

# REGIONAL

## **ANALYSIS: FROM GLOOM TO DOOM?**

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### **The politics of EU enlargement and Balkan stabilization have yet to meet in South-Eastern Europe**

As the end of the year draws nearer, assessments of the region abound. The European Commission has released its yearly progress report on the ten post-Communist East European accession countries, and its economic forecast for next year. EBRD has also released its yearly forecast and analysis on European transition economies. Several regional strategy papers and reports from international organizations and foundations active in the region have also been published in the last few weeks. However, a recent political event, Peter Stoyanov's defeat in the Bulgarian presidential elections to a Communist leader, has shaken – again – the conventional wisdom on South Eastern Europe.

This section examines the impact of recent events on the near future of the Balkans, and the strange resilience of South Eastern Europe to Western conventional wisdom.

### **South Eastern Europe after Constantinescu and Stoyanov**

Peter Stoyanov was seen by his constituents as a good president. He stood by the West during the Kosovo war, although this war was strongly disliked by ordinary Bulgarians – and for good reason, as scattered bombs reached occasionally the Bulgarian soil. He presided over years of catching up in the EU enlargement race, and he managed to have his country removed from the black visa list of Europe. Despite these successes, he lost in the second round

of November 2001 presidential elections to a former Communist leader, whose party had been blamed for presiding over the crisis that brought down Bulgaria's currency in 1996. Thus, Stoyanov had a similar faith to Emil Constantinescu, the former Romanian president who pulled out from the presidential race in 2000 in order to avoid a crushing defeat. Constantinescu, however, had been on all accounts less lucky than Stoyanov: he did not have a party of his own, as he had always refused to be involved in party building; equally, not one of the coalition parties half-heartedly supporting him could match the effectiveness of the Bulgarian UFD. Like Stoyanov, however, Constantinescu withstood media and popular discontent and endorsed the West during the bombing of neighboring fellow Orthodox Serbia.

Slight differences can therefore be traced between Stoyanov and Constantinescu, but these are considerably less important than their many similarities. Amongst the latter, one can single out their foreign policy, which was very similar. They were the first non-nationalist heads of states in their countries. They graciously acknowledged the advance of Central European countries in the race for EU and NATO integration, while benevolently agreeing with the need for more regional cooperation. Both of them were ready to deliver what Europe expected of them, but both failed to accurately assess whether Europe is able to deliver what would have helped them resist in power. And so down they went.

Did their fall change substantially the fate of their states? Here Constantinescu's example is useful, as he lost or gave away power more than one year ago. The plain answer is no: despite heavy defeat of his former coalition in the November 2000 elections, Romania pursued its EU integration policy, and it was treated internationally no better and no worse than during Constantinescu's time. The same goes for Bulgaria. Little does it matter who is the President of Bulgaria, since the European Commission had anyway taken the decision that Bulgaria will have to wait longer before joining the EU, even before Stoyanov's defeat. Bulgaria has a free-market oriented Government ran by former King Simeon; Romania has a social-democratic Government struggling to turn itself into modern social-democrats. Since they receive little foreign investment, and since their EU accession has always been low priority to Western Europe, such switches of Government bring little change in the fortunes of Romania and Bulgaria. So, if nothing changes, why the excitement?

The answer is, because some important things must change for these societies to catch up. While the change of regime in neither of the two countries needs be dramatized, doubts were raised, by serious authors<sup>1</sup>, about the political will of former Communists to deeply reform their societies. The crux of the argument lies in the alleged support of former Communists by the poorest constituency as well as by the managerial class from state owned companies,

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<sup>1</sup> The latest to address this point is Mancur Olson's posthumous book *Power and prosperity. Outgrowing communist and capitalist dictatorships*, London, Basic Books.

precisely the two social categories, which perceive having the most to lose from radical change and European integration. Constantinescu was a disappointment for Romanians, but during his time the Government, however, undertook major steps towards fiscal decentralization and the severance of subsidies for loss-making state industries. The UFD Bulgarian Government also achieved important progress in reforming the economy. While the current Governments are likely to follow in the steps of their predecessors, more than this may be needed, specially in tackling corruption and bureaucratic inertia, which are highlighted as serious problems in the European Commission's reports.

Even more challenging, however, is fighting chronic poverty in these countries, which is a task far beyond the local means. Compared to Central Europe, which has received important flows of foreign investment, South Eastern Europe, as most of the former Soviet Union countries, has seen only the dark part of the reform. This was certainly due to half-hearted reforms, as organizations such as the IMF always point out, but not only. These were poorer countries with harder communist legacies to begin with, and which had to perform the transition from command to market economy with practically no foreign investment.

Each time a leader of the rare breed of democrats and non-nationalists from Eastern Europe takes a downfall directly out of political life, as has recently happened with Stoyanov, Europe should ask itself if more should not have been done to prevent that. Regardless the quality of their leaders, the constituencies of Romania and Bulgaria have a keen sense that their transitions have got on the wrong track, and that ordinary people have become poorer and poorer. Voting leaders out of office periodically is the only powerful, even if poorly focused, alarm mechanism that ordinary people ring for the use of politicians.

Fig. 1. Communist times perceived better than transition on all accounts

<b>Public mood on life and Government before elections<sup>3</sup></b>	<b>Romania %</b>	<b>Bulgaria %</b>
Satisfied with Government	14.7	15.4
Communism good idea badly put into practice	64.3	56.8
Parliament does not act in the public interest	86.9	77.9
Same people enjoy privileges now as in the previous regime	88	52
Corruption widespread or general in the public sector	69.5	63.1
Worse off now compared to Communist times	60.6	73.0
Economy better managed in Communist times	65.5	68.0

But how much can politicians do? To reduce corruption, they certainly can do a lot; but to diminish poverty in the short run and change the people's perception that they fare worse than in Communist times, they can do very little by themselves. And while EU accession is as a catalyst for administrative reform and adoption of free market legislation, it cannot help with curbing poverty in the short run, unless it is accompanied by significant external assistance, of the kind that Greece and Portugal received when joining the EU. However, nothing of the sort is likely to happen, and as long as it does not, the poor of Eastern Balkans will topple their reformers from office.

### **The EU enlargement strategy and its impact on South-Eastern Europe**

The European Union has a twofold policy towards the Balkans: on one hand, to stabilize the region via cooperation programs, which was supposed to be managed by the Balkan Stability Pact, and on the other hand, to incorporate country by country as soon as individual countries are ready to join the EU. Formal invitations have only been made for Slovenia, Romania and Bulgaria; Croatia has an association agreement with the EU, and Macedonia also had an agreement, which was rendered superfluous by the 2001 conflict, but which may still play a role. This approach came short of acknowledging that the region is in fact not a region at all: it is united only by the superficial link of its un-readiness to join Europe, but due to different reasons, however.

Different countries face different situations and challenges. Former Yugoslav entities that are still de facto international protectorates, Bosnia and Kosovo, face tremendous problems of state building, whilst their economies are destroyed by war. The 'strong' successors of Yugoslavia, Serbia and Croatia, still have unsettled borders, crippled economies, and refugees with no real

<sup>3</sup> Polls by CURS in Romania and Center for the Study of Democracy in Bulgaria

perspective of returning to their homes. Armed Albanian guerillas and national armies that still include war criminals, all connected in various illegal trans-border traffic schemes, complete the picture. Albania and Macedonia face many similar challenges. The issues highlighted above call for a specific set of priorities.

As regards Bulgaria and Romania, these countries proved able to master their inter-ethnic differences and face mainly one problem, development, calling for a totally different set of priorities. The EU's approach to South Eastern Europe has not only been poorly coordinated, but it has also failed to appropriately reflect the different priorities mentioned above.

Fig. 2. Presumptive dates of joining the EU

Luxembourg group	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cyprus			*							
Czech Republic			*							
Estonia			*							
Hungary			*							
Poland			*							
Slovenia			*							
<b>Helsinki group</b>			*							
Malta			*							
Slovakia			*							
Latvia			*							
Lithuania			*							
Bulgaria								*		
Romania								*		
Turkey (**)										*

(\*\*)Not negotiating    negotiation    \* accession    transitional periods

Sources: EurActiv's interviews, analysis and estimates, The Economist and news sources

The latest European Commission country reports conclude that all negotiating countries have made substantial progress over the last year in implementing the accession criteria. Only ten countries, however, that is all the candidate countries *except South Eastern European ones*, are considered able

to conclude the accession negotiations by the end of 2002, which would allow them to join the EU in 2004. The laggards are Romania, Bulgaria and, as usual, Turkey. Despite serious unsolved problems, Poland and Lithuania are expected to join with the first wave.

A look at the synthesis of the Commission's report outlined in Fig. 3 shows that economic reasons above anything else are preventing Romania and Bulgaria from joining. Their economies are considered to have made steps towards becoming functional markets, but they are still clearly not able to compete with EU economies.

The table also shows how many of the problems of Romania and Bulgaria are actually common problems to other EU applicants as well. Corruption is singled out as the most worrisome problem for the Czech Republic, Poland, Latvia, Romania and Slovenia and no country has yet reached the required standards. Judiciary reform is lagging behind, and so does police reform. No country is considered yet to meet the standards required in the fields of home and justice affairs.

**Fig. 3. Last European Commission assessment on progress recorded by candidates**

Criterion	CZ	ES	HU	PL	SL	BU	LV	LI	RO	SK
Functioning market economy able to cope with competition	++	++	++	++	++	+	++	++	+	++
Investment	++	++	++	++	++	-	++	+	-	+
Macroeconomic stability	+	++	++	+	+	+	++	++	0	++
Accountable Government, corruption	0	+	+	0	0	+	0	+	0	0
Reform of the public administration	+	+	+	+	+	+	+	+	0	+
Judiciary reform	+	+	+	+	+	0	0	0	0	+
Police			0	0	0	+				
Acquis	+	+	+	+	+	+	+	+	+	+
Minorities	+	+	0			0	+		+	+
Institutionalized children						0			+	
Media freedom			-						-	
Property reform, land market							0		0	
Borders				0			0			
Trade freedom									-	

Target achieved ++; considerable or some progress +; more is still to be done 0; regress or serious obstacle to accession - ; empty cells correspond to issues that were not touched by EC's reports in the case of specific countries

The European Commission report also states that any discussions within the European Union on the reform of policies or institutions should be clearly

separated and not hinder or slow down the accession negotiations. Candidates will be increasingly involved in the discussion of the future of Europe.

As to the economic situation, the EBRD says that growth in Central and Eastern Europe has weakened only slightly in 2001. "Most countries in the region proved more resilient to the global economic slowdown than other emerging markets," says the latest Transition Report, published on 20 November. The report forecasts 4.3% GDP growth for the region in 2001. The EBRD predicts that growth will continue in 2002, but at a slower pace, of about 3%. According to the EBRD, this is due to the ongoing reform efforts of countries to meet the conditions for EU accession, as well as to Russia's recovery, spurred by high-energy prices and a competitive currency. *However, the report warns that the reform efforts in the regions could be stalled in the absence of a clear perspective of EU membership, and highlights that customs union with the EU can cause commercial losses to the candidate countries, thus calling on the EU to take into consideration the interests of the candidate countries.*

The European Commission published its own economic forecast for the 13 candidate countries on 22 November, which concludes that:

- GDP growth in the candidate countries has been revised downwards by about one percentage point to 3.1% in 2001 and 2002.
- In 2003, when external conditions are expected to become more favorable again, a return to higher growth is anticipated.
- Due to more favorable external factors, inflation should decline from the higher levels experienced in 2000.
- Unemployment is increasing again in 2001 and is not expected to decline over the forecasting period, as a result of the continued need for enterprise restructuring and of the weaker economic growth.
- Aggregate external deficits are expected to remain approximately at their current level.
- General Government deficits are widening as a combined result of lower growth, counter-cyclical fiscal policies in some countries, and high transition-related expenditures.

From this brief review of the progress report and economic forecasts, some doubts over the EU policy towards South Eastern Europe emerge even stronger. The report itself implies quite an array of political and economical consequences:

- By passing an optimistic judgment on ten countries instead of just five or six, the remaining three countries – Bulgaria, Romania and Turkey – have to carry the extra-burden of not being considered able to improve substantially in the near future, in other words, the burden of

a pessimistic forecast, more than just a negative assessment of their current situation. In the case of Romania and Bulgaria, this forecast is mostly based on their general development situation, rather than on their current economic trends, so there is little these countries can do to change it.

- By postponing the edgy discussions on EU internal reform until after enlargement, the difficult adjustment of the EU to such a large wave of enlargement and to its long due internal reforms will fall between wave one of enlargement and the not-so-certain wave two (made at best of just Romania and Bulgaria). *This may even further deter wave two*, as the EU will need time to absorb shocks provoked by the huge wave one and the internal reform, and newcomers will be motivated to compete for existing post-accession funds rather than plea for new entrants. This surfaces occasionally in the attitude of the Czech Republic and Poland. It may well happen that some of the first entrants will become contributors to the club of those who want to shut the door. This happened before.
- By not granting any kind of reassurance to the poorest countries in the lot, that their inclusion at a later date is certain, the decision feeds skepticism towards EU commitment for the Balkans and may provoke serious EU-skepticism among political elites of these countries, already battered by parts of media and populist political actors. Individual country reports consider that investment in these countries is too low to sustain major growth in the long run, but such negative forecasts can have a negative effect on investors, thus acting as self-fulfilling prophecies.
- The inclusion of the first ten countries and the conclusion of the Home and Justice negotiations with Romania and Bulgaria next year means that the Schengen border will cut across former Yugoslavia. An essential item of enlargement policy will therefore affect the stabilization policy: East Balkans and Slovenia will have to cut themselves from former Yugoslavia. Regional cooperation is certain to be negatively affected. While the EU has moved to remove Bulgaria and Romania from the black list of visas, the Czech Republic and Hungary are pushed to introduce visas for their second-wave neighbors to the East for the first time in their recent history. This is already destabilizing the region, as it was proved by the Hungarians' attempt to solve this issue via the 'Status Bill', which extends citizenship rights to ethnic Hungarians living in neighboring countries.
- Once again, after reading the report, it becomes even less clear what is the role of the Stability Pact and indeed if such a Pact even exists, as it is practically not mentioned. The European Commission's position is made quite clear in the Regional Strategy Paper: "Against the background of the break-up of Yugoslavia, greater economic and



political stability in the region can only develop if the countries establish normal relationships between themselves. Each country will move closer to the European Union at its own pace." But can South Eastern Europe accommodate the basic contradiction embedded in the two EU policies towards the region, i.e. the tensions between the convergence policy of a weak, framework-type institution (the Stability Pact) as opposed to the divergent and competitive one (at least in attracting foreign investment and EU funds, if not more) of EU accession policy? The contradiction is obvious when one surveys the evolution of the trade over the past year. *Except for states which have yet serious state consolidation ahead, the rest strive to trade more with the EU than with the 'region', and they are quite successful at this.*

## Solutions?

The French Foreign Affairs Minister, Hubert Védrine, put forward an argument that Romania and Bulgaria should also be included if the pool is to be made of ten rather than five or six countries. Védrine's suggestion, combined with other disquieting signals from the French media, such as a front page editorial by Le Monde arguing that a closer union of the 15 rather than a wide enlargement is what is best for Europe in the near future, provoked a storm among the candidates which see themselves close to the finishing line, and their allies<sup>4</sup>. Many observers considered this proposal as the latest move in the enlargement delay tactics game practiced by many member states. If everyone waits until Romania and Bulgaria are ready, then indeed the enlargement will be postponed endlessly. In the following lines we want to argue, however, that the Védrine proposal should be seen as an opportunity rather than a threat. *Instead of keeping other East European countries on hold until South-East Europe is ready, European leaders should rather make catching-up by SEE countries a priority.* The 'condemnation' of Védrine is due to the confinement of analysis only in the limited framework of very recent European influence games. Some historical background is needed to understand, however, European policy in Eastern Europe.

A brief historical review of the 20<sup>th</sup> century and its alliances in Eastern Europe proves immediately that little to nothing has changed. West European countries still see themselves as patrons of the same East European countries they supported back in 1918, at the end of the First World War. The reason behind this, be it administrative convenience or symbolic politics, is far from being fully clarified, despite theories on the matter being laid out. However, Germany did catch on the wrong step its Western allies when unilaterally recognizing Croatia and therefore Yugoslavia's break-up in 1991; France was the only champion of Romania for the NATO admission in 1997; Austria has similarly championed Slovenia, Italy – Albania, and so forth. In inter-war times, the report between countries endorsed by France and those endorsed

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<sup>4</sup> See *The Economist*, December 1st, p.28.

by Germany was far more balanced, even leaning on the French side. Nowadays it is totally unbalanced to the German side. Investment is also matching to some extent the foreign policy priorities, with Austria investing heavily in neighboring Slovenia and Hungary, France in Romania and so forth.

To delay the whole lot before admitting Eastern Balkan countries would have made no sense indeed. And, in fact, such proposals made after the decision is taken are less likely to mend the old wounds than to create new ones. What Romania and Bulgaria need is not that everybody else wait for them to be ready, but that their serious constraints are addressed by more help and that some form of reassurance that they will be included is given. Such a reassurance is specially needed to attract foreign investment. In this new environment of economic contraction, why would an investor be attracted by such gloomy places, designed by every forecast as falling beyond Europe's border, at least for the years to come? As Fig.3 shows, Romania and Bulgaria emerge indeed from EC's reports as doing worse, but only at the economy criteria. Their economic poverty, despite robust growth under way in both countries in 2001, is further aggravated by lack of investment, and was seriously affected by war in former Yugoslavia. There is a vicious circle between lack of investment, lack of sustainable development and poor outlook.

And it can get worse still. Turkey was closer to Europe a few years ago than it is now. Chronic political problems can finally cripple economic recovery efforts. What if Romanian trade unions take advantage of the Government's pullout from subsidizing energy and bring down the reformers? What if the new Bulgarian President cannot cooperate with the fast popularity losing free-market Government and anticipated elections occur with a full return of anti-reformers? The more years it takes to join the EU for a country the greater chances are that some risks may occur and highjack the whole project. There is no guarantee these years will bring along only positive developments. Rather, as Turkey's example shows, things can get worse due to chronic prolongation of austerity fiscal policies and poverty.

Without an increased European commitment the outlook is poor for South Eastern Europe. Passive endorsement by Western leaders of this situation, however, by granting less attention and investment instead of more to South Eastern Europe, can only lead to a reinforcement of the vicious circle and the setting of the European border north of the Balkan Peninsula.