		**39,95**	**24,47**	**18,13**	**24,08**	**124,41**	**288,59**	**690,24**
OBNOVA						13,16	127,00	439,90	580,06
Democracy & human rights								0,38	0,38
Specific actions								6,00	6,00
Humanitarian Aid (ECHO)							111,70	28,84	140,54
Food security (DG DEV)							20,90		20,90
Macroeconomic (DG ECFIN)								35,00	35,00
KOSOVA/O						**13,16**	**259,60**	**510,12**	**782,88**
PHARE/OBNOVA	60,00		25,00	25,00	33,00	25,00	68,20	21,20	257,40
Media		0,05	0,28		0,21	0,28	0,50		1,32
Democracy & human rights					0,50	0,20	0,10	0,52	1,32
Humanitarian Aid (ECHO	36,52		9,15				39,81	5,35	90,83
Macroeconomic (DG ECFIN)					40,00			20,00	60,00
MACEDONIA	**96,57**		**34,43**	**25,00**	**73,71**	**25,48**	**108,61**	**47,07**	**410,87**
PHARE/OBNOVA	81,00					7,00	0,20	18,75	106,95
Media		0,44	0,61	0,15	1,45	1,40	2,00		6,05
Democracy & human rights					5,30	0,90	6,40	7,36	19,96
Specific actions								2,71	2,71
Humanitarian Aid (ECHO	17,10		20,00			17,00	39,32	1,08	94,50
REGIONAL	**98,54**		**20,61**	**0,15**	**6,75**	**26,30**	**47,91**	**29,90**	**230,17**
GRAND TOTAL	**1.434,20**		**440,26**	**580,85**	**584,30**	**462,70**	**988,35**	**1.062,10**	**5.552,76**

Source: COM (2001).

Table 21: CARDS Regional Programme 2005-2006 (EUR million)

PRIORITIES			
Institution Building			**16-18**
Administrative capacity building, including EU "acquis" approximation			6-8
Public administration reform			4-6
Co-Operation With Community Agencies			3-4
Justice and Home Affairs			**5-6**
Enhanced police regional co-operation			2-3
Judicial Regional co-operation			1,5-2,5
Development of monitoring instruments			1
Cross Border Co-Operation			**33-39**
Border region co-operation (NP+CBC)			33-39
Private Sector Development			**2,5-3,5**
Investment facilitation			2,5-3,5
Infrastructure Development			**21-26**
Project preparation facility (transport, Energy environment)			15-19
Energy			3-4
Environment			1-2
Information society			1-2
Reserve			**0,7-0,9**
	2005	2006	
Total	**43**	**42**	**85***

Notes: *as per budget available.
Range of circa +7- 10%.
Higher/Lower amounts in a sector are compensated by lower/higher amounts, within stated range, in other sectors.

Source: CARDS regional multi-annual indicative Programme (MIP) 2005-2006.

Annex II: FDI Indexes and Data

The Inward FDI Potential Index[93]

The Inward FDI Potential Index captures several factors (apart from market size) expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables (no weights are attached in the absence of a priori reasons to select particular weights):

- GDP per capita, an indicator of the sophistication and breadth of local demand (and of several other factors), with the expectation that higher income economies attract relatively more FDI geared to innovative and differentiated products and services.
- The rate of GDP growth over the previous 10 years, a proxy for expected economic growth.
- The share of exports in GDP, to capture openness and competitiveness.
- As an indicator of modern information and communication infrastructure, the average number of telephone lines per 1,000 inhabitants and mobile telephones per 1,000 inhabitants.
- Commercial energy use per capita, for the availability of traditional infrastructure.
- The share of R&D spending in GDP, to capture local technological capabilities.
- The share of tertiary students in the population, indicating the availability of high-level skills.
- Country risk, a composite indicator capturing some macroeconomic and other factors that affect the risk perception of investors. The variable is measured in such a way that high values indicate less risk.
- The world market share in exports of natural resources, to proxy for the availability of resources for extractive FDI.
- The world market share of imports of parts and components for automobiles and electronic products, to capture participation in the leading TNC integrated production systems (WIR02).
- The world market share of exports of services, to seize the importance of FDI in the services sector that accounts for some two thirds of world FDI.
- The share of world FDI inward stock, a broad indicator of the attractiveness and absorptive capacity for FDI, and the investment climate.

Table 22: The Inward FDI Potential Index in the period 1990 – 2002 (Balkan countries, score 0-1)

	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001	2000-2002
Albania	0,103	0,110	0,118	0,121	0,122	0,097	0,118	0,133	0,133	0,154	0,176
B&H	…	…	…	…	…	…	…	…	…	…	…
Croatia	…	0,120	0,132	0,176	0,178	0,178	0,218	0,227	0,231	0,218	0,225
Kosova/o	…	…	…	…	…	…	…	…	…	…	…
Macedonia	…	…	0,128	0,145	0,128	0,129	0,134	0,141	0,142	0,139	0,135
S&M	…	…	…	…	…	…	…	…	…	…	…
Bulgaria	0,213	0,193	0,189	0,223	0,202	0,181	0,217	0,206	0,196	0,197	0,195
Romania	0,158	0,150	0,146	0,170	0,161	0,148	0,155	0,145	0,144	0,150	0,163
Slovenia	0,153	0,167	0,180	0,234	0,236	0,234	0,299	0,303	0,305	0,309	0,317
Greece	0,254	0,236	0,238	0,256	0,260	0,262	0,276	0,282	0,285	0,280	0,285

Source: UNCTAD.

93 Source: UNCTAD

The Inward FDI Performance Index[94]

The Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size. It is the ratio of a country's share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country receives more FDI than its relative economic size, a value below one that it receives less (a negative value means that foreign investors disinvest in that period).

The index thus captures the influence on FDI of factors other than market size, assuming that, other things being equal, size is the "base line" for attracting investment. These other factors can be diverse, ranging from the business climate, economic and political stability, the presence of natural resources, infrastructure, skills and technologies, to opportunities for participating in privatization or the effectiveness of FDI promotion.

The formulae used to calculate the index is:

$$IND_i = (FDI_i / FDI_w) / (GDP_i / GDP_w)$$

Where
IND_i = *The Inward FDI Performance Index of the* i^{th} *country*
FDI_i = *The FDI inflows in the* i^{th} *country*
FDI_w = *World FDI inflows*
GDP_i = *GDP in the* i^{th} *country*
GDP_w = *World GDP*

Table 23 : Inward FDI performance index in the period 1990 – 2002

	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001	2000-2002
Albania	2,001	5,081	3,940	2,991	2,627	2,069	1,302	0,591	0,633	0,992	1,270
B&H	…	…	…	…	…	…	…	…	…	…	…
Croatia	0,157	0,775	0,828	0,777	1,219	1,450	1,833	1,889	1,680	2,050	2,130
Kosova/o	…	…	…	…	…	…	…	…	…	…	…
Macedonia	…	…	0,344	0,316	0,319	0,213	0,707	0,601	0,873	1,747	2,149
S&M	…	…	…	…	…	…	…	…	…	…	…
Bulgaria	0,318	0,571	0,712	0,685	0,815	1,572	2,047	2,135	1,833	1,971	2,145
Romania	0,167	0,351	0,741	0,910	0,887	1,320	1,789	1,524	1,041	0,825	0,907
Slovenia	0,558	1,018	1,014	0,797	0,742	0,871	0,732	0,453	0,226	0,296	1,168
Greece	1,578	1,534	1,248	0,948	0,791	0,629	0,332	0,178	0,141	0,260	0,247

Source: UNCTAD.

[94] Source: UNCTAD.

FDI Data

Table 24: FDI Inflows in the Western Balkans in the period 1990-2003 (USD millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	Average
Albania	0	0	20	58	53	70	90	48	45	41	143	207	135	180	1.091	78
BiH	0	0	0	0	0	0	-2	1	56	154	147	130	265	381	1.133	81
Croatia	0	0	13	120	117	114	511	533	932	1.467	1.089	1.561	1.124	1.713	9.295	664
S&M	0	0	126	96	63	45	0	740	113	112	25	165	475	1.360	3.319	237
Maced	0	0	0	0	24	9	11	30	128	33	175	442	78	95	1.024	73
WB	0	0	159	274	257	239	610	1.351	1.274	1.807	1.578	2.505	2.077	3.729	15.861	1.133

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Table 25: FDI Inflows in the Western Balkans in the period 1990-2003 (EUR millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total	Average
Albania	0	0	15	50	45	54	72	42	40	39	155	231	143	159	1.045	75
BiH	0	0	0	0	0	0	-2	1	50	145	159	145	281	337	1.116	80
Croatia	0	0	10	103	99	88	408	471	830	1.377	1.179	1.743	1.189	1.514	9.011	644
S&M	0	0	97	82	53	35	0	655	101	105	27	184	502	1.202	3.043	217
Maced	0	0	0	0	20	7	9	27	114	31	189	493	82	84	1.055	75
WB	0	0	122	235	216	185	487	1.195	1.134	1.696	1.709	2.797	2.197	3.296	15.270	1.091

Source: Author's own calculations on data presented in Table 24 and in Table 27.

Table 26: Country's share of FDI Inflows in the Western Balkans in the period 1990-2003 (in %)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Albania	20	0	13	21	21	29	15	4	4	2	9	8	6	5	7
BiH	20	0	0	0	0	0	0	0	4	9	9	5	13	10	7
Croatia	20	0	8	44	46	48	84	39	73	81	69	62	54	46	59
S&M	20	0	79	35	24	19	0	55	9	6	2	7	23	36	20
Maced	20	100	0	0	9	4	2	2	10	2	11	18	4	3	7
WB	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Author's own calculations on data presented in Table 24.

Table 27: Annual exchange rate: USD/ECU (1991-1998) and USD/EUR (1999-2003)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1,240	1,296	1,170	1,186	1,294	1,253	1,131	1,123	1,066	0,924	0,896	0,946	1,131

Source: UIC – Ufficio Italiano Cambi, Web site: www.uic.it .

Table 28: Annual nominal increase with respect to the previous year (USD)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albania	190	-9	32	29	-47	-5	-8	247	45	-35	34
BiH	0	99.900	200	-6.767	-150	5.475	176	-4	-12	104	44
Croatia	825	-3	-2	347	4	75	57	-26	43	-28	52
S&M	-24	-35	-28	-100	73.999.900	-85	-1	-78	560	188	186
Maced	0	239.900	-60	18	168	324	-74	434	153	-82	22
WB	73	-6	-7	156	122	-6	42	-13	59	-17	80

Source: Author's own calculations on data presented in Table 24.

Table 29: Annual nominal increase with respect to the previous year (EUR)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albania	221	-10	21	33	-42	-5	-4	301	49	-38	12
BiH	11	98.559	175	-6.984	-155	5.512	191	10	-9	93	20
Croatia	925	-4	-11	362	16	76	66	-14	48	-32	27
S&M	-15	-36	-34	-100	81.992.293	-85	4	-74	581	173	139
Maced	11	236.682	-64	22	197	327	-73	516	161	-83	2
WB	92	-8	-15	164	145	-5	49	1	64	-21	50

Source: Author's own calculations on data presented in Table 25.

Table 30: A summary of FDI data on WB (total, annual average, cumulative per capita, country's share on total)

	USD			EUR				
	Total	Annual average	Cumulative per capita	Total	Annual average	Cumulative per capita	Share on Total %	Population
Albania	1.091	78	308	1.045	75	295	7	3.544.808
Bosnia Herzegovina	1.133	81	283	1.116	80	278	7	4.007.608
Croatia	9.295	664	2067	9.011	644	2004	59	4.496.869
Serbia Montenegro	3.319	237	406	3.043	217	372	20	8.170.657
Macedonia	1.024	73	494	1.055	75	510	7	2.071.210
Western Balkans	15.861	1.133	712	15.270	1.091	685	100	22.291.152

Source: Author's own calculations on data presented in Table 1, Table 24, Table 25 and Table 26.

Annex III: Maps

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IBRD 31628R1

JUNE 2003

Map No. 3769 Rev. 6 UNITED NATIONS
June 2004

Department of Peacekeeping Operations
Cartographic Section

Map No. 3729 Rev. 5 UNITED NATIONS
June 2004

Department of Peacekeeping Operations
Cartographic Section


CROATIA
National capital
Town, village
Major airport
International boundary
Republic boundary
Highway
Road
Railroad
0 20 40 60 km
0 20 40 mi
The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.
ITALY
SLOVENIA
HUNGARY
BOSNIA AND HERZEGOVINA
Serbia
SERBIA AND MONTENEGRO
Montenegro
Adriatic Sea
Istria
Kapela
Velebit
SLAVONIA
DALMATIA
Zagreb
Ljubljana
Sarajevo
Udine
Trieste
Maribor
Kaposvár
Pécs
Batina
Novi Sad
Cakovec
Varazdin
Koprivnica
Durdevac
Vrbovec
Bjelovar
Virovitica
Pavlovac
Cazma
Daruvar
Popovaca
Kutina
Pakrac
Nasice
Osijek
Vukovar
Sisak
Novska
Nova Gradiska
Pozega
Slavonski Brod
Vinkovci
Hrvatska Dubica
Dvor
Bosanska Gradiska
Banja Luka
Tuzla
Bihać
Karlovac
Vojnic
Klana
Rijeka
Umag
Porec
Baderna
Rovinj
Pula
Ogulin
Josipdol
Novi Vinodolski
Plavca Draga
Senj
Prozor
Jablanac
Bunić
Karlobag
Gospić
Udbina
Lovinac
Gracac
Obrovac
Zadar
Benkovac
Knin
Vodice
Sibenik
Sinj
Trogir
Split
Omis
Imotski
Makarska
Mostar
Ploce
Metkovic
Dubrovnik
Gruda
Krk
Cres
Rab
Unije
Lošinj
Pag
Ilovik
Silba
Olib
Premuda
Ist
Molat
Dugi Otok
Pasman
Kornat
Murter
Žirje
Ciovo
Šolta
Brač
Hvar
Vis
Svetac
Bisevo
Korčula
Pelješac
Susac
Lastovo
Mljet
Šipan
Kvaneric
Drava
Duna
Sava
Kupa
Una
Sana
Vrbas
Bosna
Drina
Neretva
Tara
Piva
Dunay (Danube)
13°
15°
17°
19°
45°
43°
CROATIA

Map No. 4069 Rev. 3 UNITED NATIONS
June 2004

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Map No. 3789 Rev. 5 UNITED NATION
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Map No. 3815 Rev. 7 UNITED NATIONS
June 2004

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