

CONCLUDING COMMENTS

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The Economic Aspects of Security in South Eastern Europe

In the process of constructing a safety structure in the South Eastern Europe one must bear in mind the assumptions on which the new global safety structure is based, and those are:

1. Europe, and the surrounding area of the region, is becoming more stable and peaceful, and there are no indications that there will be any armed conflicts between states in the near future.
2. The situation of volatility and insecurity is spreading globally due to unconventional threats, like international terrorism, weapons of mass destruction, drug-trafficking, illegal immigration etc.
3. The EU, as an institution of international integration, and NATO, as an international organisation, are starting to see eye to eye and are co-ordinating their activities on the basis of compatible civilisation values against the stated threats and in attempt to further economic development of the EU.
4. The role and the importance of multilateral organisations are diminishing. The emphasis is being put on the importance of bilateral relations, especially by the last superpower, the USA, whose policy of unilateralism will surely dominate international relations for some time to come.
5. Other stakeholders in the domain of international relations, with the potential to become partners of the USA in the process of reaffirming multilateral relations. The EU, the People's Republic of China, the Russian Federation and the UN have just begun adapting to new relations and there are no indications that the position of the USA as the leading world power would be contested.

6. The globalisation process dominates all aspects of international relations on the basis of scientific and technological revolution, as well as revolution in the communication of information. It will be a consistent mechanism of transferring the model of liberal democracy internationally.

The EU has made increasing efforts lately to enforce its foreign policy, as well as its security policy, in the context of these assumptions, and thus attempts to become politically more influential participant in the global security structure. This will enable the EU to become a more relevant partner of the USA, at the same time contributing to the transformation of international relation paradigm from the present state unilateralism to multilateralism. One of the preconditions is the creation of the sub-regional security structure in the South Eastern Europe and involvement of the states of the region in the process of “the Eastern expansion”. Bearing in mind armed conflicts, destruction, and bloodshed in the region of the past decade, this is a very complex task. However, a secure environment in “Europe’s backyard” is one of the conditions for securing the EU area and beyond. The best guarantee for this would be adjusting these countries to EU standards and criteria, and subsequently giving them full membership. One of the precondition is suitable economic development, and in this context a suitable level of economic co-operation.

Therefore, we are talking about the economic aspect of security or inter-relationship between economic development and security, which could also be interpreted as the security aspect of economic development. In this context, the region in question consists of five states (Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro) that have already joined with the EU’s stabilisation and association process (SAP), together with Bulgaria and Romania. Important guidelines for this process were established at the summit of the Council of Europe in Salonika in June 2003.

Although this was not the only item on the summit’s agenda, the issue was thoroughly discussed. The summit’s final document said that “the gates of Europe are open, and the prospect of entering the EU are encouraging” for the five countries. It was said that Bulgaria and Romania would be granted full membership by 2007. In this document all the states were mentioned as West Balkans countries for the first time, coining this term officially. In a way, this casts doubts on the truthfulness of “the open gates of

Europe” statement, because if European prospects of these countries are discussed, it would make more sense to keep the word “Europe” in the name of the region and name the region South Eastern Europe. The term West Balkans suggests that the region is somehow external to Europe, since reference to Europe is left out.

However, two messages that were given at the summit regarding the region are far more important than terminological connotations. The first message concerns the need to make a major change in the strategy of further financial co-operation or financial support to the region. The co-operation or the financial support should be directed at making the region capable of independent economic development, formulated as “from aid to self-sustainability”. Unfortunately, this was not substantiated with concrete financial arguments, so the funds of the CARDS programme earmarked for these countries (for the period of 2002-2006 there are some 5 billion Euros allocated for this purpose) have been increased by a mere 200 million Euros. In addition to that, these countries are denied access to pre-accession funds, like the SAPARD or the ISPA, which would be very helpful in the process of adjusting some segments of these countries’ economies to the EU criteria. For instance, the SAPARD fund is very valuable in the adjustment processes regarding agriculture. This is very significant, since it is well known that agriculture is very important for the EU, insofar as it represents an important issue in EU relations with associated member states. The ISPA fund is important for adjustment processes in the domain of transportation and ecology. In order to put this financial support in a more realistic perspective, we could use a quote from a letter sent by the representative of German Parliament Mr. Christian Schwarz Shilling to the German Parliament two years ago. Mr. Shilling was personally involved in the stabilisation process of the area and Bosnia and Herzegovina. He was very blunt when he said that the EU should not be so proud of its financial aid to the countries of the region. The funds allocated by the CARDS programme for the period of 2002-2006 amount to 5 billion Euros despite the fact that there are over 30 million residents in the area and that the area was devastated by war and its severe consequences. At the same time, funds allocated to Sicily, considered to be underdeveloped and with some 5 million residents, amounted to 30 billion Euros.

It is obvious that there is a tendency to reduce financial aid, and instead to provide more help through consultations and other forms of support,

leaving the securing of the funds to the countries themselves, that is, to the ability of their political and economic circles. Economic analyses show that none of the countries in the region, not even Croatia, despite being the most advanced among them, is economically and institutionally able to finance the desired development on their own. Each of them needs foreign capital. Now, the question is how to get it, what should each of these countries or what should they do together in order to attract foreign capital, preferably in the form of foreign investments in the region. Political stability is the first criterion on the list, on the basis of which the foreign investors are deciding to invest in certain area. The importance of this criterion was magnified in the past few years.

This is especially the case with South Eastern Europe, which was particularly unstable in the past years. Therefore, it is expected that it will become stable and thus more attractive for foreign investments through the process of stabilisation and association to the EU. Croatia has advanced the most in this process, followed by Macedonia. The three remaining countries have not yet started formal negotiations. Croatia has already filed an official application for acceptance, and sent the reply to the EU Questionnaire. It is expected that Croatia will get official candidate status in spring next year, which would enable the country to apply for pre-accession funds. Each country that has a part in this process has to provide a guarantee for certain inner stability, and thus for foreign policy that will contribute to the stability of the whole region, and beyond. In other words, each country has to prove that it will become a “manufacturer” of stability and security, and that it will stop being their mere “consumer”. Hence is this agreement called the stabilisation and association agreement. This is the first time that the EU has signed a pact in whose title is the word stability. Therefore, the rule of law is an imperative for the countries, because this is a guarantee for their internal and outer stability. This constitutes the second important message of the EU summit in Salonika.

There are several aspects to the stabilisation process. The first aspect is political. There are constant changes in the field of politics, some of them are positive, but some are negative. The positive thing is that there have not been any armed conflicts in the area for a long time and that there probably will not be armed conflicts anymore, despite of the fact that there are several difficult problems certain states have to deal with. However, neither the EU, nor the international community can afford warfare in the area. This

would pose a threat to the entire EU area, and also to global stability and security in the light of the fight against unconventional threats, like weapons of mass destruction, terrorism, etc. Therefore, there is a lot to be done on the field of politics. The formal apology mutually issued by Mr. Mesić and Mr. Marović, the presidents of Croatia and Serbia and Montenegro, have had a positive impact on stability in the region. The apologies gave rise to various reactions, but from the regional, as well as from the global aspect, they had a positive connotation. However, a latent tension in Macedonia poses a definite threat to stability of the region. In Bosnia and Herzegovina several steps have been taken towards the improvement of the situation in the country. This can be best seen in the long awaited association of the armed forces and in the introductory attempts of democratic control over them. However, those are very modest initial processes, especially when compared to the work carried out in that field in Croatia. Regarding the democratic control over armed forces and security sectors, as one criterion of entering the EU and NATO in the field of internal stability, Croatia is more advanced than Bosnia and Herzegovina, but is still falling far behind many countries in transition.

Therefore, it can be said that a politically unstable situation should not represent an obstacle to foreign investments in the region, but foreign investments could be hindered by a poor economic situation. First of all, the fact is that the markets of those countries are rather small for a serious foreign investment, or for a foreign company. In Bosnia and Herzegovina there is no common market, and if there is no common market within a state, than the situation in the region is worrisome. Therefore the markets are too small for serious investment and this has a discouraging effect on potential foreign investors. If a certain form of co-operation is possible to attract foreign investments, that is another thing. However, here we encounter a delicate question concerning the level of that co-operation. Economic co-operation between the countries with such differences in economic development, even in development of democratic society could turn out to be counterproductive. The theory of integration and co-operation should be thoroughly examined. It starts with functional co-operation, than goes to functional integration, which then goes to institutional co-operation and ends in institutional integration. It should be carefully analysed which type of co-operation could be applied to the territory of the South Eastern Europe.

According to economic indicators, there are substantial differences in the development of Croatia and other countries in the region. In theory, as well as in practice, these differences could be overcome only by a free market approach, which forms the basis of all reforms of the countries in transition. Free markets emerge out of the interest of business units, or companies and not from political pressures to form associations at all costs, thus forming a unit with no real business interest. If Croatian companies are interested in buying certain factories in Serbia, and vice-versa, they should carry out their business proceedings on their own, free from government involvement. As far as the State authorities are concerned, they could give their support to a particular type of functional co-operation. The State authorities could, for instance, give their support to co-operation regarding free trade zones. Any further co-operation, be that multilateral free trade zones, highly recommended by Brussels, or custom unions should be left in the hands of business experts. Therefore, this is a very delicate situation, which requires a subtle approach from all parties involved, including Brussels and stakeholders in the region, as well as careful decision making.

With regards to other factors of foreign investment attraction, it is very important to establish credible judiciary and effective government administration. The situation in Croatia concerning the two is catastrophic. The judiciary has completely misused the idea of democracy, according to which it should present one of the three independent pillars of the society. Instead, it locked itself into an impenetrable fortress, not allowing any objections to even the most ridiculous court decisions, claiming that they represent an attack on democracy, or independence of the judiciary. This happens in civil and criminal lawsuits, but also in business cases regarding foreign investment. Legal procedures regarding foreign investments are very complicated and long. Cases against corruption at this level and in privatisation cases are being postponed until the statute of limitations runs out. Everybody knows what crimes certain people have committed, but they remain free to defend themselves. Their lawyers always have something tucked up their sleeve to prolong the trial until the statute of limitations runs out. It is true that this kind of corruption can be found in liberal democracies, based on different postulates from those of totalitarian societies. It can be found in western countries, for instance in the USA where the "Enron" scandal broke out. This is in the roots of democracy, because it is a soft system that gives the right to legal defence to everyone. Stalin used to say that it is better to

convict a hundred of innocent people than to let a guilty man free. For liberal democracy the opposite is true – it is better to let a hundred guilty people free, than to convict an innocent man. This must not be abused. Some people believe that the government of the past decade has fired the entire judiciary only to replace it with new people who are now impossible to dismiss. Thus, ineffective judiciary and government administration are the main issues obstructing foreign investments.

Even the international community has singled this out as a problem. A large part of the funds of the CARDS programme were allocated for the reform of judiciary and government administration. This is a black hole that needs to be shut in order to attract more foreign investments. There are no orderly land registry books in Croatia, so when the investor asks from where are the borders of the land he had bought, no one knows. This is a vicious circle. Although the EU criteria lead to decentralisation, it has turned out that decentralisation in favour of the local level and decision making regarding these issues on the local level is worse than centralisation. This is because the chairmen of the municipalities are in collusion and in constant co-operation with all the people that buy and sell, so corruption is thriving. The Croatian minister for environmental issues Ivo Banac said that decision-making should be returned to the national level, but the chairmen of municipals confronted him by saying that that would be against the EU criteria. This is true, but there is no such abuse in the EU countries.

The quality of the work force, as a way of attracting foreign investments, meets the EU standard. The taxation system is a greater problem in Croatia, although this could be said of other countries as well. All countries of the region have undergone the difficult period of mayhem and destruction, and subsequently the process of renewal, returning of refugees, minority issues, all of which require more government and public spending. Government and public spending in Croatia still take up about 50% of the GDP. In the developed EU countries this takes up little over 40%. If government and public spending is so high, it is bound to represent a substantial financial burden for the economy, through taxation rates. The consequence is that domestic economy cannot be competitive on the foreign market. Therefore, the entire development of Croatia is based on domestic spending, which is not good in a long run for a country that has a small market where any production must be produced for export purposes. In Croatia, export is on the decrease, but this is compensated by tourism. Still, this is not enough to stop

the negative tendency regarding the balance of current payments and growing foreign debt. The foreign debt would not present a problem, if there were an increase of export. However, if this tendency continues, there will be major troubles.

So, if the chances of quicker accession to the EU are ruined and if the tendencies of simultaneous growth of debt and decrease of export are continued, the country, in the state of isolation from foreign market, is bound to reach a crisis, because it simply cannot repay the foreign debt by its own accumulation. In this case, even in Croatia, “the Argentinean syndrome” could be repeated. However, if the plan of entering the EU is carried out, this cannot happen. The plan goes as follows: in April 2004, Croatia will become an official candidate, then the negotiations between Croatia and the EU will end by 2006. In 2007, the EU would ask Croatia to become a full member, which would happen in 2008, so the Croatian voters would be able to vote for the European Parliament, which would provide a definite proof that democratic Croatia has entered the circle of the EU. Thus politically and economically enforced, Croatia would become a more important factor of the security in the region of the South Eastern Europe and contribute to quicker accession of the whole region to the EU. This is a precondition for the EU to become a more influential factor in the matters of international relations than it currently is.

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