

SPRING 2016

BALKAN PARTNERSHIPS

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REPORT



The event was part of our Future Europe pillar, which spans EU domestic and regional policy issues, European integration, reform of the EU institutions, future of the Eurozone, immigration and enlargement process, with special reference to the Western Balkans and to Turkey.

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INTRODUCTION

Europe's worsening migration crisis has changed the dynamic between the EU and the Western Balkans. As recently as a year ago, enlargement fatigue had firmly set in following the Juncker Commission's de facto accession freeze and its downgrading of the enlargement portfolio to a neighbourhood policy offshoot. But since last summer, a growing wave of refugees – largely from Syria – has been moving into the EU, using the Western Balkans as their main transit route.

At Friends of Europe's 15th Balkans summit, a shift in tone on enlargement was evident, with many seeing the migration crisis as an opportunity for the Western Balkans. "I believe this crisis has opened the window, in the way that much more people, politicians, are looking to the Western Balkans," said **Johannes Hahn**, EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations. "There is a better understanding among European leaders that the Western Balkans are already surrounded by EU member states, and it is quite clear at a certain moment that they should also join the family," he added.

But before using their newfound leverage to press their respective membership bids, the consensus is that the Western Balkan Six – Serbia, Bosnia and Herzegovina, Montenegro, Kosovo¹, Albania and the former Yugoslav Republic of Macedonia – need to integrate locally and press ahead with further reforms. "We need to be transformed into a region first," said **Ditmir Bushati**, Albanian Minister of Foreign Affairs, pointing to the need for EU funding to encourage reforms. "We are transforming ourselves bit by bit from enemies into neighbours, although we are not yet real neighbours." But for **Fatmir Besimi**, Deputy Prime Minister of the former Yugoslav Republic of Macedonia, the biggest incentive for reform is the prospect of EU membership itself. "This EU promise brought peace in the Western Balkans," he said. "If you do not deliver on time, then the credibility of this promise is affected and this is what we face now in the region."

THE WESTERN BALKAN MIGRATION ROUTE

Over a million refugees and migrants arrived in the EU in 2015, according to the International Organization for Migration (IOM), four times more than in 2014 and the highest flow since the Second World War. The vast majority came from Syria and Afghanistan through Turkey and across the Mediterranean Sea to Greece.

The surge has had a knock-on effect in the Western Balkans, particularly in Serbia and the former Yugoslav Republic of Macedonia, turning the region into the EU's primary transit zone for people travelling further north. According to Frontex, the EU's border agency, the number of migrants crossing into the Western Balkans saw more than a 16-fold increase in 2015 to reach 764,038. The agency found that the screening and registration capacity of the region is "severely overstretched" and that organised transport provided by the authorities was "clearly accelerating" the flow of migrants.

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Johannes Hahn, EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations

"We are transforming ourselves bit by bit from enemies into neighbours."

Ditmir Bushati,
Albanian Minister of Foreign Affairs

“The countries in south-east Europe became the primary transit route for refugees towards the west and therefore they’ve been affected with unforeseen political, humanitarian and organisational challenges.”

Stefan Gehrold, Director of the Konrad Adenauer Stiftung (KAS) European Office

“With the term Balkans route and images of thousands of refugees crossing the countries of the region, the Balkans returned to Europe’s headlines and gained public attention worldwide,” said **Stefan Gehrold**, Director of the Konrad Adenauer Stiftung (KAS) European Office. “The countries in south-east Europe became the primary transit route for refugees towards the west and therefore they’ve been affected with unforeseen political, humanitarian and organisational challenges.”

The EU’s response has been to clamp down on its external border controls. The scale of the crisis was palpable at the Friends of Europe summit, which took place just days ahead of an EU leaders’ summit on how to further secure the bloc’s external borders. “We have to protect our external borders, we have to regain control of the influx to Europe,” said Hahn. “People believe the state authorities are not able to protect or to control the borders,” he added.

The pressure on external borders has led to problems in the Schengen passport-free travel zone, with Denmark, Sweden, Norway, Belgium, France, Germany, Austria, Hungary, Slovenia and Malta all reintroducing border controls in the last few months. “Either we re-establish order on the external borders or Schengen will collapse,” said **Ivan Korcok**, Slovak State Secretary for Foreign and European Affairs and Plenipotentiary of Slovakia’s Presidency of the Council of the EU. “What kind of signal are we sending to the countries of the Western Balkans, who are subject to very

MIGRATION ARRIVALS IN THE EU IN 2015



strong criteria if they want to make progress towards the EU? Is the kind of signal we are sending in fact that we are starving for stability?"

The EU has made several attempts to stem the flow of people to Europe. Last year, the European Commission proposed a 1,500-strong border and coast guard as well as extra checks at EU borders. EU leaders agreed an action plan with Turkey, which hosts the largest number of refugees in the world, and set up a €3bn fund to encourage refugees to stay in Turkey. And at a special summit on the Western Balkans last October, leaders agreed a 17-point action plan that includes reinforcing border controls in the region (for which the EU has set aside €27m in funding, for Serbia and the former Yugoslav Republic of Macedonia) and the creation of 50,000 more reception centres along the Western Balkan route (on top of 50,000 in Greece).

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Ivan Korcok, Slovak State Secretary for Foreign and European Affairs and Plenipotentiary of Slovakia's Presidency of the Council of the EU

EU ACTION ON MIGRATION 2015-16

MAY 2015

European Agenda on Migration:

- hotspot approach Italy/Greece
- emergency relocation of 40,000 refugees from Italy/Greece
- resettlement of 20,000 from outside EU

SEPT 2015

Emergency relocation pledge for further 120,000 from Italy, Greece and Hungary
+ €1.8bn Trust Fund for Africa

OCT 2015

EU-Western Balkan Action Plan:

- weekly coordination meetings
- more border controls
- +100,000 reception capacity in Greece/Western Balkans
- limit 'waving through'

+€17m from EU budget for Serbia and former Yugoslav Republic of Macedonia to deal with influx

NOV 2015

EU-Turkey action plan signed, including €3bn fund for refugees in Turkey

DEC 2015

Proposal for a European border and coast guard

Voluntary humanitarian admission scheme with Turkey (for Syrian refugees)

Reinforced checks at EU external borders

FEB 2016

European Commission finds "serious deficiencies" in Greece's external border management under Schengen code and issues recommendations (three months to comply)

“Closing off our border, whether with Macedonia or wherever, is not going to stop them making that journey. It’s not just about border control, it’s about safer legal routes for migration.”

Heaven Crawley, Chair in International Migration at the Centre for Trust, Peace and Social Relations (CTPSR) at the Coventry University

But problems persist. EU law states that refugees and migrants have to be registered, and that any asylum applications must be processed at their first point of entry to the bloc, putting Greece under enormous pressure. The European Commission has censured Athens for “serious deficiencies” in border management, giving the government until May to bring their controls up to scratch. The Visegrad Four countries – Poland, the Czech Republic, Slovakia and Hungary – have threatened to step in to control the Western Balkan route if Greece doesn’t shape up before a mid-March EU summit. The situation reached breaking point in February, with NATO beginning its own operations in the Aegean Sea to relieve Greece and Turkey.

For **Heaven Crawley**, Chair in International Migration at the Centre for Trust, Peace and Social Relations (CTPSR) at the Coventry University, the response has been inappropriate because of a fundamental misdiagnosis of the problem. “Closing off our border, whether with Macedonia or wherever, is not going to stop them making that journey,” she said. “It’s not just about border control, it’s about safer legal routes for migration.” She said politicians need to recognise that not all refugees are headed to Europe – in fact, 90% remain in their regions of origin – and that war is not the only motivating factor for migration, as evidenced by the fact that half of all German asylum applications last year were from the Western Balkans. “If you look at the evidence about the dynamics of migration, what we need is a slightly different political narrative. And we also need a form of political leadership at EU and national level which really contextualises migration,” she said.

Meanwhile, tragedies at sea continue, with 3,771 people drowning last year in the Mediterranean Sea, according to the United Nations High Commissioner for Refugees (UNHCR), and a further 410 have drowned in the first two months of 2016. Greece, Slovenia, Croatia and Serbia have activated the EU’s Civil Protection Mechanism to help them provide humanitarian aid. At their latest summit, EU leaders said the flows in the Western Balkans remain a “grave concern” and that the humanitarian situation of refugees and migrants along the route is urgent. Add to that the fact that, according to Crawley, there is further pressure to come as a result of fighting in eastern Ukraine, where around 2 million people have been displaced by the conflict.

Besimi agreed that the migration crisis offered an opportunity for the region to strengthen ties with Europe. “In terms of the refugee crisis, I think that we as a country – and not only as a country but as a region – should have a stronger cooperation with Europe,” he said. “We still need support on border control and registration. That is not only a security issue for Macedonia but for the whole of Europe.”



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“In any crisis, we should see the opportunity. And here the opportunity is to become more creative, to think more on different mechanisms for cooperation, to enhance our cooperation and act faster – lessons we can learn also for the process of enlargement.”

Fatmir Besimi, Deputy Prime Minister of the former Yugoslav Republic of Macedonia

ENLARGEMENT FATIGUE

The migration crisis is the most pressing reason to strengthen cooperation between the EU and the Western Balkans, but many also see it as a way to kick-start the stalled enlargement process. “In any crisis, we should see the opportunity. And here the opportunity is to become more creative, to think more on different mechanisms for cooperation, to enhance our cooperation and act faster – lessons we can learn also for the process of enlargement,” Besimi said.

But EU enlargement has significantly slowed since the last major accession in 2004. The financial and economic crisis that hit in 2008 eroded support for new members as the EU focused on firefighting at home. In 2014, new European Commission President Jean-Claude Juncker placed a de facto moratorium on enlargement until 2020. “The EU has been absent in the Balkans since 2008,” said **Arban Abrashi**, Kosovo’s Minister of Labour and Social Welfare¹.

“The EU is not interested in any kind of stop to enlargement, in particular when it comes to the countries of the Western Balkans,” countered Hahn. But progress varies across the region despite the 2003 Thessaloniki declaration reiterating support for the Western Balkans’ EU future. The former Yugoslav Republic of Macedonia was granted candidate status in 2005, but it has not started accession talks largely because of a name dispute with Greece. Talks have been underway with Montenegro since 2012 and Serbia since 2014, but Albania is still awaiting a decision on when negotiations can begin, despite being granted candidate status in 2014. Bosnia and Herzegovina and Kosovo¹ are not yet candidates.

The EU’s fifth official candidate country, Turkey, recently secured the acceleration of its negotiations with the opening of chapter 17 on economic and monetary policy – a condition Ankara insisted on before signing up to the EU-Turkey action plan on migration. The EU’s migration action plan with the Western Balkans does not contain a comparable clause.

Yet there have been some positives. Croatia became the EU’s 28th member state in 2013, and the first Western Balkan country to make it into the club. On the eve of Friends of Europe’s Balkan summit, Bosnia and Herzegovina submitted an application for EU membership. For **Igor Crnadak**, Bosnia and Herzegovina’s Minister of Foreign Affairs, the application was a “great symbol” of the country’s progress, but for others the outpouring of support for Bosnia’s membership application rings hollow.

“It’s amazing to hear nice and good words about Bosnia’s application for EU membership,” said Bushati. “But let’s not forget that seven years ago, when my country applied for EU membership, the tone was a little bit different.” For Bushati, there is a need for “more certainty and more clarity” in the enlargement process. “We would prefer to have a little bit more soul and political determination coming from the European Union, because there is a feeling that we are being called on in times of crisis,” said Bushati. “We need to also discuss, with a little bit more of a strategic tone, the near future of our relations.”

Shada Islam, Director of Policy at Friends of Europe, pointed out that progress is a “two-way street”. “It’s not enough to just ask for soul and determination from the EU,” she said, questioning whether the region is showing the right “degree of determination” on reforms. According to the European Commission’s latest progress reports on the four Western Balkan candidate countries, there are major reforms still to be made, particularly on two crucial negotiation chapters: Chapter 23 on judicial reform and fundamental rights and Chapter 24 on freedom, security and justice.

Rastislav Vrbensky, Manager of the Istanbul Regional Hub for Europe and the CIS at the United Nations Development Programme (UNDP) points to the EU’s power to inspire reforms. “The EU accession process is providing an anchor for a lot of reform processes,” he said. “Accession leads to gradual and almost invisible modernisation,” he added. Slovakia’s experience is a case in point; its economy is growing at above the EU average and it was able to join the euro in 2009, just five years after becoming an EU member. “We have been using the vision of membership as an excuse for carrying out very painful reforms,” said Korcok. “We believed in that transformative power, and when I look back it paid off.”

“It’s not enough to just ask for soul and determination from the EU.”

Shada Islam,
Director of Policy at Friends of Europe

COMPETITIVENESS IN SOUTH EAST EUROPE – A POLICY OUTLOOK BY THE OECD

MAIN FINDINGS

- Lower growth: GDP growth averaged 5% a year before the crisis but dropped to 0.8% in 2009-14, while GDP per capita is still only 30% of the EU average (aim of 40% by 2020)
- Jobless growth: employment down 7% during the crisis, have clawed back only 2%, while unemployment is more than twice EU average, at 24% in 2013
- Falling investment: total greenfield investment is down to 5% of GDP, from 13% pre-crisis

RECOMMENDATIONS

- Invest in innovation
- Improve access to finance, especially for high-growth enterprises
- Promote active labour market policies
- Boost public and private investment

Source: [Organization for Economic Cooperation and Development](#)

TIMELINE – EU ENLARGEMENT AND THE WESTERN BALKANS

1993

Copenhagen criteria regarding eligibility to join EU (along with Art. 49 Maastricht Treaty)

1999

Stabilisation and Association Process (framework for EU relations with Western Balkans)

2003

Thessaloniki declaration reiterates support for Western Balkan EU integration
Croatia applies for EU membership

2004

Former Yugoslav Republic of Macedonia applies to join EU

2005

Former Yugoslav Republic of Macedonia granted candidate status
Croatia starts EU membership talks

2008

Montenegro applies for EU membership
Kosovo¹ declares independence*

2009

Serbia and Albania apply for EU membership
Former Yugoslav Republic of Macedonia, Montenegro and Serbia join EU visa-free regime

2010

Albania and Bosnia and Herzegovina join EU visa-free regime

2012

Montenegro starts EU membership talks
Kosovo¹ starts EU visa liberalisation talks

2013

Croatia becomes the 28th EU member state
Serbia starts membership talks

2014

Albania granted candidate status

2015

Kosovo¹ and EU sign Stabilisation and Association Agreement

2016

Bosnia and Herzegovina applies for EU membership

* Kosovo¹'s independence is not recognised by 5 EU countries (Cyprus, Greece, Romania, Slovakia and Spain) and by Serbia

A BALKAN REFORM SCORECARD

The global financial crisis hit the Western Balkans hard, slowing down progress on reforms that, according to the International Monetary Fund (IMF), were stalling even during the boom times. When asked by **Giles Merritt**, Secretary General of Friends of Europe, to rate the success of ongoing reform programmes, most participants gave the region average marks – either three or four out of five.

Alan Paic, Head of the OECD Investment Compact for South East Europe, said the region's persistent problems are jobless growth and stagnating investment. "I'm struck by how similar the problems of the Western Balkans are to those of Europe in general – create jobs, stimulate start-ups, create shared markets so business can grow," said Merritt.

"We are in this typical middle income trap in the Western Balkans," Paic went on. "These countries are now becoming too expensive for the cheap labour, and not sophisticated enough for the higher value-added needed to facilitate the transition to knowledge-based economies."

Tanja Fajon MEP, Member of the European Parliament Delegation for relations with Bosnia and Herzegovina, with Kosovo¹ and Trustee of Friends of Europe, warned the Western Balkans not to ignore the skills gap. "What we did wrong and what we are still struggling with is that we created a really well-educated young generation but at the end we couldn't place them in the labour market," she explained. "If we don't stop the brain drain that is happening very rapidly and transform it into brain circulation, countries will lose their future," she warned.

Crnadak said that the negative stigma attached to entrepreneurship in the post-communist period needed to be rooted out in order to boost jobs and investment. "This entrepreneurship spirit needs to be awakened if we want more energy among the upcoming generation to fight all the issues."

For **Kirill Kravchenko**, Chief Executive of NIS, the three keys to boosting investment and entrepreneurship in any region are predictability, people and place – that is, consistent government policies (especially on tax), an educated and qualified workforce and a good geographical location. A crucial factor for investment in the region is maintaining relations not only with the EU but also with Russia, China, Turkey and other global powers. "What is necessary to develop and to accelerate the development of the region is to keep this openness – for sure it will be part of the EU but at the same time it's necessary to keep a good relationship with China and other big players in the world," Kravchenko said.

While the EU is the Western Balkans' largest trading partner, accounting for over 75% of the region's total trade, other participants also agreed on the importance of keeping Russian and Chinese investors on side – though not at the expense of the EU. "We can continue developing our relations with other key players in the world, but our focus and key priority remains the European integration process," Crnadak said. "Whoever is investing is most welcome," said **Goran Svilanovic**, Secretary General of the Regional Cooperation Council (RCC), who brought up the idea of reallocating EU structural funding to the region. "We need bold investment in the region to catch up with the EU, linked with the rule of law, then less money once you're in – otherwise we will never catch up," he said.

"I'm struck by how similar the problems of the Western Balkans are to those of Europe in general."

Giles Merritt,
Secretary General of Friends of Europe

"What is necessary to develop and to accelerate the development of the region is to keep this openness."

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For Bushati, a boost in EU funding could encourage much-needed reforms and tackle the investment shortfall. “I’m not trying to paint the EU as a cash machine, not at all,” he said. “It should be a value-based process, but the instruments should be there.” There have been suggestions of suspending funding from accession countries that fail to meet their reform targets. But Fajon disagreed with the approach. “I don’t think you can cut the funds to the accession countries, because they are crucial to reforms,” she said. “We could consider cutting funds to countries not following the fundamentals of EU integration – countries on the edge of violating the fundamentals of the European project,” she suggested, pointing to the four Visegrad countries’ moves on migration.

Where the Western Balkans differ from their EU counterparts is on the issue of corruption, which continues to be one of the main factors hampering growth, jobs and investment in the region. According to the World Bank’s world governance indicators, the Western Balkan countries still lag behind their EU counterparts on the rule of law, control of corruption and political stability. “Bosnia and Herzegovina is one of the countries with the highest index of corruption in Europe – it turns off everybody who would think of investing in our country,” said Crnadak.

EUROPEAN COMMISSION’S WINTER 2016 ECONOMIC FORECAST

ALBANIA

GDP growth 3.2% in 2016, 3.5% in 2017
Unemployment 16.9% in 2016 and 16% in 2017

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

GDP growth 3.3 % in 2016, 3.5% in 2017
Unemployment 25.8% in 2016 and 24.6% in 2017

MONTENEGRO

GDP growth 4% 2016, 4.1% in 2017
Unemployment 17.2% in 2016 and 16.8% in 2017

SERBIA

GDP growth 1.6% in 2016, 2.5% in 2017
Unemployment 16.8% in 2016 and 16.1% in 2017

Source: European Commission

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MISSION

By using natural resources and modern technologies responsibly we provide the people of the Balkan region with energy for moving forward.

UPSTREAM AND DOWNSTREAM OPERATIONS IN SERBIA, ROMANIA, BULGARIA, HUNGARY, BOSNIA AND HERZEGOVINA

2 RAFINERY PLANTS IN PANCEVO AND NOVI SAD

over **400** petrol stations in the region



35% Energy efficiency of refinery increased by 35% since 2010

83,8% depth of refining

75% share of white petroleum products

1,596 thousand t.o.e. of domestic oil and gas production volume

265 MILLION RSD FOR PROFESSIONAL DEVELOPMENT IN 2014

The biggest corporate employer in Serbia : **11000** employees in 10 countries

983 MILLION DINARS INVESTED INTO ENVIRONMENTAL PROJECTS IN 2014

Leader in Corporate Social Responsibility: Global Reporting Initiative evaluated for 2014

2016

a year of Health, Security and Environment

NIS was the first Serbian company to establish a representative office in the EU in 2011 in order to be able to monitor the accession negotiations between the Republic of Serbia and the European Union, as well as to follow the changes of EU legislation in all areas of interest for our field of operation. We have organized trainings for the employees and all interested parties on the relevant EU policies, which allows us to prepare for their implementation in Serbia.

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“Public opinion in the EU sees the Western Balkans as a problematic region. We need a cross-Balkans strategy that would rebrand our image.”

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BALKAN CONNECTIVITY: ‘INTEGRATE BEFORE YOU INTEGRATE’

Aside from specific reform programmes, a precondition for EU enlargement is regional cooperation and integration. The EU promotes this as part of the Stabilisation and Association Process, encouraging countries in the Western Balkans to cooperate on prosecuting war crimes, border management, the fight against organised crime and refugees.

It does this through:

- a specific funding line in the Instrument for Pre-accession Assistance (IPA), the EU’s €11.7bn fund for 2014-20 to support reforms;
- the Regional Cooperation Council (RCC), the Sarajevo-based agency set up in 2008 to promote EU and regional cooperation on economic and social development, energy and infrastructure, justice and home affairs, security, human capital and parliamentary relations;
- the Central European Free Trade Agreement (CEFTA) between the Western Balkan countries and Moldova, which reduces tariff barriers in the region, including for services, and includes provisions on government procurement, state aid and intellectual property rights.

“This is part of the path you need to follow in order to eventually get into the EU,” said Svilanovic. “Countries are simply too small to be economically viable without creating a broader economic space that is going to be attractive for investment,” said Vrbensky.

Key issues for policymakers are energy, transport and broadband links. Balkan countries cooperate on these issues through the Berlin Process, launched at a summit in the German capital in 2014 to intensify regional cooperation, strengthening good governance and sustainable economic growth. At a first follow-up summit in Vienna in August 2015, the agenda focused on infrastructure and connectivity, regional cooperation, youth and the refugee challenge. A second follow-up will take place in Paris this year, where Western Balkan countries will report on progress in all four areas.

A particular emphasis was put on regional cooperation in the European Commission’s most recent progress reports on enlargement for the four Balkan candidate countries, with “important progress” noted. Part of this push is also to press the former Yugoslav Republic of Macedonia to resolve its name dispute with Greece, which would allow the enlargement process to move forward.

The RCC has announced a range of new initiatives to foster integration:

- a regional investment agreement between the six Western Balkan countries to be launched this year;
- a common list of qualifications and automatic recognition of diplomas to ease labour mobility in the region;
- a process on the interoperability of ICT and logistics along Balkan transport corridors.

For Abrashi, the region needs a new look. “Public opinion in the EU sees the Western Balkans as a problematic region. We need a cross-Balkans strategy that would rebrand our image,” he said. “We have to offer our

citizens a clear narrative, an incremental one, that all countries of our region are not only opening chapters or discussing technical details with eurocrats, but that we are also advancing in economic, political and security terms,” said Bushati.

Vladimir Kavarić, Montenegro’s Minister of Economy, said “countries from the region should not consider each other as competitors in the local market but as partners facing competition from the global market. There is not any country in today’s world that is self-sufficient.”

But will this regional integration ever bring the Western Balkans closer to the EU? Hahn likened the process to a corporate merger. “75% of mergers fail because managers aren’t able to harmonise the different cultures of the companies, and the same applies for countries,” he said. “We have to work on a better understanding of our different cultures.”

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Vladimir Kavarić,
Montenegro’s Minister of Economy

¹ This designation is without prejudice to position on status, and is in line with UN Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence. For the UNDP, the references to Kosovo shall be understood to be in the context of the Security Council resolution 1244 (1999).



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