

# Economic Security and the Stability Pact for South East Europe<sup>1</sup>

by Hanns-D. Jacobsen

## 1. Economic Security

From a traditional perspective, national and international security has been primarily determined by military factors. Since the early nineties, on the background of a vanished bipolar conflict and increasing globalization, economic factors have increased in importance<sup>2</sup>, and the prospect of economic welfare, not warfare, for Central, East and particularly South East European countries has become a major instrument to control existing or potential conflicts in all of Europe. The fundamental readiness to provide economic assistance by the current member states and a perspective for unstable areas to participate in the successful integration process within the European Union somewhere in the future may be appropriate means to induce the respective countries to cooperate and to solve their territorial, ethnic, ideological or religious differences.

This view is not undisputed, particularly since the end of the nineties and after the September 11, 2001, terrorist attacks against the United States. The scholarly and, in particular, the political discussion on international security in the United States has very much returned to the neo-realistic paradigm and its innate accentuation of the nation state as well as the emphasis on the military aspects of international security. The purpose of this contribution is, by analysing developments in the Balkans, to find out in which way the differing approaches on both sides of the Atlantic may complement each other and what the determinants towards a Europeanization of the Balkans are.

In fact, in the aftermath of the Kosovo War, and the NATO air campaign of 1999, the European Union has developed a strategy characterised by an inclusion approach which aims at the elimination of war-like solutions of real and potential conflict. It turns out that the

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<sup>1</sup> This paper draws on my presentations to the *International School on Disarmament and Research on Conflicts* (ISODARCO) Winter Schools of 1999 (“International Economic Security for Europe“), 2000 (“After Kosovo - The EU's Role in Providing Economic Security for Greater Europe”) and 2002 (“The Stability Pact for South East Europe – Did it work?”). I owe a lot to the critical comments of the students participating in those schools. My greatest intellectual debt, however, and one not adequately reflected in the footnotes, is to Heinrich Machowski. Completion of this paper was made possible by support from the Jean-Monnet-Centre of Excellence of the Freie Universität Berlin's Department of Social and Political Science.

<sup>2</sup> There has been an extensive discussion on the theoretical and practical validity of the concept of „economic security“ which, in the context of this contribution, can only be touched upon. For a more extensive discussion cf., *i.a.*, Hager 1976, Alting von Geusau./Pelkmans 1982, Cable 1995, Kirshner 1998, Sperling/Kirchner 1998, Brunelle 2002, and Waechter 2003.

promise of economic well-being and property is an inducement for all the South East European countries to develop a serious EU membership perspective. But they have to deliver: In general terms, each country must persuade the EU that it practices "liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law". It must show that it has the quality of government needed to cope with the political and economic obligations of membership.<sup>3</sup>

When the *Stability Pact for South East Europe (SPSEE)* was introduced by mid-1999, just a few days after the hostilities in the Federal Republic of Yugoslavia (FRY) ended, many hopes were voiced and expectations raised. Some considered this Pact to become a unique effort of more than 50 partner states and institutions to ensure peace and democracy as well as to provide human rights and economic well-being. The countries in South-East European countries were even given the prospect of full inclusion into the euro-atlantic institutions. Thus, the Pact was designed to be a practical example of long-term conflict prevention and peace consolidation, basically using instruments from three different kinds of sectors:

1. *Security*: security policy and the creation of constitutional states,
2. *Politics*: the construction of a new political post-war order and democratic institutions, and
3. *Economics*: economic reconstruction and welfare promotion.

It turned out, however, that the reshaping efforts promoted by the European Union (EU), the International Financial Institutions such as the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), and others, takes longer than expected and costs much more than initially intended. Reasons for this include slow economic reconstruction, change aversion by many national institutions, bureaucratic obstacles, lacking experience with multilateral projects, etc. The most profound stumbling bloc, however, has turned out to be the prevailing nationalism of the peoples, respectively states or regions, concerned and their lacking readiness to cooperate with others they have, over generations, learned to fight, to hate or, at best, to ignore. The fights of the Albanian minority in Macedonia, or the Serbian one in Kosovo, have been a case in point.

Nevertheless, on balance the efforts taken in the *Stability Pact* framework have shown positive results: Despite existing local conflicts and ethnic tensions, the region has shown signs of political consolidation and economic recovery. By and large, the Pact has worked and, by employing economic means, contributed to the region's security.

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<sup>3</sup> In the context of the EU's eastward enlargement similar considerations have been developed by Olsen 2002 and Grabbe 2003.

The relative success of these efforts has led to a gradual reduction of the United States' involvement in the region. The September 2001 events and the winter/spring 2003 campaign against Iraq made it clear that the U.S. shifted to other priorities and gladly accepted the EU's leading role on the Balkans. The EU's deployment of its first ever peace-keeping mission in Macedonia in 2003, its role in brokering a deal between Serbia and Montenegro and its assumption of leadership in the international police mission in Bosnia are cases in point. To be sure, the shift relates mostly to civilian activities; with regard to military decision-making processes the United States still remains involved and is inclined to keep it that way.<sup>4</sup>

## **2. The Stability Pact**

At the European Union's (EU's) initiative, the *Stability Pact for South East Europe (SPSEE)* was adopted in Cologne on June 10, 1999. Its inauguration took place at a summit meeting in Sarajevo on July 30, 1999.

The Stability Pact is a political initiative to encourage and strengthen co-operation between the countries of South East Europe as well as to streamline existing efforts to assist South East Europe's political, economic and security integration in Europe. The Pact was designed as an instrument to co-ordinate and facilitate the implementation of the projects of all its partners. These include the countries of South East Europe and neighbouring countries, the European Commission, NATO and OSCE, the International Financial Institutions (IFI), the member states of the European Union, and other countries such as the United States, Russia, Japan, and Canada (for a comprehensive account see Annex 2: Participants of the Stability Pact).

The Stability Pact's aim is to bring peace, stability and economic development to South East Europe (SEE), a region where too often ethnic hatred, bad governance and economic backwardness have spawned conflicts that have at times spilled over into wider European wars.<sup>5</sup> This region refers to Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Federal Republic of Yugoslavia, the former Yugoslav Republic of Macedonia and Romania. It is a diverse region of 56 million people, living at about US\$2,200 per capita and year, roughly half the income level of the five Central European countries.

The past decade of transition and conflict has left the region with a legacy of inadequate growth and declining living standards. As a region, these economies have recovered only 80 percent of their pre-transition income levels. In the past several years,

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<sup>4</sup> Cf. Abramovitz/Hurlburt 2002; Council on Foreign Relations 2002.

<sup>5</sup> Braun 1983; Norris 1999; Pridham/Gallaher 2000; Todorova 1995.

growth has declined in aggregate, increasing the gap between these economies and the rest of Europe. More alarming is that there has been deterioration in living standards, as evidenced by higher poverty, inequality and unemployment. This poor economic performance can be attributed to four factors<sup>6</sup>:

- First, initial conditions in the region at the onset of the transition were adverse: the economies had unbalanced industrial structures, weak institutions, and fragmented civil societies.
- Second, war, civil strife and ethnic conflict have had a devastating effect on the region. In those countries directly affected, conflict has fragmented societies, and destroyed institutions and infrastructure. In all countries, regional conflicts have disrupted normal economic activities, made for an uncertain business climate and put strains on nascent political systems.
- Thirdly, macroeconomic stabilization policies have been inconsistent and this has furthered exacerbated the uncertain business climate.
- Finally, structural reform policies have been weak; progress in trade liberalization, privatization, enterprise reform, competition policies and financial sector development have all lagged the efforts in Central Europe. Similarly, disappointing progress has also been made in institutional, social and environmental policies.

The Stability Pact has set out principles and areas of action with view to a common approach, thus attempting to create a regime characterized, in *Krasner's* widely accepted definition, by sets of “principles, norms, rules and decision-making procedures”<sup>7</sup>. Furthermore, the SPSEE specifies the role played by each party, that of the EU being to focus on the development of programs to underpin democracy, stimulate the economy and foster contractual relations within the region. The SPSEE also stresses the importance of coordination between the World Bank and the European Commission on the formulation of a strategy for regional development and organisation of donor conferences.

The underlying idea of the SPSEE members is to draw the countries of the region closer to the perspective of European integration. A key element in this strategy is the *Stabilisation and Association Process* (SAP) for the Western Balkan countries. The Stability Pact has a key role to play in helping to coordinate efforts to rebuild the region. Its main need is for sustained economic growth. After all, the Balkans is Europe's poorest corner outside the former Soviet Union. Aid programs in the framework of the Stability Pact are expected to involve projects ranging from supporting local banks to making loans to help with the construction of motorways. By promoting civil societies, democratization, questions of inter-

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<sup>6</sup> There exists a vast variety of general and specific studies on the implications of political and economic transition processes in Central and Eastern Europe including the Balkans. See Jeffries/Teodorescu 1996; Dawisha 1997; Lavigne 1999; Åslund 2002; Gros/Steinherr 2004.

<sup>7</sup> Krasner 1983, 1.

nal and external security and, above all, economic co-operation, the Stability Pact draws on experiences which have been quite successful in European post-war history. They include the EU integration process, that united most of Western Europe, and the 1975 Helsinki Process, that was decisive in overcoming the East-West conflict in Europe.<sup>8</sup>

The Stability Pact sets out a framework that works as a two-way street. In order to receive support from the international community, the recipient countries must first implement appropriate reforms. The South East European governments, for example, are required to carry out economic reforms (dismantling of trade and investment barriers) and to fight corruption and organised crime within the context of the Stability Pact. In exchange, the donors are prepared to provide carrots by supporting the construction process in a co-ordinated way through assistance and credits.

### **3. Protagonists: Germany, the European Union, and the United States**

This framework, it has to be noted, was not agreed upon easily. In fact, it had been the then new German Red-Green government which had made the Balkan policy one of its top priorities after the NATO action in Kosovo had triggered a political crisis in the German coalition government. As a response to considerable opposition from within their parties, and in particular from within the Green party, the German government's approach was to act as a counterweight to NATO's initiatives, helping to support the decision for the military campaign.<sup>9</sup> The government used its triple Presidency in 1999 (EU, WEU, G-7) to get the idea of a Stability Pact supported by its partners, in particular the European Union.<sup>10</sup> Germany as the agenda-setter was successfully able to induce the European Commission to act along her political priorities and, at a later stage, to co-determine European foreign policy.

The United States has also been a major actor regarding the introduction of the Stability Pact for, however, somewhat different reasons.<sup>11</sup> It is true that the U.S. has been, as have Germany and the European Union, seeking to assist fast sustainable transition in the Balkans, thus improving the prospects for regional stability. Nevertheless, a variety of frictions occurred and a lack in transatlantic cooperation became obvious. These issues included not just the Stability Pact but also sanctions against the Federal Republic of Yugoslavia and the tribunal in The Hague, NATO and EU enlargement, the debate on burden-

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<sup>8</sup> Vucetic 2001, 114; for a model of cooperative security see Adler 1998, 151.

<sup>9</sup> See Friis and Murphy 2000.

<sup>10</sup> Welfens 2001.

<sup>11</sup> Crane/Tibbitts/Zietlow 2001, 59-163

sharing, the future status of Kosovo and Montenegro<sup>12</sup> and, particularly under the Bush administration, the creation and support of an International Criminal Court (ICC) which the EU favoured and the US vehemently opposed. It also appeared that, with regard to the Stability Pact, the U.S. administration tended to focus on IMF-guided economic transformation, i.e. a “big bang” rapid economic transformation approach towards market economies, whereas Germany and the European Union were inclined to prioritise civil society building.<sup>13</sup>

But not only with regard to the proper economic and political approach differences occurred. It has to be emphasised that from the outset, even before President Bush was inaugurated in January of 2001, the US perspective on the Balkans differed substantially from the EU perspective. It appeared that US interests were primarily related to threats to global security, the Balkans being just one of them, whereas the EU, as an emerging regional player, defined its interests on the Balkans basically in terms of EU enlargement and regional stability.

Thus, the question arose whether the European Union’s approach, the projection of “soft” instead of “hard” power, could work and allow for a subsequent reduction of the US’s involvement on the Balkans. In fact, Germany’s and the European Union’s soft power projection, with the envisioned path toward full EU membership somewhere in the future for all countries in the region, finally prevailed. The membership perspective turned out to be, and increasingly is, an attractive enough carrot that induced the Balkan countries to comply, particularly after Croatia, in 2004, got the candidate status. Thus, the predominant lever was to be the potential granting of economic assistance, the provision of “economic” security.

#### **4. The Working Tables**

Within the framework of the Stability Pact a Regional Table and three Working Tables for Democracy and Human Rights, Economic Development and Security have been set up, similar to the well-known baskets of the CSCE process. They draw up proposals for specific measures to be implemented under the Pact. Their priorities have been including:

##### **Working Table I on Democratisation and Human Rights**

concentrates primarily on institution building and good governance as well as media freedom and education.

On refugee returns, a continuous regional stocktaking of outstanding issues has taken place among the three main countries concerned, with donors and international organisations. This comprehensive approach has resulted in an Agenda for Regional Action for Refugees

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<sup>12</sup> Van Meurs 2001, 30.

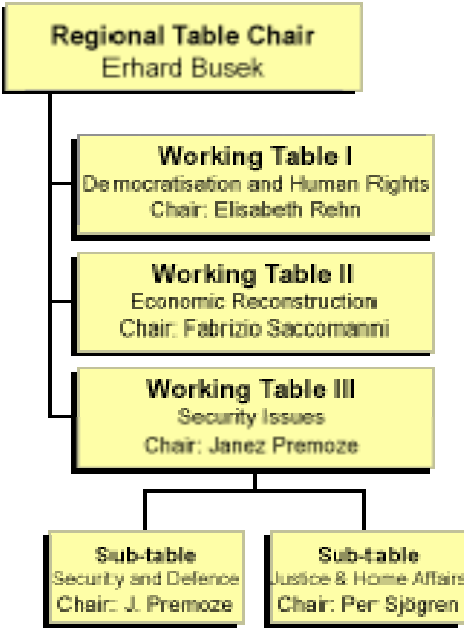
<sup>13</sup> As a more comprehensive account of early EU-US differences see Gardner Feldman 2001.

and Displaced Persons, which comprises of a series of bilateral initiatives between FR of Yugoslavia, Bosnia-Herzegovina and Croatia. The measures have been dealing with questions of property, housing, pensions, social welfare and the necessary assistance to returnees and those persons, who decide to keep their present residency.

The Charter for Media Freedom was adopted in Thessaloniki, June 2000. Through this initiative, agreed to by all the countries of the region, participants agreed to ensure the highest international standards of freedom of expression. They undertook to launch a process of internal review and dialogue ("public debate") to determine reform requirements and to adjust the situation in their countries to internationally acknowledged norms and standards. The Charter for Media Freedom has been a landmark document. It provides a common, shared set of practices and points of reference for media reform and development in the countries of the region. The implementation, however, of these goals will be a long-term process because editors lack independence, threats against journalists occur and the reporting quality has remained poor.

**Chart:**

**Organisation of Working Tables**



Source: The official website of the Stability Pact at <http://www.stabilitypact.org>

Over the years, new areas of cooperation have been developed. Most prominently, this has been the case with regard to parliamentary cooperation including staff exchanges between parliaments, internships and twining initiatives. Further core activities were related to Local

Democracy, Cross-Border Cooperation and Education Reform aiming at decentralization, more local government and the adoption of European standards in education and training.

The issue of gender equality has become a part of the mainstream political agenda in all SPSEE countries, where government and civil society women's groups joined together. The percentage of women elected in national parliaments has increased and the awareness of women of their role and opportunities in society has been raised to a certain extent.

### **Working Table II on Economic Reconstruction, Development and Cooperation**

focuses on trade liberalisation and co-operation, private sector development, investment generation and employment, regional infrastructure and environment, as well as legislative reform and approximation of legislation.

A regional approach to infrastructure projects has been established in South East Europe since 2000 based on strategic studies in each main infrastructure sector. These studies were intended to form a common and consensual working basis for all partners, IFIs, donors and countries of the region.

A Memorandum of Understanding on Trade Liberalisation and Facilitation by South East European countries was signed on 27 June 2001 in Brussels. A major goal of the MoU has been to create a network of free trade agreements in the region<sup>14</sup>, creating a market of up to 55 million consumers. These regional trade integration efforts, however, have encountered major difficulties: As has been experienced by the “Central European Free Trade Agreement” (CEFTA) during the nineties the prospects of becoming a member of the EU’s Single Market leaves almost no room for special regional initiatives.<sup>15</sup> For this reason, sectoral initiatives have been successfully developed, particularly in the energy sector.

The Investment Compact, adopted by the region in early 2001, provided a regional forum to identify and remedy shortcomings regarding macroeconomic environment in order to make the countries of the region more attractive to investors. Apart from a policy dialogue, it included a package of investment initiatives aimed at addressing specific, especially infrastructural, issues in a regional context. As was pointed out during the November 2004 WT II conference in Skopje the “window of opportunity” towards getting a fair share of foreign capital “will not remain open forever”<sup>16</sup>. Fierce global competition might increasingly limit the inflow of foreign investment that could be attracted by the SEE’s growth potential and its economic linkages to the EU, the EIB, the EBRD and other IFIs.

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<sup>14</sup> Ranchev 2002.

<sup>15</sup> Jacobsen 1999.

<sup>16</sup> SPSEE 2004, 6.

### **Working Table III on Security Issues**

deals with the fight against organised crime and corruption, border management, migration and customs as well as demining and small arms.

In order to foster a broad security dialogue and promote arms control and confidence building measures, the Stability Pact partners have established a Regional Arms Control Verification and Implementation Assistance Center (RACVIAC) with eighteen participating countries.

Support of Defence Reform and mitigating the human consequences of defence rightsizing was a good first example of synergy created by the Stability Pact between specialised agencies and the regional countries, in this case NATO, the World Bank, Bulgaria and Romania. Bulgaria and Romania, with NATO providing expertise, set up retraining programs for redundant military officers to help reintegrate them into the civilian workforce.

The Stability Pact Anti Corruption Initiative assists countries of the region to enact needed legislation, build up institutions and develop civil society components, to fight corruption. After being formally adopted in February 2000, governments committed to implement the Initiative are Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Romania and FR of Yugoslavia. They all benefited from co-ordinated technical assistance programs.

Asylum and migration, involving either the return of a country's own nationals or future asylum-seekers or migrants from abroad needed a truly regional response. The Asylum and Migration Initiative of the Pact established national action plans and created five Country Teams to assist in building up the legal framework and the capacities to deal with the issue, including aspects covering the trafficking drugs as well as human beings.

Through its two Sub-Tables, Working Table III deals with questions of both internal and external security. The aim is to establish transparency and predictability and to promote regional co-operation in those two areas with the focus increasingly directed to the area of Security Sector Reform.

The **Sub-Table on Security and Defence** mainly deals with the following areas:

- In the context of arms control and non-proliferation, Stability Pact partners co-operate work on issues such as exchange of military information, notification and observation of military activities, restrictions on the location of heavy weapons, notification of the dissolution of special operations forces, and verification and inspection regimes, *i.a.*, through the Stability Pact initiated RACVIAC centre in Zagreb with eighteen participating countries.
- The Regional Mine Action Support Group is a forum for co-ordination and information sharing in the area of mine action between the mine-affected countries of the region and other participants of the Stability Pact.

- Working Table III also pursues the objective of developing a unified regional approach to fight the excessive and uncontrolled circulation of small arms and light weapons in the region.

These initiatives are taking place on the background of still existing conflicts, e.g. in Kosovo, that require the robust military presence of KFOR to enhance security and to advance the political process.

The **Sub-Table of Justice and Home Affairs** has dealt primarily with the following:

- Intensified efforts by the countries of the region were to be undertaken within the framework of the Anti-Corruption Initiative (SPAI) and the Stability Pact Fight against Organised Crime Initiative (SPOC). A pre-Schengen police cooperation model has been suggested to act early on in accordance to European standards.
- In the wider context of internal security sector reform, the importance of police training and regional co-operation of police and border police forces received wide acknowledgement by Stability Pact partners.

It must be pointed out that the success of the Stability Pact has depended primarily on the countries of the region assuming ownership of it. Long-term sustainable economic development requires the involvement not only of governments but of all members of society. Since the Stability Pact is only an empty framework, the donors, and particularly the EU, had to put “some beef” on the table, e.g. by offering access to the European Single Market, by assisting in establishing the rule of law and by building efficient administrations. This was to create the conditions that attract private capital, foster economic growth and help countries, in the long run, to qualify for accession. To the other SEE the case of Croatia, having successfully applied and waiting for its EU membership in 2007, is a telling example of which perspectives exist.

In the implementation of the Stability Pact, important lessons have been drawn from the Marshall Plan and other post-WWII reconstruction programs.<sup>17</sup> Donor processes throughout the world have shown that they can be less than positive, and this has also been the case in SEE. Up to a third of internationally promised funds were not paid. Often, too much time went by before promised financial aid and credits can be released and implemented in concrete projects. Both donors and aid recipients are to blame:

- On the donor side, bureaucratic procedures and co-ordination problems can lead to duplication and mismanagement. And the priorities set (occasionally by internal policy) by the donors are not always congruent with the needs of the recipients. As a result, financial loopholes often arise in important areas.
- On the recipient side, on the other hand, there has often been a lack of the institutional and legislative preconditions needed to ensure that foreign money is invested in a targeted and controllable way. It was also often forgotten that every country has only

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<sup>17</sup> Loncko 2000, 4.

limited potential for absorption in order to avoid distortions (such as, for instance, corruption or the dependency syndrome)

It is true that by taking the initiative towards the Stability Pact, the European Union had made clear its willingness to shift from confrontational politics to economic co-operation throughout South East Europe. Thus, since its operational phase that started by early 2000 the Stability Pact has striven to be a comprehensive framework for political, legal and economic reform in the region and to induce regional cooperation.

## **5. Achievements and Shortcomings<sup>18</sup>**

The principal successes its supporters ascribe to the Stability Pact are its regional approach, the mutual commitment of recipients and donors, and the ‘new’ resources it has produced. These are unquestionably considerable achievements.

But the Pact also has shortcomings, including a lack of clear direction; ill-conceived and comparatively non-transparent mechanisms for the selection of priority projects for funding; and the lack of serious regional involvement or input in the process. Further, it remains to be seen whether the endless series of Stability Pact meetings will actually lead to increased coordination among the numerous and disparate actors involved in the process.

### **Regional Approach**

And yet, one of the most important features of the Pact is precisely its regional approach. It might seem obvious that final goals such as peace, stability, and prosperity, can only be achieved if, along with efforts of the international community to integrate these countries into European and global structures and to provide assistance in key areas, there is a concerted effort on the part of the countries of the region to implement deeper and more consistent reform programs. There is little doubt that country-by-country reform and intra-regional cooperation alone can never in and of themselves change the dynamics of the region — even though they are an essential component of change.

The Stability Pact mandates various International Financial Institutions (IFI) to coordinate regional approaches in specific areas. The World Bank, for instance, prepared a comprehensive design of regional development and integration by providing a strategic framework for development activities in the region. The fundamental objectives of this strategy were increased prosperity and a reduction in poverty for all people living in South East Europe focusing on four broad thrusts for action: rapid trade integration with the EU and

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<sup>18</sup> As of early 2005, scholarly assessments of the SPSEE’s outcomes are hard to find. The most comprehensive ones include European Commission Directorate for Economic and Financial Affairs 2002, Jurkovi 2002 (esp. the contributions by Pantev and Sandole), Kempe/van Meurs 2002, Calic 2003, Papazoglou 2005. For an analysis of macroeconomic developments in SEE cf. Falcetti/Sanfey/Taci 2003 and Traistaru/von Hagen 2003.

within SEE itself; fostering social inclusion and social change within SEE; improving institutional capacity and governance structures; and investment in regional infrastructure projects.

The European Investment Bank (EIB), to mention another example, developed, in close co-operation with other IFI and the European Commission, a comprehensive program for the improvement of the regional infrastructure. It also identified quick start projects and near-term projects dealing with issues such as regional transport, regional energy, and regional telecommunications. The European Bank for Reconstruction and Development (EBRD), finally, prepared a strategy to promote private sector development in the region. It proposed various initiatives with a regional dimension, including regional guarantee and insurance schemes lowering the risk of cross-border trade and investment.

The Stability Pact further aims to complement the synchronization of economic action at national and regional levels by inter-twinning the political, economic and security dimensions of the process — through its efforts to inter-relate the work of the three Working Tables. Whether the Pact will really be the catalyst that brings the many aspects of regional stabilisation together will only become clear in the future, once the real impact of its individual projects will be visible.

In the final analysis, the regional approach of the Stability Pact has led to a significant increase in regional cooperation, specifically at governmental level concerning Working Table Two issues. Some of these regional initiatives were instigated by Western organisations, such as the Investment Compact, the Working Group on Trade, the Memorandum of Understanding on Trade and Transport Facilitation, and the Business Advisory Council. Although stimulated by the existence of the Pact, other important regional cooperation arrangements were developed outside the structures of the Pact and without the direct involvement of ‘outsiders’. In some cases, the outcome of some of these intra-regional initiatives might be limited to declarations that actually amount to little more than exercises in goodwill. Yet, even this is a major step forward in a region where governments basically ignored their neighbours.

### **Mutual commitment of recipients and donors**

Underlying the Stability Pact is the concept of partnership, of reciprocal gains, of *do ut des*. The countries from the region and the international community are expected to make mutual, reciprocal commitments. The Pact requires countries in the region to commit to concrete political and financial reform measures as well as enhanced regional cooperation. In return, the international community commits itself to supporting reconstruction, as well as the integration of the region into the European and transatlantic mainstream.

This is a product of the international experience in Bosnia-Herzegovina, where international support for reform was not always complemented by local commitment to these efforts. As a result of this, the strong focus of the Stability Pact has been on partnership and local ownership of the process. It is generally assumed that success in this will be one of the keys to the overall success of the Pact. However, it is difficult to judge the sincerity with which the governments from the region have presented their reform programs at the Regional Funding Conference, since they know that paying lip-service to international expectations may produce serious financial support.

Various experts and donors believe that the Stability Pact has produced lists of projects rather than comprehensive strategies and action plans. Working Tables I and III have come in for particular criticism. Most Task Forces and Sub-Tables did not make comprehensive assessments of the needs in their areas, nor did they prioritise objectives.

A prime example is the approach to the issue of the rule of law. There is almost unanimous agreement that the promotion of the rule of law — through activities such as strengthening the independence of the judiciary and training of police forces — will be crucial for the reform of the region over a long time. Establishing the rule of law and building efficient administrations would create the conditions that could attract private capital, foster economic growth, and help countries qualify for meeting the ultimate goal, EU accession.

In fact, international experience in Russia demonstrates that economic assistance has little long-term effect in a state where the rule of law, good governance and democratic institutions are not much more than empty words. Yet, the Stability Pact did not develop a broad, detailed plan on how to promote the rule of law in South East Europe. Although a number of valuable projects related to the rule of law are funded, the results of these individual initiatives are unlikely to equal the possible achievements of a comprehensive structural reform program.

In any policy framework, it is difficult to define concrete project criteria without an overall strategy or objectives. But without specific project criteria, it becomes impossible to organise a public call for proposals. Thus, once the sub-structures of Working Tables I and III were requested to select projects, most of them did so by choosing — often in not so transparent ways — from the project proposals that they had coincidentally received. As a result, many donors have begun to question whether these so-called priority projects really reflect the priorities in the various sectors.

The fact that conflict-of-interest situations in the project selection process were not addressed properly has further hampered both the perception of the significance and the utility

of some of the projects selected. A few Task Forces and Sub-Tables are led by implementing agencies such as the Council of Europe and the OSCE that had also submitted project proposals for funding. Unsurprisingly, the fact that many projects of international organisations were finally selected has resulted in suggestions that the Stability Pact is an employment creation agency for Western organisations.

In Working Table II, the International Financial Institutions did actually prepare comprehensive development strategies. But the main criticism concerning the Stability Pact's economic priorities centres around the relatively heavy emphasis on high-cost infrastructure projects. In fairness, however, the focus on infrastructure is not surprising. Recipient governments lack the resources for these expensive projects that generate temporary employment and require few reform commitments. International donors — having to justify the allocation of major resources to the Balkans to their taxpayers — are keen to support projects that have quick and highly visible results.

No doubt, it seems likely that most of the individual projects chosen by Working Tables I and III, as well as the infrastructure initiatives selected for funding by Working Table II, will have a positive effect on the region. Yet, the sum of all these efforts might well never produce the systemic change that the Stability Pact aims to achieve.

### **'New' resources**

The international relevance attached to the Stability Pact has helped to mobilise new financial support for the region. While some bilateral donors have not changed their pre-Stability Pact amounts of funding for South East Europe, others, such as the German government, have allocated significant amounts of fresh resources. Given the enormous needs of the region, this has been unquestionably a welcome development.

The use of the existing and new resources has also been influenced by the Stability Pact. Donors can support either those projects that have been identified as priorities by the Pact, or initiatives that underwrite the objectives of the Pact but are not necessarily included in the Pact's list. Significant levels of support will continue to be made available for bilateral reform initiatives.

One of the elements that contributed substantially to the success of the Marshall Plan for Western Europe after WWII was the 'one donor' concept. The recipients of the Plan were forced to collaborate in preparing a reconstruction strategy in order to be eligible for US assistance. This feature was absent during the reconstruction of Bosnia-Herzegovina. Multiple donors competed to deliver their aid, thereby allowing the recipients to accept support from

the donor that attached the fewest conditions. Today, the lack of donor coordination in Bosnia-Herzegovina stands as an example to be avoided.

Given the size and complexity of the Stability Pact, it will not be easy to prevent the grant recipients exploiting the donors for their personal and political benefit. Only effective donor coordination can ensure that aid recipients will be obliged to compete for support and meet the conditions set in the context of the Pact. Ideally, all resources would be united in a trust fund or through any other mechanism, thereby creating the 'one donor' structure that made the Marshall Plan so successful. But most donors want, and are often even legally required, retaining full control over their funds.

The issue of donor coordination is related to a matter that goes to the heart of the Pact's existence: the question of leadership. In the wake of the Kosovo crisis, it was the European Union that has attempted to rise to this challenge by developing the Stabilisation and Association Process (SAP). It considers this the centrepiece of its policy in the Balkans and its main contribution to the Stability Pact. The process offers the countries of the region the prospect of formal relations with the EU and, ultimately, of membership. It aims to capitalise on the almost unanimous view of people across the region that they want to 'be part of Europe' and to help them along the 'road to Europe'.<sup>19</sup>

Indigenous involvement in the structures and projects of the Stability Pact has been limited and, when it has occurred, has been primarily through officials from the governments of South East Europe. Local civil society groups feel that the process has not sufficiently involved experts and non-governmental organisations (NGOs) from the region itself. In their view, this has hampered any hope of an accurate assessment of the existing needs and realistic, long-term solutions. Many NGOs from the region also believe that most of the Task Forces lack clearly defined objectives and strategies, as well as transparent, well-defined criteria to select priority projects. In addition, they perceive that the Stability Pact process and donor programs have a bias towards projects from Western-based organisations. As a result, civil society in the region is deeply concerned that the Stability Pact will divert present and new funding, human resources, and political support from existing local initiatives to Western-based organisations and governmental initiatives.

If true, this raises the question of whether the Stability Pact has lost sight of a principle objective of its efforts, which is to create local capacity. While acknowledging the valuable support that Western expertise can bring, experience accumulated over the last ten or so years in South East Europe demonstrates that local initiative and ownership are crucial to ensure the

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<sup>19</sup> Fischer 1999; Hombach 2001, 71; Proksch 2000, 8.

long-term effectiveness of reform efforts. Only this approach would ensure that the assistance is delivered most efficiently and responsibly. It would also empower and reinforce local capacity and institutions in the Stability Pact region.

Several donors accept that there is no substitute for the competence and commitment of indigenous organisations and are keen to increase local involvement in the Pact. However, their good intentions have been complicated by a number of practical questions. How to ensure inclusive, rather than exclusive, participation without inviting hundreds of Non-Governmental Organisations to the Pact's meetings? How to select local experts? Ironically, despite the enormous amount of resources associated with the Pact, there seems to be no funding to cover travel and other costs related to local participation in its proceedings.

It has become a truism that foreign aid programs are all too frequently designed to benefit the donor rather than the recipient. But unless local procurement and contracting become the rule rather than the exception, most of the international assistance that was pledged might never reach the Stability Pact region. The fact remains that if the donor community wants to support lasting change in SEE, it must ensure that its resources support the efforts of the real stakeholders in the reform process. Similarly, the Stability Pact will have to be brought from conference halls filled with diplomats in Western Europe to those of whom it aims to change their lives.

## **6. Prospects for the Balkans and US-EU Relations**

By early 2005, more than five years after its inception, the net effect of the Stability Pact remains modest although it has been a promising example for an emerging Common and Security Policy of the European Union.<sup>20</sup> Expectations have been raised very high; expectations that were always going to be very difficult to fulfil. Progress was bound to be slow. But the Stability Pact has, more than five years after its start, started to generate some achievements, foremost among them being the results of the Regional Funding Conference. It remains to be seen, however, whether the Pact will indeed be able to break the vicious circle of violence, increase economic prosperity, promote democracy and human rights, build security, and reverse the process of disintegration. These are immensely difficult and daunting tasks.

Still, private investors continue to fear political instability, and both regional security and democratisation remain a distant goal. This is not the fault of the Stability Pact. But

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<sup>20</sup> See Wittkowsky 2000; Volle/Weidenfeld 2002.

neither can too much be expected of it. Even if the practical implementation of the Stability Pact were flawless, its ultimate objectives will not be reached for a long time.

The major reasons for these deficiencies can be summarised as follows: First, constitutional development has not been guided in many respects with the view of the key considerations: freedom and justice.

Second, rights and justice are often sacrificed to policy objectives, sometimes justified by reference to political or economic urgency.

Thirdly, in terms of public expenditures, the South East European countries are either too large or too small. Indeed, for various reasons, they seem to tend towards largeness, but end up being small, owing to one type of institutional collapse or other. The main reasons for the collapses over the past ten years or so have been wars, disintegration, inflation and exchange rate crises.

Fourthly, in terms of the structure of expenditures, even the large States practice selective paternalism; in other words, they have been held to ransom by the influential interest groups. Thus, in most cases, public employment is still high, as are public consumption and transfers. The effects of selectivity are visible in high unemployment and the collapse in the quality of public services. In those instances where States have collapsed, transfers tend to suffer, too.

Fifthly, in terms of the economic policy stance, concern about stability in some cases overrides concern about growth. This is more ambiguous in cases where fiscal policy has been governed by growth concerns, as evidenced by the high budget deficits in most countries. However, this policy mix tends to be inconsistent as it fails to lead to sustained growth and it is often one of the reasons for States collapsing.

Sixthly, not mentioned yet, the tax system is not optimal; it is inefficient and unfair. Given that it still co-exists with extensive black market activities and widespread corruption, the effective tax burden is clearly too high. The introduction of value-added tax (VAT) often brings in more government revenue, but it does not necessarily lead to improvements in terms of optimality, efficiency and fairness.

Finally, the weakness of the State and the other public and civic institutions in South East Europe must not be related to the so-called Balkan values. Such weaknesses occur everywhere - in Central, Eastern and also in South East Europe. This, in fact, should be taken as an encouraging sign as it implies that the States in the region can ultimately be reformed. In fact, on balance the efforts taken in the Pact framework have shown more positive than negative results: Despite existing local conflicts and ethnic tensions, the region has, by and

large, shown signs of political consolidation and economic recovery. Thus, the Pact has worked: By providing economic and other incentives, cooperative security has been achieved. For a long time, however, the emerging set of new political, economic and security structures will remain fragile and vulnerable.

The relative success of the EU's soft power projection on the Balkans via the Stability Pact has induced another development which would have been unlikely in the case of a Stability Pact's complete failure - a reduction of the US's involvement. Still, the US considers itself a key stakeholder in the Balkans.<sup>21</sup> After all, the new countries created from the former Yugoslavia are perceived to be strategically important as a bridge to current or aspirant EU and NATO members such as Greece, Turkey, Bulgaria, and Romania and to the Middle East. The U.S. interest appears to be supporting the Balkan states' efforts to reform — in particular using its influence in NATO to ensure a stable security situation and to guide military reform — while recognizing, and supporting, the European Union's lead role in providing political, economic, and technical assistance towards regime creation.

From the U.S. point of view, however, the question was raised, at least in early stages, whether the European Union had the staying power and political will to see its strategy through. In fact, the more the European Union would be able to develop political coherence, cohesiveness, and power, thus forging a Common Foreign and Security Policy that complements soft power instruments like the Stability Pact, the less the United States will feel inclined to remain a major actor on the Balkans.

Finally, the "War on Terror", following the 11 September 2001 attacks against the US and her campaign against Iraq in 2003, marks the beginning of a geographic reorientation of US foreign policy; they indicate a gradual shift to other priorities (Iran, North Korea) and contributed to a "benign neglect" – approach vis-à-vis the Balkans. At the same time a change from U.S. to European leadership on the Balkans has been taking place. Cases in point are efforts to reduce the U.S. peacekeeping presence in the Balkans: During the Bush administration, the EU took over the military mission in Macedonia in April 2003, previously led by NATO, and changed it to an EU police mission in December of 2003; the U.S. presence in Bosnia dropped steadily (from 4.200 in 2001 to under 1.000 troops in 2004) and was almost terminated when, in December of 2004, the EU resumed responsibility for the operation (EUFOR). Similarly, the U.S. presence in Kosovo has dropped from 5.600 in 2001 to about 1.500 at the end of 2004. Thus, the major challenge for the EU is to continuously increase its credibility in the Balkan countries, especially in Serbia and Albania. There can be

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<sup>21</sup> Cf. Council on Foreign Relations 2002; U.S. Senate, Committee on Foreign Relations 2004.

no doubt that this credibility depends largely on how the roadmap towards sustainable growth and an eventual membership in the European Union will be designed.

The Greek government devoted its presidency of the European Union in early 2003 towards more stability and more credibility on the Balkans. In the declaration of the EU-Western Balkans Summit of June 21, 2003 it was, in fact, pointed out that “the EU reiterates its unequivocal support to the European perspective of the Western Balkan countries. The future of the Balkans is within the European Union.”<sup>22</sup> The participants issued an agenda saying that the eventual admission of Albania, Bosnia, Croatia, Macedonia, and Serbia and Montenegro is a high EU priority, but did not give the five countries the firm target dates and "road maps" for admission that they wanted.

Critics in many countries charged that the EU's tough attitude could discourage Balkan reformers and play into the hands of precisely the corrupt and criminal elements that the EU is trying to combat. Thus, the summit's general statement needs more clarification and it does need more programs and funds that include economic and other assistance. Without such a long-term and detailed roadmap the concept of “economic security” and its application on the Balkans remains fragile and may ultimately fail.

For this reason leaning on the United States still appears to be a viable option for some Balkan countries, but with less and less justification. Bosnia-Herzegovina, on June 18, 2003, ratified an International Criminal Court (ICC) agreement with the U.S. guaranteeing immunity to U.S. Army personnel and all other U.S. citizens in Bosnia-Herzegovina, exempting them from extradition to the ICC. In Tirana, on 19 June, 2003, the Albanian parliament voted overwhelmingly to ratify an ICC pact with Washington, not only reaffirming Albania's staunchly pro-American reputation but, in effect, also questioning the credibility of the European Union which has fiercely opposed such bilateral agreements with the U.S. Thus, it does not need much imagination to predict that US-EU conflicts are to stay on the Balkans.

In all likelihood, however, they will not dominate the political and economic agendas anymore. The relative success of the EU's eastward enlargement of May 1, 2004, and the upcoming membership of Bulgaria, Romania, and Croatia, in 2007 or 2008, has provided a strong political signal to the remaining states in South East Europe that the membership perspective is a real and a promising one. It has, however, become clear to them that EU membership goes far beyond the 1993 Copenhagen Criteria, not only requiring the applicants' readiness to set up market economies and functioning democracies, but also to adapt and, in the longer run, internalise the EU's political and institutional set-up. In fact, all enlargement

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<sup>22</sup> EU Thessaloniki Declaration 2003.

rounds so far, and in particular the most recent one towards the East, have demonstrated that to achieve and to enjoy the fruits of full membership applicants must be ready to accept in principal the EU's system of governance including the *acquis communautaire*, processes, policies and institutions. „EU conditionality“ has therefore become a powerful instrument to foster policy reform and, vice versa, appropriate changes of domestic policy making structures may give European non-EU-member states (ultimately, in Eastern Europe as well) an accession perspective. In this sense, setting up the Stability Pact for SEE in 1999 has paved the way towards economic and political stabilisation and towards a framework for conflict resolution on the Balkans. To keep this momentum, the EU's task now is to develop an appropriate strategy soon that does not jeopardize the successes reached so far.

Berlin, February 2005 (rev.)

## Annex

### 1. The Stability Pact for SEE: A Chronology

10 June 1999	Foreign Ministers Meeting adopts Stability Pact, Cologne
30 July 1999	Sarajevo Summit, SC Hombach appointed
27 Sept 1999	Stability Pact Work Plan
October 1999	Szeged Process (local cooperation) initiated
7 February 2000	Mediation on Danube Bridge, Vidin-Calafat
16 February 2000	Anti-Corruption Initiative adopted
February 2000	Charter on Good Neighbourly Relations adopted (SEECF)
February 2000	Investment Compact launched
29-30 March 2000	Regional Funding Conference, Brussels; Quick Start Package (Euro 2.4bn) funded
March 2000	Launching of Regional Environment Reconstruction Program
June 2000	Media Charter adopted
18 Sept 2000	Task Force Against Trafficking in Human Beings established
5 October 2000	Fight Against Organised Crime Initiative adopted
20 October 2000	Regional Arms Control and Verification Implementation Assistance Center opened, Zagreb
26 October 2000	FR Yugoslavia joins the Stability Pact
October 2000	Charter on NGO-Government partnership
14 December 2000	Police Forum of SEE countries established
24 November 2000	EU-Western Balkans Summit at Zagreb; a perspective for EU membership is offered for the first time
February 2001	Regional Economic Action Plan adopted (SEECF)
3 April 2001	Migration and Asylum Initiative adopted
22 May 2001	Border Management Task Force established
5 June 2001	Parliamentary Troika (EP, Parl. Assemblies of OSCE, CoE) established
27 June 2001	Memorandum on Trade Liberalisation in SEE signed calling for bilateral agreements and a free trade area
27 June 2001	Agenda for Regional Action on Refugee Return launched
28 June 2001	Moldova joins the Stability Pact
17 – 18 September 2001	Parliamentary Conference in Brussels
25-26 Oct. 2001	Regional Conference on Reforms and Assistance, Bucharest
November 2001	The Czech Republic, Slovakia and Poland become full members of the SP
1 January 2002	New SC Erhard Busek (Austria) takes office
8 May 2002	Opening of the Clearinghouse for Control of Small Arms and Light Weapons in Belgrade
18 July 2002	Declaration on Common Principles and Best Practices on Attracting Investment to SEE
28 November 2002	London Conference against Organised Crime
4 December 2002	Sava River Agreement
16 December 2002	The Regional Table endorsed the six new core objectives of the SP (local democracy and cross-border cooperation; parliamentary cooperation; trade, investment and employment; energy and other regional infrastructure; fighting organised crime; managing and stabilising population movements)

	and to foster regional incorporation of Kosovo
18 February 2003	Negotiations on a network of Free Trade Agreements completed
9 - 11 May 2003	First women parliamentarians' conference of SP countries in Budva
22-23 May 2003	Adoption of a Common Platform on Border Management and Security at Ohrid Conference
27 May 2003	Stability Pact Ministerial Meeting at Dubrovnik
21 June 2003	EU-Western Balkans summit in Thessaloniki confirming European perspective for the Western Balkans
23 June 2003	Launch of the MARRI Programme of Action, promoting closer regional co-operation for comprehensive migration, asylum and refugee return
1 May 2004	Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, and Cyprus, Malta, join the EU
18 May 2004	Bucharest Declaration on a Joint Campaign to Fight Organized Crime and Corruption in SEE
1 November 2004	Start of increased trade between regional energy market in SEE and the EU
18 November 2004	MARRI (Migration, Asylum and Refugee Return Initiative) Regional Centre in Skopje opened
31 January 2005	SC Busek Calls for Full Co-operation of SEEC with the International Criminal Tribunal for former Yugoslavia (ICTY)

Source: <http://www.stabilitypact.org/specials/5years/chronology.html>, supplemented by the author

## 2. Participants of the Stability Pact

- OSCE (patronage)
- The member countries of the EU, the European Union (Commission, Council, Parliament, European Agency for Reconstruction, Office for South East Europe (European Commission/World Bank Joint Office)), and the European Investment Bank (EIB)
- The Council of Europe, Council of Europe Development Bank
- The countries of South East Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Rumania, Serbia and Montenegro, Slovenia), Office of the High Representative in Bosnia & Herzegovina (OHR)
- Canada, Japan, Norway, the Russian Federation, Switzerland, Turkey, and the USA
- The United Nations Organization including UNHCR
- International Organisation for Migration (IOM)
- NATO
- IMF, IFC, World Bank, European Bank for Reconstruction and Development (EBRD), and the Organization for Economic Co-operation and Development (OECD)
- The Black Sea Economic Cooperation (BSEC), the Central European Initiative (CEI), the South East Europe Cooperation Initiative (SECI), the South East Europe Cooperation Process (SEECPP)

Source: <http://www.stabilitypact.org/partners>

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