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WESTERN BALKAN COUNTRIES IN A MULTI-SPEED EUROPE

Jovan ZAFIROSKI, Ph.D.¹

Abstract: Sixty years after the start of the process of its creation, the world's biggest and richest economic space, the European union, is facing many challenges. The Rome Declaration from 2017 offers a possibility for different forms of integration for the Members of the EU i.e. multi-speed Europe. This will have a major impact as on the current structure of the EU as well as on the enlargement process. As the EU is heading towards uncharted territory the candidate and potential candidate countries should continue to work on reforms. The paper explains the roots of the idea for a multi-speed Europe and analyses the possible consequences for the Western Balkan countries in the integration process for EU membership.

Key words: European Union, Western Balkan countries, multi-speed Europe, Eurozone, European integration process

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Introduction

In the last 25 years the EU has been an inspiration and a model for reforms. Europe is perceived as a target where all goals in terms of high living standards, economic prosperity and social welfare will be met. The EU is a unique example for a union of countries that were in never ending conflicts and wars and have realized the destructiveness of this approach. They have simply decided to settle their conflicts around a table rather than in battlefields.

Nowadays, the EU is facing difficult times. It is losing its geopolitical power while there are major problems within the Union. The economic imbalances are making serious tensions between the Members States while the EU institutions are unable to respond to systemic and permanent crisis whether it is a financial or a refugee crisis.

However, Europe has always been built on the back of different crisis. As one of the founding fathers and a key figure on the start of the European integration process Robert Schuman has said: "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity." (La déclaration Schuman, 1950)⁸

Western Balkan countries have settled the EU membership as a highest priority. They may learn a lot from the EU but also the Union can learn from these countries. It is clear that the region will not play a role and might not influence the decisions on how the EU will be organized in future and what the relations between Member States will be. However, what these countries can do is to work on reforms for achieving better living conditions and sound economic environment for doing business. Also, they should follow the debate and promote themselves in the future European structure at best possible way.

The paper aims to contribute to the debate on the future of the EU (I) from the point of view of the effects on the current crisis on the EU (1) and to present different existing proposals for reorganization of the Union (2). Also, the Western Balkan countries' future in the EU (II) is examined from the point of view of the current state in the integration process (1) and the advantages of these countries in the light of the next EU reform (2).

⁸« L'Europe ne se fera pas d'un coup, ni dans une construction d'ensemble: elle se fera par des réalisations concrètes créant d'abord une solidarité de fait.», La déclaration Schuman du 9 mai 1950, available at : https://europa.eu/european-union/about-eu/symbols/europe-day/schuman-declaration_fr

I. An ever “changing” union

Since its beginning, the European integration project has been constantly changing. From the Coal and Steel Community and the Economic Community, through the Single European Act to the Treaty of Maastricht with all the treaties amending and changing the European political and institutional framework, EU has always been a battle of ideas for a better Europe, prosperous area of security, economic growth and social welfare. All the progress in the process of creation of an ever closer union among the peoples of Europe has been achieved during difficult negotiations and through many compromises when the Member States has always put the common values before the national interests. For example, the Maastricht Treaty was forged in turbulent periods after the fall of the Berlin wall and the unification of Germany (See: Van Middelaar 2013, pp. 186-202)

Brick by brick, step by step, the EU has arrived at the highest possible level of economic integration i.e. economic and monetary union. Nevertheless, yet much needs to be done on political level. The lack of further political unification endangers and threatens to abolish the achievements in the field of the economic integration. The lack of political will for changes and further integration may provoke economic disaster in Europe.

However, in several Member States, there is no clear political determination for further integration and transfer of powers to supranational level. On one hand, one-size-fits-all model does not work well and the European project needs changes, but on the other hand, there is no will and consensus for changes. The pressure from the low economic performance of the EU and gloomy prospects for its future, if reforms are not taken, has forced the European leaders to accept solutions that were unthinkable in the past. Thus, for example, even an exit from the Eurozone for Greece was on the table as a last possible solution to save the Eurozone and to provide smooth functioning of the currency block for other members participants (German Council of Economic Experts, 2015, p.2).

The sign of readiness for a new approach in the European integration model came on the occasion of the 60th birthday of the EU when the European leaders have shown readiness to allow differentiated integration for Member States in the EU. In the joint declaration they highlighted that “...we will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later. Our Union is undivided and indivisible.” (The Rome Declaration, 2017).

There are ongoing debates for the possible changes in the EU and for the question what multi-speed Europe will imply for the European policies and institutions. However, to understand the different proposals coming from either academics, politicians or from the officials and EU institutions offering

different scenarios for the future of Europe (2) one has to present and to examine the roots of the current crisis in the EU (1). Thus, the full picture of the current state of the EU reform process will be provided.

1. The EU crisis

The financial turmoil from 2008 has commenced an avalanche of crisis in different sectors in the European economy. The entire project of the monetary integration was under threat while the government's interventions with public money on the financial markets have increased the level of the public debt in majority of the Member States. The crisis has increased the gap in trade balance not only between the EU and the rest of the world but also between the EU Member States. The surplus countries as Germany (Le monde, 2017) are having good results while deficit countries, as France (Le monde, 2017a) for example, are marking minuses in the trade. The most recent data shows that Germany is increasing its trade surpluses vis-à-vis the rest of the EU which can not contribute for faster recovery and return to steady growth. There are many other differences between France and Germany, such as preferences regarding inflation, labour unions, national champions etc. Those differences are historically rooted. (See: Brunnermeier and others (2016), pp.40-56). Also, the EU's share of the global GDP is shrinking. From 26% in 2004 to 22% in 2015. Moreover, considering the Brexit vote and the scale of the UK's economy this data will significantly change in future.

In addition, the refugee crisis from 2015 has also contributed for a surge of the anti-establishment mood resulting with the Brexit vote and many successes of the far right and far left parties in elections across the EU. Millions of people from the Middle East, North Africa, Pakistan and different regions under crisis were heading towards Western Europe. Germany, Austria, Sweden and the UK were the most desired destination for these people. This has a considerable impact as on the employment as well on the system of social welfare in those countries. Nevertheless, the refugee crisis has also challenged the European unity. The Mechanism for relocation which should help Italy and Greece in their problems with big numbers of the refugees was rejected by some Member States.

The Brexit talks are under way while there is a no clear timetable for completion of the talks. Different scenarios are on the table. As the positions of the two negotiating parties are far from being close, the possibility for no deal Brexit is also plausible. Brexit negotiations will have a considerable impact on the EU's future. The UK has strong economy while the City of London is an important global financial centre. The future relations with the UK will have significant effects on the European economy. However, the outcome of the Brexit talks will send a "hidden" message to the countries, leaders or political groups that are supporting the efforts of countries for leaving the EU. Therefore, on the side of the UK the Brexit talks should provide best possible deal for the country whereas on the EU side it should assure a

possibility for a smooth cooperation in the economic field while sending a strong message to those opposing to the European integration project.

Even though the EU was facing serious problems, different in nature and scope, the Union had strength to undertake profound reforms. As the crisis has shown, that the monetary union is not yet completed and further integration in the banking sector is required. The project for creation of the European banking union was launched. It includes a Single supervisory mechanism, Single resolution mechanism and Common deposit insurance schemes (see: Zafiroski, 2014, pp. 48-55). The reforms were also undertaken in the field of the public finances. The crisis has unambiguously shown that the monetary and fiscal policy are "two sides of the same coin". A supranational monetary policy requires a common or coordinated fiscal policy. Thus, the Fiscal compact⁹ was put in place to strengthen the fiscal governance framework in the Eurozone. It includes provisions regarding the economic policy coordination and convergence of the Eurozone. The fiscal compact includes: a mandatory balanced budget rule, strengthening of the excessive deficit procedure, benchmark for government debt reduction and public debt issuance plans.

However, changes of the European framework which will reshape the relations between the Member States and the Union are inevitable. The real question is which is the most proper model for doing so. Many options are on the table.

2. Scenarios for the EU's future

It is evident that in near future the entire project of the European integration will be revised. The door for a differentiated integration is open. However, the concept of differentiated integration consists of various models of integration. The main concepts include: multi-speed, variable geometry and a la carte integration. They illustrate an integration differentiated by time, space and mater. A multi-speed is a mode of integration where a core group of Member States pursuit common objectives while others will follow later when certain conditions are met. Variable geometry considers permanent separation between Member States with common objectives for all Members. A la carte integration includes common objectives for the member states participants in the union in which they can decide the policies in which they are willing to participate (Stubb, 1996, pp.283-295).

⁹Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, agreed at the EU summit of 30 January 2012, signed on 2 March by the Heads of State or Government of all EU countries, with the exception of the United Kingdom and the Czech Republic

The idea for a multi-speed Europe is neither new nor has been a constant proposal. Whenever a crisis occurs the EU recommends it as a solution. Differentiated integration has always been on the table. Thus, in 1975, as part of the Report that should help in overcoming the crisis and to propose a solution for improvement of the functioning on the institutions, Leo Tindemans who was the Prime Minister of Belgium at that time has recommended a new approach for the European integration. In other words, due to divergence of their economic and financial situations certain Member States should be allowed to go further with the integration. "Those States which are able to progress have a duty to forge ahead" (Report, Leo Tindemans, 1975, pp.20-21).

Today, the scenario for the future of the EU largely differs. From renegotiating of the founding treaties to continuing with the status quo. Jean-Claude Piris proposes four scenarios for the future of Europe (Piris, 2012). The first includes revision of the existing treaties with re-opening of every single EU policy and institutional mechanism. This is less likely option but might provide a profound reform of the EU. The second proposal is the development of the close co-operation between the Member States under the current legal framework. The two remaining scenarios include different speed Europe which are to be achieved by political or legal means.

The White paper on the future of Europe (European commission, 2017) includes five scenarios for the future of Europe. In the first scenario *caring on* EU should stick to its current course meaning work on the current projects and agendas. In the second scenario the single market is "raison d'être" of the EU. Thus, *nothing but the single market* scenario focuses on deepening certain key aspects of the single market while other forms of cooperation on different issues are conducted bilaterally. The third scenario, *those who want more to do more*, offers a possibility for cooperation in different fields by group of Member States that are willing to go further in the integration process. *Doing less more efficiently* is the fourth scenario which suggests that UE should be focuses on new priorities where all the resources will be dedicated. Finally, the forth scenario, *doing much more together*, Member States should share more power and resources while decisions are agreed faster and rapidly enforced. The cooperation between all the Member States goes further in all domains.

There are different ideas even on how the "new" Europe should look like. Jean Paul Guichard (Guichard, 2016, pp. 38-44) proposes five groups of European countries, In the first or British islands area there are two countries: the UK and the Ireland. The second i.e. German's Europe includes: the Netherlands, Germany, three Scandinavian and the three Baltic states, Poland, the Czech Republic, Slovakia Austria and Hungary. The third group includes Southern Europe or Portugal, Spain, France, Belgium, Luxembourg, Italy, Croatia and Slovenia. The "Orthodox Europe" is the fourth group with Greece, Cyprus, Bulgaria, Romania, BiH, Serbia, Macedonia, Montenegro, Kosovo, Albania and Moldova. The

last group of countries is the “third Rome” and Russian federation, Ukraine, Belorussia, Georgia and Armenia. This proposal is based on the economic conditions, and historical heritage, linguistic and cultural preferences.

However, as far as the multi-speed Europe is concerned the most common proposal is that the EU should be organised on four level or speeds. At the centre, or the first tier should include the Eurozone countries. In the second there are the countries that are not members of the Eurozone. The third tier includes the countries that are willing to join the European single market but do not want a full EU membership. In this group of countries are Norway, Liechtenstein, Island and possibly the UK. The last group of countries, such as Turkey, some Western Balkan countries, will have a comprehensive free trade agreement with the EU (The Economist, 2017, pp.13-14).

Even it is presented on highest level this proposal has serious weaknesses. The proposal does not solve the imbalances within the Eurozone which are the main reasons for the crisis within the EU today. The differences between countries in the Eurozone are strong so the question is whether a single monetary policy might be applied. If today we are evaluating the Eurozone members by the convergence criteria for EMU membership the result will be surprising. Many of the countries participating in the monetary union will fail on the test. On the contrary, there are countries outside the Eurozone and even outside the EU that are performing well on the convergence criteria while functioning in a harsh economic environment. This should be a strength in the future positioning of the Western Balkan countries in the upgraded European institutional and political framework.

II. Position of the Western Balkans in the “new” EU

As the EU institutions are focused on the reforms within the EU, as it might be expected, the process of the enlargement is not high on the EU’s agenda and depends on the choice of the future mode of functioning of the EU. That the enlargement is not a priority for the European Commission became clear in 2014 when the newly elected president of the European commission Jean-Claude Junker has presented his team and the most important policies and projects for the Commission. Then he said that there will be no new enlargements in the next five years, but the Commission has extended that period several times (European commission, 2012a).

The same atmosphere is even today. In its speech on the future of Europe the President Emanuel Macron (Macron, 2017) hardly mentioned the Western Balkan region and the process of the enlargement and said that the Union will not be complete without the region and should be open for the countries when they will meet the membership criteria. It is well known that the EU is preoccupied with solving its own problems and agendas.

However, the Western Balkan countries should work on their agendas for achieving higher living standards which requires profound changes on the entire society, reforms in economy and promotion on the political culture. It is not much important if the EU will choose a "big bang" scenario for the Western Balkan countries or it will decide to accept the countries based on their individual performance. Also, the "tier" does not depend on the accession country but it will be decided by the existing members and by the EU institutions. Therefore, the countries should focus on the reforms and on the current framework in the relations with the EU (1) while using their advantages in future negotiations and positioning in the new European political and institutional framework (2)

1. Current situation in the integration process

Western Balkan is a small region in a post-transition and post-conflict period. Its population is as Romania or as half of Poland. Insignificant share in the global output and GDP per capita far below the EU average. In the pre-accession period the main objective are Copenhagen criteria while cooperation is made in the framework of the stabilisation and association process.

Different stages in the integration process. Since 2014 Albania is a candidate country for EU membership but has not yet started the accession negotiations. The relations between Albania and the EU are based on the Stabilization and Association Agreement that was signed with in June 2006 and entered into force in April 2009. In 2016 Bosnia and Herzegovina has submitted its application to join the EU, the SAA signed in 2008 and entered into force in 2015. Kosovo is a potential candidate for EU membership. The Stabilization and Association Agreement between the EU and Kosovo entered into force in 2016. Republic of Macedonia was the first country in the region that signed the Stabilization and Association Agreement which entered into force in 2004. It applied for EU membership in March 2004 and the Council decided in December 2005 to grant the country candidate status. Since October 2009, in each Report the Commission recommends opening of the accession negotiations with the country. In 2008, Montenegro applied for EU membership. In 2010, the Commission issued a favorable opinion on Montenegro's application and the Council granted it candidate status. The accession negotiations with Montenegro started on 29 June 2012. Serbia has also started the negotiation process for EU membership.

Even if every country has its own specifics which are sometimes perceived as advantages and disadvantages in the integration process there are many similarities and common problems for all candidates for EU membership. Firstly, the economic performance is low. The modest economic development is the most serious obstacle. The real convergence with the EU average is very difficult to be achieved even on medium term. Secondly, the rule of law and the level of corruption is considerable in all

the Western Balkan countries. Thirdly, each country has unsolved bilateral problems either with EU countries or with neighbouring country which is a candidate for EU membership.

Nevertheless, besides many problems that the Western Balkans are dealing with there are certain aspects in their economic structure and macroeconomic performance which might be used as an advantage in the integration process in the future EU.

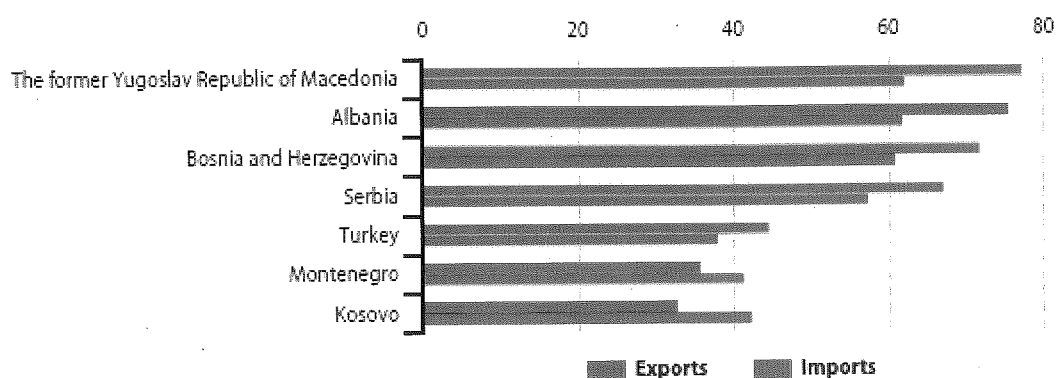
2. Advantages of the countries for the future integration

The Western Balkan countries are lagging behind the EU averages in terms of its GDP per capita which makes the process of achieving a real convergence a difficult task. Also, the countries need many reforms in the overall society in order a certain level of business culture to be reached. However, the countries have some characteristics which give them better negotiation positions in the future organisational structure of the EU. They have to be smart and to use it!

The advantages are related to: the trade or trading partners, public finances and exchange rate policy.

Thus, as it might be seen from Figure 1, all the countries from the region are strongly connected to the EU economy. Four countries, Albania, Bosnia and Herzegovina, Macedonia and Serbia are having more than 60% of their imports in the EU while, what is more important, the exports to the EU participate with more than 70%. Kosovo and Montenegro are also very strongly connected to the EU's economy. Moreover, one should take into consideration the fact that the rest of the trade of these countries is between the Western Balkan countries in the trade relations between them. Thus, if they were members of the EU they will have more than 90% of their trade with or within the EU. This means that these countries are a natural part of the European market, they have similar business cycles and can easily adjust to the changes in the EU and to different conditions of the EU economy.

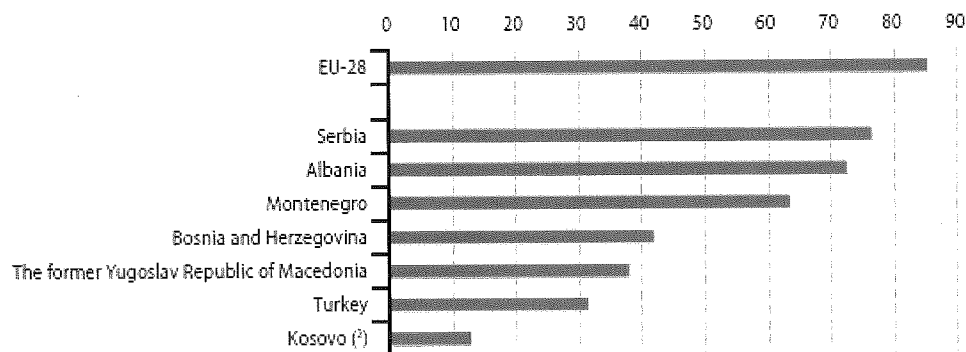
Figure 1. International trade in goods and services with the EU-28, 2015
(share of total exports and imports)



Source: Eurostat¹⁰

The second advantage of the Western Balkans countries is related to the level of public debt. Contrary to many Member States the countries from the region are having sound public finances with low or medium level of public debt. BiH, Macedonia and Kosovo are having public debt below 40% of GDP while the public debt of Serbia and Albania is around 70%. In comparison to the EU Member States they are below the average of the public debt. Also, countries from the Western Balkans are within the convergence criteria for the Monetary union membership.

Figure 2. General government consolidated gross debt relative to the GDP (in %), 2015



Source: Eurostat¹¹

¹⁰Eurostat, Statistical books, Key figures on enlargement countries, 2017 edition, pg.67, available at: <http://ec.europa.eu/eurostat/documents/3217494/7774688/KS-GO-16-001-EN-N.pdf/26107237-ec5d-4b1e-87f2-7bac279fb00a>

¹¹Eurostat, Statistical books, Key figures on enlargement countries, 2017 edition, pg. 57, available at: <http://ec.europa.eu/eurostat/documents/3217494/7774688/KS-GO-16-001-EN-N.pdf/26107237-ec5d-4b1e-87f2-7bac279fb00a>

The third and possibly the strongest point for a closer integration of the Western Balkan countries in the future “core” of the EU is the exchange rate stability. Exchange rates of the currencies in the region are stable vis-a-vis the euro. Thus, two countries, Kosovo and Montenegro are using the euro as a national currency while Bosnia and Herzegovina has currency board with a fix exchange rate vis-a-vis the euro. Macedonia has *de jure* flexible but *de facto* pegged exchange rate regime. Since 1997, Macedonian denar was pegged to the Deutsche Mark and afterwards to the euro. Albania has also stable exchange rate vis-a-vis the euro while in the last ten years Serbia shows stability with certain volatility of the exchange rate. The Figure 3 presents euro exchange rates of the national currencies of the Western Balkan countries.

Figure 3. Euro exchange rates, annual averages, 2005-2015, (1 euro = ...national currency)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Montenegro (€)	1	1	1	1	1	1	1	1	1	1	1
The former Yugoslav Republic of Macedonia	61.30	61.19	61.18	61.27	61.27	61.52	61.53	61.53	61.58	61.62	61.61
Albania	124.2	123.1	123.6	122.8	132.1	137.8	140.3	139.0	140.3	140.0	139.7
Serbia	83.0	84.1	80.0	81.4	94.0	103.0	102.0	113.1	113.1	117.3	120.7
Turkey	1.670	1.800	1.778	1.896	2.151	1.989	2.322	2.314	2.534	2.906	3.026
Bosnia and Herzegovina	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Kosovo (€)	1	1	1	1	1	1	1	1	1	1	1

Source: Eurostat¹²

Even in difficult times with many political turbulences and security challenges the Western Balkan countries have succeeded to preserve the stability of the national currency while at the same time maintaining fiscal stability and low or medium level of public debt. This should be a good example for many Member States of the Union where the level of public debt is more than 100% of GDP.

¹²Eurostat, Statistical books, Key figures on enlargement countries, 2017 edition, pg. 11, available at: <http://ec.europa.eu/eurostat/documents/3217494/7774688/KS-GO-16-001-EN-N.pdf/26107237-ec5d-4b1e-87f2-7bac279fb00a>

Conclusion

The largest economic space in the world, promotor of liberal democracy and free market principles i.e. the European Union is facing difficult times. The financial crisis from 2008 has shown that the European monetary union is an unfinished project while fiscal coordination is necessary in order financial and monetary stability to be provided. Also, disbalances in trade not only with the rest of the world but also between Member States of the Union has contributed for different preferences in terms of the monetary policy. The level of public debt surged in recent years making it unsustainable in some Member States. All this has contributed for a rise of anti-establishment sentiment and rise of popularity of anti-EU groups parties across Europe. This was a clear signal that changes are inevitable. At the 60th anniversary of the EU, in the Rome declaration European leaders have opened the door for the possibility of differentiated integration in the EU which means EU at different speeds. The concept of differentiated integration is a vast one. It might be differentiated in time, space and matter. However, there is an ongoing debate but there is no concrete proposal coming from the EU institutions or Member States on how the future EU should be organized.

All the countries from the Western Balkans are at different stage in the EU integration process. Since the EU is focused on its reforms and problems the enlargement is low on the EU's agenda. However, the Western Balkan countries should focus on reforms on their society and economy creating better living standard for the people. There are some areas such as trade, public finances and the exchange rate policy which are substantial elements in the decision on the future EU where the countries from the region are performing and even much better than many Member States. That should be used as an argument in the positioning and in the future negotiation process about the place of the region in the "new" EU.

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