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*Regional Cooperation in Western Balkans  
in Times of Political  
and Economical Uncertainty*

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# Regional Cooperation in Western Balkans in Times of Political and Economical Uncertainty

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## Abstract

A first draft of this paper was originally presented at the International Conference “The Global Crisis and Regional Governance in the Balkans. Is there a Threat to Stability?”, organised by the University of Bologna/Centre for Eastern Europe and the Balkans and held in Faenza, Italy, 5<sup>th</sup>-6<sup>th</sup> February 2010.

Trying to give an answer to the questions at the basis of that conference – *Is the global crisis impacting on governance in the Balkans? Is there a threat to stability in the region?* – the paper focuses on the current impasse of regional cooperation in the Western Balkans, due to political and economical uncertainty. Special attention has been devoted on problems affecting the youngest actor of regional cooperation in South East Europe, the Regional Cooperation Council, the role of the European Union as an “external actor” supporting regional cooperation, and the disputed status of Kosovo with its negative political and economical repercussions.

## Keywords

regional cooperation, Western Balkans, South East Europe, Kosovo

## 1 General background: the Western Balkans facing the global crisis

The international economic crisis reached the Western Balkans in the second half of 2008/first quarter of 2009, affecting the region with different paths, depending on the degree of integration of national economies to the

South East Europe - GDP Growth (average)*						
Country	2006	2007	2008	2009	2010	2011
Albania	5.5	6.0	7.7	4.3	2.0	3.9
Bosnia-Herzegovina	6.7	6.8	6.0	-4.4	0.6	1.9
Croatia**	4.8	5.6	2.4	-5.9	0.6	2.0
Bulgaria	6.3	6.2	6.2	-4.8	0.0	2.7
FYR Macedonia	3.7	5.1	4.8	-1.2	2.0	3.8
Montenegro	8.6	10.3	7.5	-4.3	0.4	2.0
Romania	7.9	6.0	7.3	-7.0	1.3	2.3
Serbia***	5.5	7.5	5.5	-3.1	2.4	3.2

**Table 1:** South East Europe - GDP Growth

Source: European Bank for Reconstruction and Development: EBRD Transition Report 2008; Regional Economic Prospects in EBRD Countries of Operation: Quarterly Update Office of the Chief Economist, January 2010; The above chart is the author's re-elaboration of EBRD data.

\*Weighted averages. The weights used for the growth rates are EBRD estimates of nominal dollar-GDP lagged by one year. Year over year percent change, updated as of EBRD January 2010 forecasts.

\*\*EBRD does not recognize Kosovo as an independent State.

global market.

Countries with higher degrees of financial and economic integration started to suffer from the global risk aversion and liquidity shortage as well as from the slowdown of economic activity in the EU. A second group of countries, less integrated into the international chain of contagion, remained relatively shielded at the beginning of 2009<sup>1</sup>.

During the last quarter of 2009 the international financial and economic crisis was affecting the Western Balkans mainly via shrinking external demand, lowering Foreign Direct Investment and capital inflows and decelerating credit growth<sup>2</sup>.

Notwithstanding the prospects for a mild recovery in 2010 and 2011, long lasting effects of the crisis will be nevertheless evident in the nearest future, with access to foreign capital and foreign direct investments likely to remain constrained for some time in the Western Balkans, and competition for those funds probably even harder than in the past years of ample liquidity.

The current crisis is expected to severely affect the region also in the medium term, since it challenges the recent growth model of Western Bal-

<sup>1</sup> European Commission, Directorate-General for Economic and Financial Affairs, *The Western Balkans in Transition*, European Economy, Occasional Papers 46/May 2009, p. 21.

<sup>2</sup> European Commission, Directorate-General for Economic and Financial Affairs, *Candidate and Pre-Accession Countries' Economic Quarterly*, October 2009, p. 3.

kan economies, based on negative domestic savings and investment balances, cheap international capital, low investment in equipment and machinery, low exports, and in the poorest economies the expatriation of a sizeable part of the workforce. Financing domestic growth needs will become increasingly difficult<sup>3</sup>. Even if FDI may resume once the international crisis is overcome, in the meanwhile remittances flows may slow down and foreign capital is likely to remain less readily available, with higher risk premiums and rates. This situation will require an adjustment in external imbalances, supported by a more prudent policy mix. An acceleration of structural reforms on labour and product markets, and improving the quality of public spending would increase the capacity of the Western Balkan economies to compete with other emerging markets in attracting foreign investment in the recovery phase, that remains a key for rescuing growth.

In such a scenery, given the coincidence of the economical crisis with political difficulties faced by regional cooperation in relation with Kosovo's independence and its non-recognition by some States in the region, the European Commission urged the need for Western Balkans to remain engaged in regional cooperation, as a tool for maintaining the march of approach of the region to the EU.

In the word of Commissioner for Enlargement, Olli Rehn:

“(...) more than ever, the EU perspective and improved regional cooperation are absolutely essential to help pull the countries of the region out of a negative economic spiral”<sup>4</sup>.

“As a cornerstone of the EU agenda, regional cooperation is (...) of paramount importance to make the countries more resilient to the crisis. Of course, the economic weight of the Western Balkans as a region is limited. Yet, regional cooperation should not only be seen in terms of export markets, but also as a chance to combine inputs and know-how from the region in order to succeed in the global market”<sup>5</sup>.

The argument of regional cooperation as the “magic wand” to solve stability problems in the Western Balkans is not new. This is not to say that regional cooperation doesn't have intrinsic advantages, since it is out of doubt that public goods not attainable by single states might be instead got through coordination, cooperation, progressive homogeneity of rules, lib-

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<sup>3</sup> European Commission, Directorate-General for Economic and Financial Affairs, *The Western Balkans in Transition*, op. cit., p. 21.

<sup>4</sup> European Commissioner Olli Rehn's foreword at the Conference "The Western Balkans: Overcoming the economic crisis – from regional cooperation to EU membership", Brussels, 9 December 2009.

<sup>5</sup> *Ibidem*.

eralization of markets, and so on. In times of economical crisis, regional cooperation may represent a crucial instrument in order to avoid unilateral policies and manoeuvres that could result in a general deterioration of the economical environment. Regional cooperation forums might serve also to coordinate multilateral requests of financial assistance to be addressed to relevant international stakeholders, in fields of regional common interest, like transport, energy, environment. The scope of coordination is to ameliorate the inflow of external capitals in the region even in times of economic global turmoil, therefore speeding recovery and rescuing paths of growth.

However, to work in this direction, regional cooperation needs to rest on solid bases of genuine political willing, and to be duly coordinated. And, at the end of 2009, regional cooperation in the region seemed not well equipped to resist, without external help, to political and economical challenges.

## 2 Background of regional cooperation in the Western Balkans

One of the main features of regional cooperation in the Western Balkans is its “externally-driven” nature. Making it a pre-requisite for integration, the EU made regional cooperation compulsory for the countries of the region. This approach, launched by the EU in 1996, at a time when neither the term “Western Balkans” existed<sup>6</sup>, was intended to connect Balkans States each other in a strong framework of mutual relations, in order to stabilize peace in the region and was definitively consolidated with the launching of the Stabilisation and Association Process, in 1999, which remarked the need for the countries to be engaged in regional cooperation. Putting it as a pre-requisite for EU integration, regional cooperation was expected to bring greater political and economic stability to the Western Balkans, therefore promoting a faster EU integration for the region and at the same time preventing the enlargement to import foreign policy problems into the EU<sup>7</sup>.

Even if “externally driven”, the development of regional cooperation served the scope to reconstruct links and relations among neighbouring

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<sup>6</sup> See Milica Delević, *Regional Cooperation in the Western Balkans*, Institute for Security Studies, Chaillot Paper n. 104, July 2007, Paris, 2007, pp. 11-16.

<sup>7</sup> Milica Delević, *Regional Cooperation in the Western Balkans*, Institute for Security Studies, op. cit., pp. 23-25.

countries, and in some senses it helped to rescue common factors – such as historical, economical, cultural – that a decade of wars had tried to delete<sup>8</sup>.

The strong incentive of EU membership worked as a pushing factor for generating a wide net of regional relations among the Western Balkans, but at the same time some inconsistency emerged as far as the EU approach towards the region and its perspective of EU membership was concerned. There is an implicit contradiction, indeed, between the regional approach on which the Stabilisation and Association Process has been based, and that makes countries in the region compelled to mutually cooperate if they want to proceed towards the EU membership, and the EU enlargement, that is a bilateral exercise, managed exclusively by the EU and each single country. From the point of view of the Western Balkans countries, this inconsistency makes their bilateral relations with the EU far more important than those with regional counter-parts, and even more important than the relations of the region as a whole with the EU<sup>9</sup>.

This inconsistency between EU regional and bilateral approaches towards Western Balkans generated some uncertainty among the countries in the region, at least at the beginning, whether the EU integration was a real option or just a far mirage to compel them to cooperate among themselves<sup>10</sup>, since EU integration was essentially a multi-speed process in the region<sup>11</sup>.

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<sup>8</sup> In this sense, the support for regional cooperation was inspired by the positive experience of Western Europe. Regional cooperation nets and their developments in Western Europe, up till the establishment of the European Union, have contributed to transform the sovereignty of States, reducing potentials of conflicts in the region (See: William Wallace, “The Sharing of Sovereignty: the European Paradox”, in *Political Studies*, XLVII, 1999, pp. 503-521). At the same time, the need for interdependence in the contemporary world – with a special reference to the economic relations – represents, *per se*, a strong incentive for countries to develop regional cooperation (See: Edward D. Mansfield, Helen V. Milner, “The new wave of regionalism”, in *International Organisation*, Vol. 53, No. 3, Summer 1999, pp. 589-627; Edward D. Mansfield, “Preferential Peace: Why Preferential Trading Arrangements Inhibit Interstate Conflict”, in Mansfield & Pollins (eds), *Economic interdependence and international conflict: New perspectives on an enduring debate*, Michigan Studies in International Political Economy, 2003, pp. 222-36). In this sense, even if “externally driven”, regional cooperation could rescue some sort of “natural track” of interstate relations and hence develop further, as foreseen by supporters of the “Neo-functional” theories, at the very basis also of the European integration project.

<sup>9</sup> Vladimir Gligorov, “Southeast Europe: Regional Cooperation with Multiple Equilibria”, in *Integrating the Balkans in the European Union: Functional Borders and Sustainable Security* (IBEU Research Project), Working Paper n. 4.1., 2004, p. 2.

<sup>10</sup> Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit.

<sup>11</sup> Vladimir Gligorov, “Southeast Europe: Regional Cooperation with Multiple Equilibria”, op. cit., p. 6.



As a matter of fact, the curious picture generated in the region saw all countries in the region proceeding towards a common goal, but with their progresses subjected to a “regatta principle” – each country to join EU when it is ready – and not a “caravan principle” – waiting while the others catch up<sup>12</sup>. The “regatta principle” implied also a risk of generating competition among countries in the region, especially during the last few years, dominated by EU internal crisis, with the failure of the EU Constitution, the difficulties in adopting a new Treaty, before Lisbon, and a generalised “enlargement fatigue”, which has also coincided with the global economic crisis.

Some clues may suggest that a sort of competition was effectively developing among the countries in the region within their multi-speed process towards the EU integration. Exchanging experiences, indeed, is deemed to be mutually beneficial when all parts are to gain from cooperation in a future perspective of development. However, when cooperation implies the transfer of know-how and skills whose costs have been sustained by a single country, cooperation is hampered by the unbalance distribution of costs and gains among participants to the regional cooperation. For instance, in the field of translating the EU *acquis communautaire*, Croatia afforded alone the burden of costs for translation. As a consequence, Zagreb is not willing to freely share the results of its efforts to regional partners whose language would permit this transfer, but rather makes certain pieces of translated legislation available upon request<sup>13</sup>.

### 3 Regional Cooperation Initiatives in the Western Balkans: a general picture

Notwithstanding the uncertainties generated by the inconsistent EU approach, a multitude of intergovernmental forums, regional tables, political initiatives developed in the Western Balkans during the last fifteen years, covering different fields, re-establishing regional dialogue and working, therefore, as a security net to prevent new political turmoil in the region.

Since the EU membership represents the common goal of all the countries in the region, regional cooperation has been developed under the

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<sup>12</sup> The metaphor was firstly pronounced by Croatian President Stipe Mesić, as Milica Delević reports. See Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit., p. 33.

<sup>13</sup> Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit., p. 32.

more or less direct incentives of the EU perspective and expanded over the period in several fields, as:

- *Trade* – e.g. through the enlarged *Central European Free Trade Agreement (CEFTA)*, as renewed in 2006, which aims at liberalizing trade relations between Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, and UNMIK on behalf of Kosovo under UNSCR1244<sup>14</sup>;
- *Small and Medium Enterprise development* – f.i. the *Investment Compact for South East Europe*, which supports the implementation and evaluation of investment reforms in South East Europe, operating with the OECD and the European Commission;
- *Public Administration reforms*: the *Bucharest Employment Process*, which supports the review of national labour policies in the region; the *Electronic South Eastern Europe Initiative (eSEE)*, launched within the Stability Pact with the support of UNDP and the EU<sup>15</sup>, to promote the introduction of information and communication technologies across the diverse sectors of government, commerce, education and public life;
- *Infrastructure* – an example is the *Infrastructure Steering Group* set up in 2006 under the Stability Pact Working table II, and now under the coordination of the Regional Cooperation Council (RCC);
- *Transport* – It represents probably the most developed sector of regional cooperation, counting many regional forums and agreements, like: the *Memorandum of Understanding on the Development of the SEE Core Regional Transport Network*, signed in 2001, providing for reciprocal consultation on transport policies to cooperate for enhancing the regional transport network in SEE, and whose implementation is supported by the *South East Transport Observatory (SEETO)*; the *Agreement on the establishment of a European Common Aviation Area (ECAA)*, a EU-driven exercise extended also to the Western Balkans, that ensures high and uniform safety and security standards across Europe as well as uniformity in the application of competition rules and consumers' rights; the *SEE Core Regional Transport Network*, a EU framework cooperation for land transport; the *Danube Cooperation Process (DCP)*, launched in 2002 within the Stability Pact

<sup>14</sup> United Nations Security Council Resolution n. 1244.

<sup>15</sup> Aleksandra Raković, “eSEE – a not so easy challenge for South Eastern Europe”, in Erhard Busek, Björn Kühne (Eds), *From Stabilisation to Integration. The Stability Pact for South Eastern Europe*, Ed. Böhlau Verlag, Vienna, 2010, pp. 149-153.

and dealing with the issue of navigability of the river, aimed at deepening political cooperation in the Danube region in cooperation with the EU<sup>16</sup>; the *International Sava Basin Commission*, established within the Stability Pact, related with the signing of the *Framework Agreement on the Sava River Basin* and the *Protocol on the Navigation Regime*, in 2002, promoting regional cooperation on issues related to navigation, economic development, water management and environmental protection.

- *Energy* – the most relevant example of regional cooperation in this field is the *Energy Community Treaty* between the EU and countries in the region, entered into force in 2006, that created the legal framework for a regional integrated energy market for electricity and natural gas networks and for their integration into the EU market.
- *Fight against organized crime* – e.g. through: the SECI Regional Centre for Combating Trans-border Crime, established at Bucharest in 1999; the Police Cooperation Convention for South East Europe, launched in 2006 with the scope of providing a legal framework comparable to Schengen Treaty.
- *Fight against corruption* – an example may be the *Stability Pact Anti-corruption Initiative*, (SPAI), established in 2000 and aimed at helping policy reforms in the countries in the region to eradicate corruption.
- *Border security* – through, for instance, the *Migration, Asylum, Refugees Regional Initiative* (MARRI), established in 2004 within the Stability Pact to promote integrated border management systems in the region.
- *Arms control* – e.g. through: the *Regional Arms Control Verification and Implementation Center* (RACVIAC) created in 2000, which operates as a forum for regional dialogue and cooperation for arms control and confidence and security building measures; the *South-Eastern and Eastern Europe Clearinghouse for the Control, of Small Arms and Light Weapons* (SEESAC), established in 2002 a joint project of UNDP and the Stability Pact<sup>17</sup>.

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<sup>16</sup> DCP Countries are now involved in the development of a EU Strategy for the Danube, as requested by the Committee of Regions to the Commission and expected to be launched by 2010.

<sup>17</sup> Diman Dimov, “SEESAC – The South East European Small Arms Clearinghouse”, in Erhard Busek, Björn Kühne (Eds), *From Stabilisation to Integration. The Stability Pact for South Eastern Europe*, op. cit., pp. 199-203; Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit.,

The above mentioned instruments deal with specific domains of regional cooperation, and they were often established within broader regional initiatives that included different tables and multiple fields of action. Less frequently, regional cooperation was launched within specific agreements between the EU and countries in the region.

The most famous regional table, which created within its framework a multitude of regional initiatives and agreements, is the *Stability Pact for South Eastern Europe*. Established in 1999 as a political response of the international community to a new wave of instability in the Balkans, and therefore externally-driven, most notably by the EU, it was structured as a coordination mechanism for promoting different kinds of regional cooperation in the region.

The Pact has been formally dismissed with the establishment of the Regional Cooperation Council (RCC), which inherited from the Stability Pact the role of coordinator among different regional initiatives.

Besides the Stability Pact, other regional forums were established in the region, dealing with a variety of fields of cooperation:

- the *South East Europe Cooperation Initiative* (SECI), launched by the USA within the OSCE framework in 1996 as a forum to promote regional cooperation in the fields of economics and environment, and then extending its activities to transports and security issues, as the fight against trans-border crime<sup>18</sup>;
- the *South East European Cooperation Process* (SEECP), established in 1996 on the basis of a “Conference on Stability, Security and Cooperation in South Eastern Europe”, autonomously organized by the Balkan countries themselves with the scope of promoting regional cooperation in four main fields: political relations, economic cooperation, humanitarian cooperation and human rights and issues of internal affairs and administration of justice<sup>19</sup>;
- the *Central European Initiative* (CEI), launched in 1989, as an Italy-driven exercise for promoting regional cooperation in Central Europe – then extended to East and South-East Europe - and joint projects in different fields, from transports to culture, from environment to energy;

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pp. 60-93.

<sup>18</sup> The spreading of SECI’s fields of cooperation paved the way to the establishment of the SECI Center for Fight against Trans-Border Crime in Bucharest, as above mentioned.

<sup>19</sup> Duško Lopandić, *Regional Initiatives in South Eastern Europe*, European Movement in Serbia, Belgrade, 2001.

- The *Adriatic Ionian Initiative (All)*, launched by Italy in 2000 as an intergovernmental forum aimed at promoting regional cooperation in security issues, like border controls and fight against organized crime, and then evolved to a multiple-task initiative working also on other fields as culture, inter-university cooperation, environment and so on<sup>20</sup>.

Within the framework of these Initiatives and Forums a relevant number of projects have been implemented, with positive impacts on governments and peoples in the region. As a general rule, regional cooperation projects directly involve – and hence impact – governments and institutions. However, some programmes – for instance those promoted by the CEI – are directed to the grass root level of society, involving civil society organisations and business communities.

Generally speaking, regional cooperation has developed in the Balkans only to the extent that it remained oriented to common goals referring to the future, and did not involve issue related to the (contested) regional past. This is the reason behind the proliferation of regional forums and initiatives dealing with general issues related to economical and social development and the lack of tables aimed at discussing in a regional perspectives key political issues, that remained absolutely bilateral arguments with regional cooperation having no voice upon them.

However, many issues related to the past would require regional cooperation as a prerequisite for being effectively faced, but given their sensitivity, countries' resistance to deal with them at regional level hampered a significant development of relevant initiatives and forums. This is the case of cooperation on war crime trials, for instance, that requires regional coop-

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<sup>20</sup> The main specific character of these multilateral initiatives is their organizational flexibility and their poor institutionalization. Their activity is carried out at two levels:

- The *political level*, throughout periodical meetings of Heads of States or Government (as in the case of CEI, SEECP, CEFTA) and meetings of Ministers of Foreign Affairs (CEI, SEECP, CEFTA, Stability Pact and now RCC, All), who provide for political guidance; the body monitoring the political directions, made up of high ranking functionaries, assume different names but is always foreseen in the structure (National Coordinators within the CEI, the Stability Pact and now the RCC, a “Joint Committee” within CEFTA, Senior Officials within the All and so on);
- the *technical level*, including sectorial meetings of experts and sometimes also at ministerial level.

A Parliamentary dimension of regional cooperation and dialogue might be included, as well. The implementation of political agenda is generally supported by an international secretariat.

eration since victims, perpetrators and witnesses might be spread in different countries. A regional framework of cooperation agreements is still far to be achieved, since only few bilateral agreements have been signed between countries in the region<sup>21</sup>.

Minority protection might also benefit from a regional dialogue: the Central European Initiative managed to adopt in 1994 an “Instrument for the Protection of Minority Rights”, representing however a political document and not a legally binding treaty. In 2007 the Working Group on Minorities was even dismissed, as such, by the CEI and merged into the broader field of inter-cultural cooperation<sup>22</sup>.

Regional cooperation would make the difference also for promoting policies dealing with the issue of refugees and displaced persons, since a wide range of conditions need to be regionally satisfied for making returns sustainable in countries of origin: a regional declaration on cooperation in this field was reached in 2005 by Bosnia-Herzegovina, Croatia, Serbia and Montenegro, but it remained a shy attempt<sup>23</sup>.

As a matter of fact, regional cooperation in Western Balkans has been lacking of a requisite of political courage for facing sensitive issues related to the past, and inter-state cooperation has remained much more limited in those fields. The reasons behind this phenomena should be investigated in close relation with the “externally-driven” nature of the greatest number of regional initiatives, that deeply influenced their developments.

## 4 Towards regional ownership? The establishment of the RCC

With the exception of the South East European Cooperation Process, all the regional initiatives established in SEE were externally driven, lacking therefore a fundamental component of “regional ownership”, awareness

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<sup>21</sup> Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit., pp. 74-75.

<sup>22</sup> CEI Heads of Government, Decisions on Repositioning of the CEI, Sofia, 27<sup>th</sup> November 2007.

<sup>23</sup> Milica Delević, *Regional Cooperation in the Western Balkans*, op. cit., pp. 75-76. As for regional cooperation in the field of missing persons, a positive step has to be acknowledged since the recent establishment of a Regional Commission (REKOM) supported by a coalition of civil society organizations from different countries in the region. REKOM was officially launched in 2008 to establish facts regarding war crimes and other serious human rights violations in the recent past of former Yugoslavia.

and responsibility. In other terms, it remained uncertain whether the countries in the region had sincerely acknowledged the virtues and the importance of regional cooperation *per se*, or instead were just cooperating each other pushed by their final interest in joining, and bilaterally, the EU.

The issue of the lack of “regional ownership” was faced and finally addressed by the Stability Pact’s stakeholders in 2008, with the launching of the *Regional Cooperation Council* (RCC) as the successor of the Stability Pact for South Eastern Europe. The RCC was established to provide a regionally-owned cooperation framework to take over the role of the Stability Pact, and to provide the SEECP, the only regional forum authentically originated within the region, with operational capabilities<sup>24</sup>. According to its Statute, the RCC was supposed to function as a “focal point for regional cooperation in SEE”, with the aim of providing for “political guidance to and receive substantive inputs from relevant regional task forces and initiatives active in specific thematic areas of regional cooperation”<sup>25</sup>.

The Regional Cooperation Council was established under the auspices of the EU with the aim of contributing to the enhancement of stability, security, mutual respect and dialogue in Southeast Europe, acting as a key interlocutor and operational link between the EU and the SEECP with regard to project generation and prioritization, particularly in the context of the European Commission’s Multi-Beneficiary Instrument for Pre-Accession Assistance (MB-IPA), coordinating international political, technical and financial support<sup>26</sup>.

It was therefore supported by the EU as a preferential partner representing, with a single voice, regional cooperation in SEE, and, as such, RCC got political support also in terms of economical financing for part of its activities<sup>27</sup>. The EU participates in the RCC in a “troika” format (Commission-EU Presidency-Council Secretariat), while cooperation between the RCC and the European Commission is ensured by close contacts between the RCC

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<sup>24</sup> Stability Pact for South Eastern Europe/Regional Cooperation Council, *Joint Declaration on the Establishment of the Regional Cooperation Council (RCC)*, Sofia, 27 February 2008, Annex II, “Statute of the RCC”.

<sup>25</sup> Ibidem.

<sup>26</sup> RCC mandate, available on [www.rcc.int](http://www.rcc.int)

<sup>27</sup> The operational budget of the RCC amounts at 3 million euro per year. The EU covers 1/3 of the RCC budget (1 million euro), while the rest is covered by Board’s members (EU countries, Canada, USA, Norway, Switzerland and many International Organisations provide for 1 million euro while regional members - Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Turkey and UNMIK on behalf of Kosovo in accordance with the United Nations Security Council Resolution 1244 – provide for another 1 million euro).

and the DG Enlargement.

The RCC was expected to focus on specific fields: Economic and Social Development, Infrastructure and Energy, Justice and Home Affairs, Security Cooperation, Building Human Capital and Parliamentary Cooperation.

## 5 One year after: the political landscape after Kosovo independence, the global crisis and the uncertain certainty of the regional ownership within the RCC

Welcomed by the international stakeholders formerly involved in the Stability Pact as the proof of an achieved maturity of the region to deal by themselves to regional cooperation, the establishment of the RCC and its first year of activities coincided, however, with a highly uncertain conjuncture of the political and economic landscape in the Western Balkans that it had to cope with.

According to RCC mandate, “the development of prosperous market economies underpinned by adequate social systems and policies represent a cornerstone of peace and stability in South East Europe”<sup>28</sup>, and as such regional cooperation in all fields related to economic development was considered one of the major tasks of the RCC since its very establishment. Given the fact that during the last decade the countries of the region engaged in many joint activities aimed at fostering the economic development and the social cohesion of the region, with the support of international financial institutions, the RCC was asked to put itself as the main coordinator and facilitator for those initiatives. Its mandate included support to investment facilitation, SME development and trade liberalization, to be implemented through the promotion of political support and coordination among different initiatives.

With the scope of promoting economic development of the region, the RCC was supposed to support regional cooperation also on energy and infrastructure, as the most important prerequisites for the overall economic, social and environmental stability and prosperity of the region. Here the RCC’s ambition, throughout its participation in the International Financial Institutions (IFI) Advisory Group and its technical working groups, was to play as an interface between policy makers, the IFIs, business community and social partners, as well as an instrument for information exchange for

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<sup>28</sup> [www.rcc.int](http://www.rcc.int), Economic and Social Development section.



both SEE countries and IFIs, also identifying projects eligible for support by financing facilities established by the European Commission.

However, the RCC started to be operative in the region in coincidence with the first signals announcing the spreading of economic crisis to the Balkans, in the second half of 2008, facing a marked trend of involution in regional cooperation on economic fields. As a consequence, RCC's mandate on the economic field remained almost unaccomplished.

Also from a political point of view, regional cooperation under RCC faced severe risks of involution. The unilateral declaration of independence of Kosovo, that immediately followed the establishment of the RCC, created a serious problem to the recently established Institution, at least in two senses:

- firstly, given the participation of Serbia and other non-recognizing States<sup>29</sup> in the same forum, Kosovo could be admitted to participate only besides UNMIK representatives on behalf of them, while Kosovo authorities claimed to be admitted as representatives of the Republic of Kosovo, without UNMIK on behalf of them;
- secondly, the same “anti-independence” States did not recognize new passports issued by Kosovo’s authorities, hampering the admission of Kosovo people travelling with new documents in their territories. Since many RCC meetings are held in Sarajevo, where the RCC Secretariat seats, the participation of Kosovo representatives has been hampered by this border issue. Moldovan authorities did not even admit the Kosovo delegation to participate at the first RCC annual meeting in Chisinau, in June 2009, manifesting the serious risks of excluding Kosovo from regional cooperation in the region.

## 6 The EU intervention for supporting regional cooperation in times of political and economical uncertainty

Representing the RCC the core regional cooperation initiative in the region, established under the auspices of the EU as a single representative for

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<sup>29</sup> Bosnia-Herzegovina, Greece, Moldova, Romania, Slovakia, Spain are all RCC members and do not recognise Kosovo as an independent State. The same countries, with the exception of Slovakia, are also members of the RCC board and therefore stakeholders in the RCC decisions.

all the regional forums operating in the region and as such a privileged interlocutor for Brussels, the European Commission could not avoid to intervene for rescuing regional cooperation from mouldering and for pushing the RCC towards a more appropriate track of effectiveness.

The European Commission intervened by addressing directly the RCC for promoting its effectiveness and inclusiveness, committing itself to support RCC reforms in order to strengthen regional cooperation in times of political and economical uncertainties.

### 6.1 *The appeal to effectiveness for RCC*

Acknowledging the troubles that the RCC was facing, in October 2009 the DG Enlargement drafted a *Non-Paper* addressing the needs to move towards “a more efficient Regional Cooperation Council”<sup>30</sup>. It was primarily addressed to the RCC and its lack of both effectiveness and adoption of a clear strategy to pursue its mandate, that, according to the Commission, should be that of promoting, coordinating and rationalizing regional cooperation in the Western Balkans<sup>31</sup>.

Before the establishment of the RCC, regional cooperation in the region had been characterized by mere declaratory diplomacy, lack of concreteness and of coordination among a plethora of regional initiatives and forums in the region, promoted and funded by different and sometimes competing regional and international actors and characterized by lack of communication among them, causing dispersion of resources and duplication of activities. Hence, the set up and running of the RCC was considered the premise for a “turning point” for regional cooperation in the region, since it was expected to give an answer to problems such as overlapping and lack of coordination, and to grant effectiveness to regional demands facing the EU throughout one single “spoke-person” representing regional cooperation in the region. However, said the Commission, “the RCC’s activities to date only partly fulfil its aims as described in the Statute, and insufficiently provide the expected focus and added value to regional cooperation”<sup>32</sup>.

Since its establishment, the main activities carried out by the RCC were essentially focused on establishing political contacts and organizing conferences and workshops, compiling a “matrix” of priority areas, recommenda-

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<sup>30</sup> Commission (DG Enlargement) non-paper, *Moving towards a more efficient Regional Cooperation Council*”, Western Balkans Region, Meeting doc. 168/2009, 20.10.2009.

<sup>31</sup> *Ibidem*, p. 4.

<sup>32</sup> *Ibidem*, p. 3.

tions and proposed new initiatives as reported by the countries in the region, as well as a list of initiatives and task forces operating in the region.

The RCC organised several meetings involving initiatives operating in the same fields, in order to promote their networking and avoiding duplications.

As a positive achievement, the RCC also succeeded in establishing a close link with the EU as for IPA assistance, for jointly identifying priority areas or projects.

However, besides these results, the European Commission underlined the globally unsatisfactory performance of the RCC and the need to solve major pitfalls in its functioning. Particularly, the European Commission lamented that:

- High level contacts by the Secretary General improved RCC's visibility but did not serve, on their own, to promote regional cooperation
- Organisation and co-organisation of conferences and meetings by the RCC tended to be random, lacking a strategy of priorities and clear objectives, with no follow up to most of these activities
- The RCC had not managed to fulfil its task of providing political guidance to the region, limiting itself to simply collect proposal by countries, with no capacity of establishing an agenda of priorities, nor to duly examine such proposals – both analytically and financially – before submitting them to the EU.

In sum, stated the European Commission,

“the activities to date of the RCC tend to focus more on declaratory diplomacy and flagging its presence in events, at expenses of concrete actions offering value added to the region, based on a focused strategy and priorities”<sup>33</sup>.

Hence the need to better focus RCC activities and improve its effectiveness, with the EU committing itself to support RCC reforms.

## 6.2 *The appeal to inclusiveness: the Kosovo issue*

Lack of effectiveness in RCC's action meant lack of coordination at regional level for better facing the effects of the economical crisis, at least in order to express joint demands and regional expectations towards the EU within a single voice. But it meant also incapacity of grant inclusiveness of all regional partners within the regional dialogue, being Kosovo's participa-

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<sup>33</sup> Ibidem.

tion hampered by the “recognition-non recognition” issue.

The communication of the Commission was particularly careful in underlining the importance of maintaining Kosovo “on board” within the RCC. Reminding problems related to Kosovo travel documents’ non recognition by the Bosnian authorities, and the impossibility for the UNMIK/Kosovo delegation to attend the RCC Annual Meeting in Chisinau, in June 2009, because of a similar attitude by the Moldovan authorities, the European Commission stressed the importance of Kosovo’s inclusiveness and anticipated its full support to the RCC to work for this scope<sup>34</sup>.

## 7 High stakes in play: the need to rescue and enhance regional cooperation from the EU perspective

In order to address RCC’s troubles, the Commission suggested, through its *Non-Paper*, some specific lines of action to be taken, with the EU backing and sustaining the RCC to address problems and to better structure future activity.

Regional cooperation’s troubles, indeed, represented a concrete risk for the maintenance of the EU strategy in Western Balkans, since the same platform of the Stabilisation and Association Process, resting on a requisite of regional cooperation, risked to creak facing the failure of RCC effectiveness in acting with a leading role in the region.

The EU intervention for rescuing regional cooperation from mouldering was justified by the high stakes involved, even if in spite of violating the “regional ownership” principle so celebrated in 2008, at the time of RCC’s establishment. In times of political and economic uncertainty, due to the co-occurrence of Kosovo’s independence and the spreading of economic crisis in the region, it meant, the risks related to a mouldering of the regional cooperation network in the region due to its the lack of inclusiveness was becoming more and more dangerous for the stabilization strategy pursued by the EU in the region, and the issue of “ownership” could be even be put aside.

Indeed, the same Stabilisation and Association Process rests on a basic requirement of regional cooperation. While candidates and potential candidates commit themselves to accept and fulfil the requirements as established by the EU, in exchange they get technical and financial support from

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<sup>34</sup> *Ibidem*, p. 6.

the EU for getting the scopes related to convergence. For this reason, the SAP has foreseen partnership agreements, that could be bilateral but also regional, between the EU and regional States<sup>35</sup>. These regional agreements are exactly those that the EU has established so far in strategic fields like energy and transports, and they can work until the regional cooperation network is able to connect every single component. Every malfunction in the net, namely a hole, can compromise the tenure of the all network, that is stabilization in the region.

Facing political and economical uncertainties, due respectively to the issue of Kosovo's independence and to the effects of the global economic crisis, the regional cooperation net risked to collapse, especially since the most important regional actor, the privileged interlocutor of the EU, RCC, was running up against difficulties and a lack of strategy.

### 7.1 *The relevance of Kosovo inclusion within the regional cooperation framework: political arguments*

From a political point of view, the intervention of the EU in “correcting” the path of regional cooperation was a reaction against a mouldering of the regional cooperation network due to Kosovo's exclusion, and that could hamper stability in the region.

While the Stabilisation and Association Process proceeds at different speeds for different countries, Kosovo was linked to the same process with a special “tracking mechanism”, which was aimed at not leaving Prishtina/Priština behind in times of status uncertainty. This special link with the SAP, and hence with the same EU perspective that all the Western Balkans share, worked until it was not sure whether Kosovo could join the EU either as an independent State or with Serbia, as a (restored) province of its sovereign territory. But after the unilateral declaration of independence and the consensus breaking within the EU, the whole strategy of stabilization of the Western Balkans via their (perspective) of EU integration started to creak. Since five out of 27 EU member States do not recognize Kosovo as an independent State (Cyprus, Greece, Romania, Slovakia and Spain), and the EU enlargement has to be agreed by all the EU members, the EU perspective is blurring more and more for Kosovo and the same strategy of stabilization promoted by the EU put at risk if the credibility of its integration be-

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<sup>35</sup> Lilia Cavallari, “Il quadro macro-economico nei Balcani Occidentali dieci anni dopo gli accordi di Dayton”, in Francesco Guida (a cura di), *Dayton dieci anni dopo: guerra e pace nella ex Jugoslavia*, Carocci ed., Roma, 2007, pp. 156-157.

comes uncertain. In other terms, since Kosovo will face tremendous challenges for getting, even in the long run, a EU membership as a State, the perspective of the Western Balkans as a region within the EU might be endangered, because a “hole” will remain within its core. For this reason, in 2009 the EU launched a specific Communication on Kosovo’s EU perspective, reaffirming “its willingness to assist the economic and political development of Kosovo through a clear European perspective, in line with the European perspective of the region”<sup>36</sup>, and aimed also at fostering Kosovo’s inclusion in regional cooperation tables.

“The absence of an agreed position on Kosovo’s status does not prevent the EU from substantial engagement in Kosovo”, said the European Commission in May 2009, within the Communication.

“The approach of diversity on recognition but united in engagement is working and should be strengthened” since “Kosovo must not be left behind as the region progresses towards the EU”<sup>37</sup>.

The Communication set a series of practical proposal aimed at strengthening the links between Kosovo and the EU dimension in general terms, and underlined the need to not leave Kosovo behind, especially as far as regional cooperation is concerned. Multiple appeals to pragmatism are repeated across the document, addressed both to Kosovo Government and to the regional partners, in order to assure Kosovo inclusion in regional tables (starting with the RCC):

“Regional Cooperation is an essential element of EU Policy for South-East Europe. Kosovo’s regional cooperation is key for its European approximation agenda. Its continued participation in regional cooperation initiatives is commercial, economic and political importance.

UNMIK has been the signatory of a number of regional cooperation arrangements on behalf of Kosovo. The mandate of reconfigured UNMIK includes the ‘facilitation of Kosovo’s external representation. However, UNMIK’s capacity is limited. Kosovo would benefit from a constructive and pragmatic approach in its efforts to enhance cooperation with countries in the neighbourhood. Kosovo needs to make use of the means at its disposal. The Kosovo government needs to issue a clear and comprehensive set of guidelines for all public institutions to apply consistently at all levels of regional cooperation”<sup>38</sup>.

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<sup>36</sup> Commission of the European Community, Communication from the Commission to the European Parliament and the Council “Kosovo – Fulfilling its European Perspective”, Brussels, 14<sup>th</sup> October 2009, p. 1.

<sup>37</sup> *Ibidem*, p. 13.

<sup>38</sup> *Ibidem*, p. 12.

The EU appeal to pragmatism was addressed both to countries in the region - to support Kosovo's participation and avoiding adopting measure hampering it – and to Kosovo's authorities, that beyond the formalism meant “keep on participating in regional forums even if you are allowed to enter only with UNMIK on behalf of Kosovo under UNSCR1244”.

The appeal to pragmatism recurs several times:

“The Commission echoes the calling of the EU delegation at the Regional Cooperation Council meeting at Chisinau in June 2009 urging all parties concerned to adopt a constructive aptitude in finding pragmatic ways of ensuring the inclusive character of regional cooperation in South-East Europe. The Commission strongly encourages all parties to seek practical and pragmatic solutions and is ready to facilitate all efforts to this effect”<sup>39</sup>.

While “reconfigured “ after the unilateral declaration of independence, UNMIK's presence remains foreseen under the provisions of the United Nations Security Council Resolution 1244, since no agreement was possible within the UN Security Council on a new resolution on Kosovo.

Within its declaration of independence, the Kosovo Assembly, representing Kosovo people, have welcomed both an international presence of civilian observers in the territory of Kosovo to monitor Prishtina/Priština reforms to be consistent with the Athisaari Plan (not endorsed by the UNSC) and a mission lead by the EU. Also the NATO was invited to remain in Kosovo according to the UNSCR1244 and the Ahtisaari Plan until Kosovo authorities will be prepared enough to assume full responsibility over security issues<sup>40</sup>.

This invitation implicitly means that the international presence is a Kosovo Government's guest, and one day will leave the country. Indeed, the Constitution of Kosovo, adopted on 9<sup>th</sup> April 2008 and entered into force the 15<sup>th</sup> June 2008, does not contain any reference to the EU mission, while it is interesting it foresees that an international military presence is allowed under “relevant international instruments including United Council Security Council Resolution 1244 and the Comprehensive Proposal for the Kosovo Status Settlement dated 26 March 2007”<sup>41</sup>. What is weird, the UNSCR 1244 reaffirms Serbian sovereignty over Kosovo and Prishtina/Priština is normally very careful with quoting it. However, also the “pragmatic approach” to re-

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<sup>39</sup> *Ibidem*.

<sup>40</sup> Assembly of Kosovo, *Declaration of Kosovo's Independence*, Prishtina/Priština, 17th February 2008.

<sup>41</sup> Assembly of Kosovo, *Constitution of the Republic of Kosovo*, Prishtina/Priština, 9<sup>th</sup> April 2008, p. 60, available on [www.kushtetutakosoves.info](http://www.kushtetutakosoves.info).

gional cooperation, strongly backed by the EU, implies that Kosovo authorities have to accept that UNMIK continue to represent them in regional forums. The paradoxical situation lies in the fact that even if Kosovo authorities would like UNMIK to cease its functions, the international mission, that still remains in force pending a new resolution of the Security Council, represents the only instrument that Kosovo authorities have to grant their inclusion into the broader net of regional cooperation, and therefore the grant to not been left behind. And this is precisely the pragmatism the EU is asking for.

Kosovo, through UNMIK, participates in a number of regional forums: the Regional Cooperation Council; the Energy Treaty Community (ETC), the European Common Aviation Area Agreement (ECAAA), the South-East Europe Transport Observatory (SEETO), the Central European Free Trade Agreement (CEFTA), the EU Charter for Small Enterprises. Kosovo joint also the Broadband Southeast Europe Initiative (BSEI), the Electronic Southeast Europe Initiative (eSEE), the Regional School for Public Administration (ReSPA), the Southeast European Cooperative Initiative, two regional environmental initiatives (RENA and ECENA) and the Investment Compact Initiative<sup>42</sup>.

It remains crucial that Kosovo authorities will maintain this pragmatic approach also in the future, in order to not be excluded by the regional cooperation network that has been built around the perspective of next EU integration.

## **7.2 *The relevance of Kosovo inclusion within the regional cooperation framework: economical arguments***

Political problems related to Kosovo's independence have developed simultaneously with the spreading of the effects of the global economic crisis throughout the Western Balkans. In times of economic turmoil, it becomes even more crucial that all segments of the system remain engaged in the regional cooperation network. Indeed, the system of regional cooperation may work only with a prerequisite of inclusiveness. Like a net, no holes have to be present in the fabric in order to serve its scope of security, stability and development.

Even if Kosovo was relatively little affected by the crisis during the 2009,

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<sup>42</sup> Commission of the European Communities, Communication from the Commission to the European Parliament and the Council "Kosovo – Fulfilling its European Perspective", op. cit., p. 3. The list is not exhaustive.



due to its limited integration to global markets - the adoption of the euro, low external debt and scarce exports have shielded the economy from the negative effects of the global recession<sup>43</sup> - however, the future ahead is not encouraging: deficit in its budget is expected to increase, since the inflows of foreign direct investments and remittances coming from Diaspora are dropping, as well as levels of public investments, in parallel with increase pressures on government revenues. Kosovo's overall trade deficit was estimated at 43% of GDP in 2009, and the substantial deficit in trade in good and services was not helped by regional cooperation through CEFTA, because of its inability to solve the blockade of Kosovo exports to Serbia and transit trade to Bosnia and Herzegovina in 2009<sup>44</sup>. Infrastructure weaknesses, energy shortages, high capital costs and low level of skills are some of the most relevant structural problems affecting Kosovo, and without a full engagement in regional cooperation they cannot be solved.

In times of economical crisis, where the full engagement and coordination of all regional actors is fundamental to not reverse positive outcomes deriving from regional cooperation, especially within the economic field (agreements under CEFTA, for instance, but also benefits deriving from International Financial Institutions' support to the region, and all the framework of regional cooperation developed within the energy and the transports fields), ensuring Kosovo participation became a crucial issue, especially worrying in Brussels, since it could hamper the same process of stabilization of the region through its anchoring to the EU.

Embedding Kosovo within the regional cooperation framework is necessary also for promoting its attractiveness of foreign direct investments, given the fact that Prishtina/Priština already falls behind its regional neighbours in this sense. Even if the "status issue" represented, before the declaration of independence, one of the major disincentive to foreign investors, after independence the lack of attractiveness risks to become even worst because the commercial regime with the EU remains precarious. Indeed, lacking a formal agreement between the EU and Kosovo related to trade preferences (the current preferential regime is due to expire on 31<sup>st</sup> December 2010, and there is not a Stabilisation and Association Agreement,

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<sup>43</sup> Commission of the European Communities, Conclusions on Kosovo (under UNSCR 1244/99) – (extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2009-2010", COM(2009)533 final).

<sup>44</sup> Commission of the European Communities, Communication from the Commission to the European Parliament and the Council "Kosovo – Fulfilling its European Perspective", op. cit., p. 4.

or an Interim Agreement, with the EU, as it exists instead for the other countries in the region), a deterioration of Kosovo's trading position is likely to develop, both in absolute and in relative terms. The attractiveness of foreign investments, already poor, would deteriorate if Kosovo producers are expected to face difficulties to export to the EU, that is Kosovo's main trade partner.

Even if autonomous trade preferences will be extended<sup>45</sup>, without a permanent trade agreement between the EU and Kosovo the sustainability of long-term economic development of Kosovo remains at risk<sup>46</sup>. As for now, Kosovo is far from being ready to negotiate and implement a trade agreement with the EU, because too many reforms, especially within its administrative capacity, needs to be implemented. For this reason, again, the inclusiveness of Kosovo within regional cooperation forums, through for instance the Regional School for Public Administration, is critical.

More generally speaking, regional cooperation's inclusiveness for Kosovo remains crucial for its development in every field where there is a common good to be produced but the resources of the single country are not enough, alone, to get the scope. This is particularly true for fields like energy, transports, and environment, where the need for investments is disproportionately high and asks for a regional coordination towards international donors or financial institutions. The arguments goes also in the opposite direction: regional cooperation nets – in every field – could work only if all regional components are inter-connected and may contribute to the achievement of the common goal. Fight against organised crime is the perfect example of a regional net that could work only if Kosovo is included and can participate, but the same principle applies in all fields of regional cooperation.

The European Commission urged the need to increase Kosovo's "involvement in regional arrangements for energy cooperation and production, implement energy measures to reduce energy demand and increase its use of renewable and alternative means of energy generation", asking to all

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<sup>45</sup> On 22<sup>nd</sup> February 2010, the European Commission proposed to renew the preferential regime until 31<sup>st</sup> December 2015, to further allow the customs territory of Kosovo to benefit from the current duty-free, quota-free treatment for almost all its exported products (with the exception of baby-beef, fish and wine which are subjected to quota). See EUPress Releases, *European Commission proposes to renew autonomous trade preferences for the Western Balkans*, Brussels, 22 February 2010, [www.europa.eu/rapid/pressReleasesAction.do](http://www.europa.eu/rapid/pressReleasesAction.do)

<sup>46</sup> Commission of the European Communities, Communication from the Commission to the European Parliament and the Council "Kosovo – Fulfilling its European Perspective", op. cit., p. 7.

parties in the region to allow Kosovo's inclusion and full participation in regional arrangements like the Energy Community Treaty, being it "in the interest of the Region at large"<sup>47</sup>.

The Commission underlined also the need to all parties of the Transport Community Treaty to ensure Kosovo's inclusion, to a continuous engagement of Kosovo within the European Common Aviation Area Agreement and, within the environmental protection field, within the Regional Environment Network for Accession. Without a piece, no puzzle can be solved, this is the sense.

## 8 Strengthening regional cooperation in times of economic crisis: the role of Foreign Direct Investments

As a positive incentive to make regional cooperation strengthening and reinforcing its effectiveness, the EU launched a concrete signal trying to address within a regional framework the crucial issue of rescuing the attractiveness of Foreign Direct Investments in the region.

The decrease in FDI affected all the region and represented the first mean through which the crisis was transmitted from Western Europe countries to the Western Balkans. In times of economic uncertainty, the need for foreign direct investments becomes even more important to make national economies rescue their previous paths of growth.

Sustained economic growth, indeed, requires substantial rates of investment. Fast growing economies invest a large share of the output in order to bring more resources to the production process. Investment is not only a direct booster to output, it also brings new, more productive, technologies and stimulates Total Factor Productivity growth<sup>48</sup>.

Output growth in SEE during the 1990s was mostly driven by a rise in Total Factor Productivity, which at its turn could be attributed to post-transition reallocation of resources (privatization of state property and re-starting of idle capacities)<sup>49</sup>. Since the improvements in TFP that came from the simple reallocation of resources through privatization have been partly exhausted, the TFP-led growth cannot be the single driver of growth in the

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<sup>47</sup> *Ibidem*, pp. 10-11.

<sup>48</sup> European Commission, Directorate-General for Economic and Financial Affairs, *The Western Balkans in Transition*, *op. cit.*, p. 43.

<sup>49</sup> *Ibidem*, p. 27.

future. While the role of factor accumulation (capital and labour) will be crucial for accelerating growth, increasing the quantity and quality of investment is critical for maintaining and accelerating TFP growth. Hence, achieving higher investment rates is an overarching objective for the growth of the SEE economies in general.

Foreign direct investments have positive effects on the recipient economies, both in the short period, improving production and employment, and in the medium term, promoting the dissemination of technological progress and productivity growth, contributing also to the development of local entrepreneurship<sup>50</sup>.

The role of investments is important both for each single economy and for the region as a whole.

The Western Balkans stand at the crossroads of crucial networks, be it energy routes or transport corridors. Enhancing the region's economic cooperation requires not only political will, but also substantial investment in better regional inter-connections, for instance improved infrastructure and cross-country networks. Transports, energy, environment are all fields that ask for regional cooperation and needs a coordination of policies and strategies in order to get international donors' and investors' support. Hence, financing requirements are substantial. The European Union and the International Financial Institutions, most notably the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and other European bilateral institutions as well as the World Bank, have been playing a crucial role in the past by providing financial and technical support. Their importance is now even more relevant in times of economical crisis and global recession.

With the effects of the economical crisis spreading to the Balkans, and reaffirming the importance of regional cooperation in the region, the European Commission promoted the establishment of a new framework to facilitate international investments in key regional sectors. The "Western Balkans Investment Framework" was formally launched the 9<sup>th</sup> December in Brussels at the international conference "The Western Balkans: Overcoming the economic crisis – from regional cooperation to EU membership" and, as in the words of Commissioner Rehn, "is expected to foster regional cooperation"<sup>51</sup>.

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<sup>50</sup> Lilia Cavallari, "Il quadro macro-economico nei Balcani Occidentali dieci anni dopo gli accordi di Dayton", *op. cit.*, p. 163.

<sup>51</sup> European Commissioner Olli Rehn's foreword at the Conference "The Western Balkans: Overcoming the economic crisis – from regional cooperation to EU membership", 9 December

The Western Balkans Investment Framework (WBIF) pools and coordinates different sources of grants and loans for priority infrastructure projects, giving priority to transport infrastructures, access to finance for small and medium enterprises and energy efficiency projects. It is jointly financed by the Commission, the EBRD, the EIB, the CEB, and other bilateral donors.

This new facility aims at making access to finance easier for stakeholders so as to boost investments in the region, introducing a “single address” to submit project proposals and a single screening and assessment for approval process.

In the EU Commissioner Olli Rehn’s words,

“the launching of the WBIF represents a great achievement in times of economic crisis, another tangible demonstration of the EU’s commitment to the region and a booster to further enhance regional cooperation in the region”<sup>52</sup>.

The launching of the WBIF represented another EU signal addressed to the final scope of strengthening regional cooperation in times of economical and political uncertainties, besides the political messages already transmitted through the EU communications on RCC’s effectiveness and on the need to grant Kosovo’s inclusion in the regional cooperation net.

The issue of Kosovo’s inclusion within the regional cooperation framework was supposed to serve also for granting Kosovo’s access to the WBIF. Indeed, Kosovo – as an independent State – has been admitted only to the World Bank and to the International Monetary Fund, but not to the international financial institutions working jointly within the new investment facility, and which are also RCC members. Since Kosovo has no direct voice within those international financial institution, the relevant table for negotiating Kosovo’s access to international investments and loans becomes, again, the regional one.

## 9 Final considerations

According to the perspectives of this paper, in times of political and economical uncertainties, due to the co-occurrence of Kosovo independence and the effects of the economic crisis spreading to the region, possible

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<sup>52</sup> European Commissioner Olli Rehn’s speaking points at the signature of the Western Balkans Investment Framework, Brussels, 9 December 2009.

threats to stability in the region do exist and appear related to risks of inolution for regional cooperation. Facing this possible threat, the EU sent multiple signals – the EU addressing RCC for promoting a new effectiveness and Kosovo’s inclusion; the EU communication on the EU perspective of Kosovo and the appeal to pragmatism to all regional stakeholders to grant Kosovo’s inclusion within the regional cooperation framework; the launching of the WBIF as strictly connected to regional cooperation, in times of economical crisis and gloomy expectations about FDI inflows in the region for promoting recovery – as part of a unique strategy aimed at strengthening regional cooperation in times of continuous creaks due to political and economical turmoil.

Indeed, the coincidence of RCC difficulties in facing political problems and assuming political guidance in the region, in parallel with its inability to cope with the spreading of effects of the economical crisis in the region and acting as a single spoke person for the region’s needs, were delineating a possible threat to stability for the EU strategy in the region, being it based on an essential requirement of regional cooperation.

While the EU has reaffirmed its commitment to regional cooperation and to RCC as its main representative in the region, the latter has to establish a concrete strategy to grant effectiveness to its mandate and at the same time it needs to ensure Kosovo inclusiveness in the greatest possible number of initiatives, in order to grant the sustainability of the EU SAP as such in the region. Lack of strategy causes loss of resources and opportunities, and should be addressed also in the sense of a better rationalisation of regional forums operating – and often overlapping – in the region. This means also to assume a stronger attitude in fostering political guidance in the region, since many sensitive issues still remain excluded by regional discussions because of lack of political courage, and they would benefit from being faced collectively within a regional perspective.

Since the RCC represents the privileged interlocutor of the EU, appointed to represent regional cooperation in the region, it has to develop a sound strategy and play an effective role in coordinating regional tables and initiatives, in order to avoid loss of resources generated by overlapping activities. The link between regional cooperation and the EU should better focussed on voicing regional demands, supported by scrupulous arguments and analysis, and duly organised in a comprehensive “agenda of priorities for the region”.

Time has come, for the RCC, to operate less for external visibility (participation at conferences, meetings, press releases etc) and more on effectiveness.

A parallel universe of regional cooperation initiatives operate in the region and refuse to be subsumed under the RCC coordinating role: the Regional Cooperation Council has nevertheless to ensure that duplication of activities and consequent loss of resources is avoided and should find new tools for making an effective coordination strategy to operate<sup>53</sup>. Indeed, countries in the region cannot finance a plethora of regional forums and there is a need of rationalisation of instruments of regional cooperation that should be addressed.

In times of economic turmoil, when reforms toward EU standards risk to lose their priority positions within regional governments' agendas, worried instead to maintain some sustainability for their fragile economies, coordination among countries in the region should remain critical for addressing, as a single voice, international donors and investors. Also in this case, the regional coordinating agency – that is the RCC – working as a single mouthpiece of regional demands, has to improve its capabilities in coordinating and prioritising regional demands. To support the economic recovery of the region, and to rescue previous paths of growth. To concretely support the EU perspective of the Western Balkans. To make regional cooperation really regional owned. And to escape from its being an externally driven phenomenon, like it was in the past and like sometimes continues to appear.

However, the stabilisation of the region will remain undone if Kosovo remains excluded from the regional cooperation network. In this sense the RCC should adopt and promote pragmatism among all regional partners, in order to grant the inclusion of Kosovo in all tables and initiatives and therefore granting effectiveness to the regional cooperation nets.

Kosovo authorities, too, should stick at their turn to pragmatism, continuing to participate in regional forums even if represented by UNMIK, to grant that Kosovo will continue to be anchored to reforms and perspectives of regional development.

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