

# The global financial crisis and the post-Lisbon prospects of enlargement

## Abstract

*The aim of this paper is to examine the transformative processes that are defining the region of south-east Europe in the context of global financial crisis and in the post-Lisbon era. It is also intended to illuminate the current challenges of the region's EU integration process. Judged in terms of overall stability, European integration processes in the western Balkans have almost never been as promising as they are today. Recent events in south-east Europe are profoundly changing the old continent. The establishment of largely peaceful regimes throughout the region, along with the accession to the EU of the rest of the former socialist bloc, offers new possibilities for freedom, respect for human rights and genuine socio-economic improvement. Such developments as Kosovo's independence and the admission to NATO of Albania and Croatia are of no less significance for a more prosperous and stable landscape.*

**Keywords:** *financial crisis, enlargement and EU accession, unemployment, labour markets, corruption, organised crime, reform, liberalisation*

## 1. Introduction

Despite the fundamental changes taking place in the region and the desperate desire for the transformation of conflict paradigms into more peaceful and stable institutional settings, the region faces challenges that require a wise and immediate policy response. Critical issues with regard to the region's association with the 'Club of 27', such as regional co-operation, unemployment, economic growth, corruption and organised crime, remain particularly precarious. Prior to analysing and discussing these critical factors, we shall outline the broader context of enlargement and present the persisting challenges and dominant perspectives.

## 2. The broader context

The European Union's current enlargement process is taking place amidst widespread recession. The global economic and financial crises are affecting both the EU and prospective EU countries. The enlargement-related negative effects of this crisis cannot be denied, at least as part of a broader state of perception among voters in the EU member states, perhaps the key denominator of so-called enlargement fatigue.

With full ratification of the Lisbon Treaty behind us some people, such as German Chancellor Angela Merkel, would prefer a 'certain consolidation phase' to ensue (Lobiakas, 2009). With the Lisbon Treaty, the decision-making processes of the 27-member EU that were previously seen as obstacles to further enlargement have been signifi-

cantly streamlined. However, with this specific context in mind, besides persisting problems between and within the enlargement countries, the process would seem to be following a relatively diverse and inconsistent path. Nevertheless, given the relatively homogenous state of the EU aspirants and the tremendous mutual benefits generated by their accession to the EU (Sergi and Qerimi, 2008), the preferred course of action should remain the one that supports either *en bloc* admission or staggered admission over a short period.

### 3. Principal challenges and prospects of further enlargement

The western Balkan countries – Albania, Bosnia and Herzegovina (BiH), Croatia, Kosovo, Macedonia, Montenegro and Serbia – are all at different stages of the accession process. The most advanced among them is Croatia which, after having resolved the border dispute with Slovenia, is expected to join the EU in 2011.

Having applied to join the EU in July 2009 – its application was accepted by the European Council that same month – and after obtaining assent for the opening of accession talks from the Commission in February 2010, Iceland could accede alongside Croatia or be next in line.

While this is significant, in the sense of giving further impetus to the enlargement process, it is hardly possible that the other aspirants could join the EU that same year or soon afterwards. For some states, such as Turkey – one of the three candidate countries, together with Croatia and Macedonia – the accession process appears to be even more uncertain, with key member states such as France and Germany keen to transform its full-membership ambitions into a ‘privileged partnership’.

Macedonia, the third of the current candidate countries, is still without a date for the commencement of accession talks. Its dispute over its name with Greece is a major obstacle to its European integration path. However, Macedonia, along with Montenegro and Serbia has been able to come a step closer to the EU, as its citizens are now able to travel visa-free to the bloc’s member states, as of 1 January 2010. Albania and Bosnia and Herzegovina are the next countries that expect to have the visa obligation lifted during 2010, with Kosovo expecting at least to get a date or timeline for visa liberalisation.

Montenegro has applied for candidate status, but has not received a positive response. In fact, Germany vetoed an immediate EU response. Albania has also applied for candidate status, and its prospects depend on its reform process, as much as on the overall attitude of the member states, especially the more powerful countries, towards further enlargement.

Serbia’s progress towards candidate status may depend, and has been blocked in the past, on its failure to arrest and hand over its remaining fugitives, in particular Ratko Mladić, accused of genocide, crimes against humanity and war crimes by the International Criminal Tribunal for the former Yugoslavia (ICTY), and Goran Habić, wanted by the ICTY for crimes against humanity and war crimes. Full co-operation with the Tribunal is and should be a fundamental prerequisite for the country’s further progress towards the EU. Serbia’s membership application may also experience delay due to the country’s intransigent position on Kosovo’s status, especially Serbia’s intention to take

the question of Kosovo's status to the United Nations General Assembly, after the advisory opinion of the International Court of Justice (ICJ) on Kosovo's Declaration of Independence. Indeed, the member states are likely to fear the importation of Serbia's unsettled relations with Kosovo to Brussels.

Five of the 27 EU member states – Cyprus, Greece, Romania, Slovakia and Spain – have not yet formally recognised the state of Kosovo, so the country's concrete prospects await full recognition. Nevertheless, Kosovo shares the EU prospects of the western Balkans. Indeed, the conclusion by the EC of 5 November 2008 was explicit that Kosovo has clear European prospects. The European Commission employs the same instruments in relation to Kosovo as with other western Balkans nations, namely European Partnership and Progress Reports, and provides financial assistance under the IPA programme. The next, much needed step, which would have serious implications for boosting reform, is the entry into contractual relations with the EU since Kosovo is the only remaining country in the region that has not signed a Stabilisation and Association Agreement (SAA).

Bosnia and Herzegovina's accession prospects also remain uncertain at this stage. The country's constitutional reforms seem critical to enabling fully functional state structures, and would certainly impact on other fundamental economic and social reforms that are of decisive importance for advanced integration status.

Having examined the broader context of enlargement and the aspirant countries' various stages of accession, it is important to look at some of the critical variables that relate to these countries' current state, in particular, current levels of growth, unemployment rates and, one of the major concerns of the regional reform process, corruption. We begin with an overview of economic growth and unemployment rates. We then discuss corruption and organised crime. We conclude by outlining several policy directions to minimise or reduce, if not eliminate, the scale and prevalence of corruption.

#### 4. Economic growth and unemployment rates

Despite the global economic and financial crisis, appreciable economic growth, along with signs of political stability – albeit still fragile in some places – and pronounced reforms, can be found everywhere in the Balkan peninsula. The region saw notable rates of growth in GDP in 2009 (see Table 1). The effects of the crisis would seem likely to hit the Balkans in 2010 (see Table 2).

As of 2009, Montenegro topped the rankings with 7.5 per cent, while Croatia showed the least improvement, at 2.4 per cent, with Macedonia at -1.5 (all statistics from the International Monetary Fund World Economic Outlook 2009 and the CIA *World Factbook*, and in the case of Kosovo, for certain years, from the country's Ministry of Economy and Finance).

**Table 1 – GDP real growth rate in western Balkan countries, 2009 (%)**

Country	GDP – real growth rate (%)
Albania	6.1
Bosnia and Herzegovina	5.5
Croatia	2.4
Kosovo	4.4
Macedonia	-1.5
Montenegro	7.5
Serbia	5.4

Source: *International Monetary Fund World Economic Outlook 2009; CIA World Factbook.*

The estimates for 2010 seem to reflect the real impact of the global economic downturn in the western Balkans. It is expected to be as low as –5.2 per cent in Croatia and –4 per cent in Montenegro, which saw the highest regional GDP growth in 2009.

**Table 2 – GDP real growth rate in western Balkan countries, 2010 (%)**

Country	GDP – real growth rate (%)
Albania	2.1
Bosnia and Herzegovina	-2.9
Croatia	-5.2
Kosovo	4.3
Macedonia	-
Montenegro	-4.0
Serbia	-3.0

Source: *International Monetary Fund World Economic Outlook 2009; CIA World Factbook.*

Real economic growth and industrial production have shown tangible improvements and signs of sustained economic recovery throughout the region during the past decade. Real GDP growth has accelerated or remained stable at relatively high levels in the region as a whole and is seemingly underpinned by domestic demand and massive credit growth, representing the main driver of continuing robust and positive expectations. Domestic lending has boosted demand and economic growth, and the associated concerns about the quality of loan portfolios and external imbalances give room for some doubt about the future.

Tables 3 presents an overview of annual GDP growth in the western Balkan countries during the critical years of the past decade.

**Table 3 – GDP real growth rate trends in western Balkan countries (%)**

Year	Albania	Bosnia Herzegovina	Croatia	Kosovo	Macedonia	Montenegro	Serbia
2003	5.00	2.30	5.20	4.50	n/a	n/a	n/a
2004	7.00	3.50	4.30	4.50	n/a	n/a	n/a
2005	5.60	5.00	3.70	5.50	n/a	n/a	n/a
2006	5.50	5.00	4.30	n/a	n/a	n/a	5.90
2007	5.00	6.00	4.60	5.00	5.90	n/a	5.90
2008	6.00	6.00	5.70	5.40	5.30	7.50	7.30
2009	6.10	5.50	2.40	4.40	-1.50	7.50	5.40
2010	2.10	-2.90	-5.20	4.30	n/a	-4.00	-3.00

Source: International Monetary Fund World Economic Outlook 2009; CIA World Factbook.

Despite sustained economic growth, labour markets have not shown significant improvement, with high unemployment rates in the region, in particular in Bosnia and Herzegovina, Kosovo and Macedonia. Table 4 presents unemployment rates in the western Balkan countries in 2009.

**Table 4 – Unemployment rates in the western Balkans, 2009 (% of labour force)**

Country	Unemployment
Albania	12.5
Bosnia and Herzegovina	29.0
Croatia	13.7
Kosovo	43.0
Macedonia	33.5
Montenegro	14.7
Serbia	18.8

Source: CIA World Factbook; and national agencies.

Table 5 presents unemployment rates five years ago, in 2004.

**Table 5 – Unemployment rates in the western Balkans, 2004 (% of labour force)**

Country	Unemployment (% of labour force)
Albania	15.8
Bosnia and Herzegovina	43.2
Croatia	13.8
Kosovo	44.4
Macedonia	37.2
Montenegro	22.0
Serbia	31.7

Sources: EBRD; European Commission; National Labour Force Surveys/UNDP 2004; CIA World Factbook; and national agencies.

There have been improvements, albeit modest, in some countries, but the estimates for 2010 are not optimistic, in particular for Bosnia and Herzegovina and Croatia. Nevertheless, overall employment trends in recent years have been positive in almost all the western Balkan countries, as shown in Tables 6 to 18.

**Table 6 – Unemployment rates in Albania, 2003–2010 (%)**

Year	Unemployment rate	Rank	Percentage change	Date
2003	17.00	60		2001 est.
2004	15.80	63	-7.06	2003 est.
2005	14.80	126	-6.33	2001 est.
2006	14.30	138	-3.38	2005 est.
2007	13.80	139	-3.50	September 2006 est.
2008	13.20	142	-4.35	2007 est.
2009	12.50	138	-5.30	2008 est.
2010	12.00	128	-4.00	2009 est.

Source: CIA World Factbook.

**Table 7 – Unemployment rates in Bosnia and Herzegovina, 2003–2010 (%)**

Year	Unemployment rate	Rank	Percentage change	Date
2003	40.00	13		2002 est.
2004	40.00	15	0.00	2002 est.
2005	44.00	181	10.00	2004 est.
2006	45.50	191	3.41	31 December 2004 est.
2007	45.50	188	0.00	31 December 2004 est.
2008	45.50	187	0.00	31 December 2004 est.
2009	29.00	173	-36.26	2007 est.
2010	40.00	183	37.93	2009 est.

Source: CIA World Factbook.

**Table 8 – Unemployment rates in Croatia, 2003–2010 (%)**

Year	Unemployment rate	Rank	Percentage change	Date
2003	21.70	39		2002 est.
2004	19.50	47	-10.14	2003
2005	13.80	122	-29.23	2004 est.
2006	18.00	149	30.43	2005 est.
2007	17.20	154	-4.44	2006 est.
2008	11.80	133	-31.40	2007 est.
2009	13.70	145	16.10	2008 est.
2010	16.10	155	17.52	2009 est.

Source: CIA World Factbook.

**Table 9 – Unemployment rates in Kosovo, 2009 (%)**

Year	Unemployment rate	Rank	Percentage change	Date
2009	43.00			2009 est.

Source: CIA World Factbook.

**Table 10 – Unemployment rates in Macedonia, 2000–2009 (%)**

Year	Unemployment rate
2000	35
2001	32
2002	35
2003	37
2004	36.7
2005	37.7
2006	37.3
2007	36
2008	34.9
2009	33.5

Source: CIA World Factbook.

**Table 11 – Unemployment rates in Montenegro, 2006–2010 (%)**

Year	Unemployment rate	Rank	Percentage change	Date
2006	27.70	171		2005
2007	27.70	173	0.00	2005
2008	14.70	147	-46.93	2007 est.
2009	14.70	150	0.00	2007 est.
2010	14.70	144	0.00	2007 est.

Source: CIA World Factbook.

Table 12 – Unemployment rates in Serbia, 2006–2010 (%)

Year	Unemployment rate	Rank	Percentage change	Date
2006	31.60	181		2005 est.
2007	31.60	180	0.00	2005 est.
2008	18.80	159	-40.51	2007 est.
2009	18.80	162	0.00	2007 est.
2010	16.60	157	-11.70	October 2009 est.

Source: CIA World Factbook.

## 5. Areas to be revived: enterprise reforms and foreign investment

Some analyses may support the view that what has been taking place in terms of enterprise reforms in the region can be regarded as a process of rationalisation. The EBRD (2002) scored achievements in terms of enterprise reforms, market and trade reforms, and financial institution and infrastructural reforms. All the countries in the region have done well in terms of reforms of small-scale privatisation, trade and the monetary system, as well as with regard to price liberalisation (scores between 3 and 4+). However, with regard to banking reforms, the EBRD reports either little progress or no progress at all (that is, between 1 and 2+, with a few scores of 3–). The EBRD's (2002) analysis suggested that further reforms are necessary, although improvements have recently been recorded in most areas, especially in the EU candidate countries (top of the most recent list of the average transition score calculated by the EBRD was Hungary, with an index now very close to 4, while the lowest is Serbia and Montenegro, with an overall index of 2.5). The EBRD analysis also mentions the need to fight corruption.

The main aspects in need of evaluation are social stability, EU membership, how to attract more capital and the future of industry. These are not separate issues and depend on the credibility of the entire peninsula as a potential new focal point for entrepreneurs. These countries must exhibit further progress in reform to be able to attract FDI (see, for example, Lankes and Stern, 1997; Sergi, 2003a) and liberalisation measures have indeed been taken recently (for example, in Hungary, Montenegro and Serbia). In the field of fiscal policy, there is a broad consensus on its use as a means of attracting investors. In fact, these countries benefit from significant labour cost advantages, even adjusted for labour productivity, as well as low corporate taxes and continuing tax competition (Kubicova, 2004; Sergi, 2005).

Some improvements in stability and economic freedom have been accomplished, while FDI has had positive effects in local subsidiaries and a further multiplier effect may be expected through supplier chains. Future positive spillover effects as regards domestic companies and branches and human capital, in addition to the transfer of technological expertise and the diffusion of up-to-date management techniques could prove important for socio-economic growth, in its broadest sense. The rise in labour productivity and the significantly increased export orientation of FDI subsidiaries

makes all countries highly dependent on the situation in EU markets. Nevertheless, instability, low intra-regional trade, low aggregate demand, trade and so on are the other side of the coin. Apart from Croatia, exports to the EU in the western Balkans rely on unskilled labour and low technology. For that reason, creating good medium-term prospects through regional integration (defined as a condition for the EU accession of the western Balkans) is important (Sergi, 2003a). Thus, expanding regional cooperation, which so far has been strongly limited to specific areas and largely imposed by the international presence in the region, would further advance western Balkans–EU relations. Of no less importance and urgency is the challenging task of fighting and making progress in such damaging areas as corruption, organised crime, human trafficking and illegal trading. Together, these factors are of decisive importance in attracting further foreign investment and generating substantial changes in economic growth. Critical to progress on these issues is the establishment of robust and sustainable patterns with regard to the rule of law. The EU's Stabilisation and Association Process provides helpful guidelines on the adoption of the relevant policies and strategies to strengthen the rule of law.

It has been widely noted that corruption and organised crime are among the most serious problems in the western Balkans. Such activities have a considerable impact on the region's governments in terms of the development and stabilisation of their economies. This is certainly an obstacle to attracting foreign investment and moving closer to the EU. We shall address these concerns in Section 6.

## 6. Challenges related to the rule of law: corruption and organised crime

The rule of law is generally weak in most western Balkan societies. The major political challenge for the region thus remains strengthening the rule of law, in particular the judiciary, which in turn could considerably enhance efforts to tackle other pressing challenges, such as corruption and organised crime.

The path to European integration is likely to be a long one while fragile and unreformed institutional structures, a weak rule of law and largely corruption-based economies and organised crime flourish. If these things remain the norm it will have far-reaching consequences for the region. As suggested by numerous empirical and theoretical studies, corruption harms economic growth and development (You and Khagram, 2004; Hellman, Jones, and Kaufman, 2003; Leite and Weidmann, 2002; Shleifer and Vishny, 1993; Rose-Ackerman, 1975).

The damage caused to economic development manifested itself in a variety of ways. Most often, corruption distorts markets and fair competition, undermines the rule of law, damages government legitimacy, breeds dishonesty, erodes the private sector (Heineman, Jr., and Heimann, 2006) and even contributes to greater income inequality (You and Khagram, 2004; Gupta, Davoodi and Alonso-Terme, 2002; Li, Xu and Zou, 2000). Consequently, greater income inequality increases the likelihood of higher levels of corruption, and vice versa (You and Khagram, 2004). In fact, this reciprocal causation exists not only between inequality and corruption. It is considered to include all other variables, some of the most important of which include: economic development (per capita income) (Treisman, 2000; Paldam, 2002), trade openness characterised by economic competition and growth (Ades and Di Tella, 1999; Treisman, 2000), and

a true democratisation process, although it is held that democracy does not immediately bring an end to corruption, and certainly not if it is only partial democratisation (Montinola and Jackman, 2002; Treisman, 2000). This causation scheme shows how complex is the dynamic lifting of societies out of corruption and organised crime.

A more detailed analysis now follows, along with some recommendations on how to dismantle the political-criminal power structures which ‘exist throughout the region’ (USIP Special Report, 2002).

### 6.1 Corruption

The problem of corruption – here defined as the misuse of public or private office for personal gain – has been one of the most enduring dilemmas confronting governments throughout history and it remains one of the most serious problems in the Balkans, along with organised crime, as presented in Table 13.

**Table 13 – Corruption Perceptions Index for western Balkan countries, 2009**

Country	Rank	Score
Albania	95	3.2
Bosnia and Herzegovina	99	3.0
Croatia	66	4.1
Macedonia	71	3.8
Montenegro	69	3.9
Serbia	83	3.5

Source: 2009 Transparency International Corruption Perceptions Index available at: [www.transparency.org](http://www.transparency.org)

Of the western Balkan countries, Croatia has the lowest level of corruption perceptions; it also differs significantly from other western Balkan countries in terms of the level of corruption. Among the potential EU candidate countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia), Montenegro stands in a somewhat better position, although the difference is fairly minimal. Table 14 offers a better comparative overview of the state of corruption perceptions in the three candidate countries: Croatia, Macedonia and Turkey.

**Table 14 – Corruption Perceptions Index for EU candidate countries, 2009**

Country	Rank	Score
Croatia	66	4.1
Macedonia	71	3.8
Turkey	61	4.4

Source: 2009 Transparency International Corruption Perceptions Index available at: [www.transparency.org](http://www.transparency.org)

The figures in Table 14 show that Turkey is doing better than the other two candidate countries, while Macedonia lags behind somewhat. This suggests the need for further substantial efforts by Macedonia in its fight against corruption.

Table 15 shows the rank and score for the two most recent EU member states, Bulgaria and Romania. Given their relatively recent membership and regional background, it is worth comparing them with candidate and potential candidate countries.

**Table 15 – Corruption Perceptions Index for the most recent EU members, Bulgaria and Romania, 2009**

Country	Position	Score
Bulgaria	71	3.8
Romania	71	3.8

Source: 2009 Transparency International Corruption Perceptions Index available at: [www.transparency.org](http://www.transparency.org)

The above figures show that there is no difference between corruption perceptions in Bulgaria and Romania. However, their level of corruption is equal to the candidate country Macedonia, higher than the two other candidate countries, Croatia and Turkey, and also higher than Montenegro, a potential candidate country. This suggests that, at least in certain respects, some candidate countries or even potential candidates may be ahead of current EU member states. This may also be interpreted as the fulfilment of the required criteria for membership by candidate countries in the relevant sector. Table 16 presents these data in a comparative perspective, and Table 17 shows the rankings at the level of south-east Europe.

**Table 16 – Corruption Perceptions Index for the two most recent EU members (Bulgaria and Romania), candidate countries (Croatia, Macedonia and Turkey) and potential candidates (Albania, Bosnia and Herzegovina and Serbia)**

	Recent members		Candidates			Potential candidates			
	BG	RO	HR	MA	TU	AL	BH	MO	SR
Position	71	71	66	71	61	95	99	69	83
Score	3.8	3.8	4.1	3.8	4.4	3.2	3.0	3.9	3.5

Source: 2009 Transparency International Corruption Perceptions Index available at: [www.transparency.org](http://www.transparency.org)

**Table 17 – Ranking of south-east Europe countries**

Rank	Country	Score
1	Turkey	4.4
2	Croatia	4.1
3	Montenegro	3.9
4	Bulgaria	3.8
4	Romania	3.8
4	Macedonia	3.8
5	Serbia	3.5
6	Albania	3.2
7	Bosnia & Herzegovina	3.0

Source: 2009 Transparency International Corruption Perceptions Index available at: [www.transparency.org](http://www.transparency.org)

As may also be noted from the figures, differences may exist in the nature and scope of corrupt behaviour, and the extent to which anticorruption measures are enforced, but the phenomenon can be found at all times and in virtually every political system. It can also be found in the private sector. Indeed, the linkage between public and private sector corruption is an area of particular concern in the Balkans.

Recently, the effort to combat corruption has moved to the centre of the debate about good governance and economic growth. The impetus has come from many sources. On the donor side, the end of the Cold War reduced the willingness of countries providing aid to overlook financial improprieties in light of broader geopolitical interests. Donor fatigue has put increasing pressure on foreign aid agencies to demonstrate that they are delivering maximum value for money. Many multinational corporations

have come to believe that their interests are better served by open and transparent competition (Klitgaard, 1988).

It has been noted in various publications that economic activity in the Balkans is often associated with, among other things, smuggling, extortion and tax evasion (Meyer and Nash, 2002). Such factors have a considerable impact on the region's governments in their efforts to develop and stabilise their economies. This is certainly an obstacle to attracting foreign investment. In this respect, establishing the rule of law is critical. It is the number one priority in tackling these issues, while it would also act as a preventive mechanism against possible violent action. The Stabilisation and Association Process provides helpful guidelines on the adoption of relevant policies and strategies to strengthen the rule of law.

The major thrust of Balkan governments' efforts will have to address this problem, both as a matter of policy and as part of their broader programmes on governance and capacity building. There are two priority areas in which the governments in the region will have to concentrate their broader governance efforts:

- (i) policy dialogue directed toward economic liberalisation
- (ii) reform of public administration.

The liberalisation of licensing regimes, the opening up of access to currency markets, the reduction of administered prices, the removal of subsidies and soft loans to favoured companies and the introduction of a clear distinction between production and regulatory functions are all ways in which policy changes can level the playing field and reduce opportunities for corrupt or illicit behaviour.

The international community, through its missions in the region, may also be called to assist in the pursuit of explicit anti-corruption programmes. Such assistance could include efforts to: develop national anti-corruption strategies, improve the ability of the courts to try corruption cases, respond to requests from legislators and government officials for legal or technical assistance in drafting anti-corruption statutes or professional codes of conduct and strengthen the legal mechanisms for the review of administrative action, for example, by improving the capacity of anti-corruption agencies to detect or prosecute illicit behaviour.

The international community will need to consider supporting regional anti-corruption efforts, including: conferences, seminars, workshops and training activities, research and publications dealing with anti-corruption issues and possible collaboration with local and international NGOs whose mission or work programme advances such initiatives. With reference to anti-corruption measures, we recommend the following in terms of programming and project management:

- continue to expand international aid and especially EU efforts on governance and capacity building, paying particular attention to promoting market liberalisation and public administration reform.
- strengthen key institutions to promote transparency and accountability in both central and local government institutions.
- upgrade the quality of supervision during project implementation and strengthen project review missions.
- inspire anti-corruption policies.

Ultimately, the benefits of taking these actions are of mutual interest for both the Balkans and the EU, since these activities have serious implications for both established democracies and democratising countries in the region (Qerimi, 2005).

## 6.2 Organised crime

Organised crime, like corruption, poses another immediate challenge to the political scene in the Balkans. It undermines social and economic order. Another negative consequence is that it creates a major barrier to political, economic and social development in the Balkans, while challenging the fragile democracies of the region and further increasing the level of inequality in Balkan societies.

A clear definition would at least provide a formal tool for addressing organised crime in a legal framework. Such clarity would also help identify the basic features of the phenomenon. A widely-shared definition can be found in the United Nations Convention against Transnational Organized Crime, which reserves the term ‘organized criminal group’ for:

*A structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit<sup>1</sup> (Art. 2 (a)).*

The primary aim of organised crime is therefore profit, characterised by criminal activities engaged in by persons or groups of persons who operate in a well- or highly organised manner.

Both corruption and organised crime are present throughout the Balkan region, including the countries that recently joined the EU.

A study conducted by researchers at the Transnational Crime and Corruption Center at American University in Washington DC has suggested that it may take thirty years or more to eradicate organised crime networks and establish the rule of law in the Balkans, the principal reasons being the weakness of the rule of law and the lack of an independent judiciary (Corpora and Shelley, 2002). Balkan societies are still struggling to establish well-functioning multi-ethnic forms of co-existence but, in the field of organised crime, multi-ethnic collaboration is well established (USIP Special Report, 2002). The organised crime structures in the Balkans operate via informal networks that are often linked to security/intelligence agencies or extremist political forces (Corpora and Shelley, 2002; USIP Special Report, 2002).

Consideration of the root causes of organised crime in the Balkans would enable us to better grasp the different sets of issues involved and to come to better solutions on how to tackle these challenges. The most critical areas in need of intervention remain the strengthening of the rule of law, including robust judicial systems and efficient enforcement and border management institutions. Law enforcement and judicial personnel are often tempted to participate in or make concessions to corruption and organised crime due to low salaries.

1 See United Nations Convention against Transnational Organized Crime, G.A. Res. 25, annex I, U.N. GAOR, 55th Sess., Supp. No. 49, at 44, U.N. Doc. A/45/49 (Vol. I) (2001).

Co-operation among regional governments and with the EU and other international agencies is another important counter-measure. The international presence in the region can significantly improve the ability and capacities of local authorities to fight organised crime. Organisations such as OSCE and Interpol can further facilitate the process by providing direct assistance in both capacity building and in the investigation and prosecution of criminal activities. Close cooperation among regional leaders and their continuing commitment to fighting organised crime and corruption should be maintained. In particular, the Balkan governments should remain committed to implementing the measures set forth in the Bucharest Declaration of the Ministers of Justice and Home Affairs (JHA) from the States Participating in the South East European Cooperation Process (SEECP) on a Joint Campaign to Fight Organised Crime and Corruption in South East Europe.<sup>2</sup> Ratifying, monitoring and bringing national legislation in line with the provisions of the UN Convention against Transnational Organized Crime and the UN Convention against Corruption would be an additional course of action.

Trade openness through increased economic competition and economic growth would also have a significant impact on reducing the levels of corruption.

This multi-level and multi-measure approach seems to provide the most efficient tools towards fighting organised crime and corruption. A ‘four Is’ approach (that is, information, interaction, incentives and institutions) also has a role to play here. The maintenance of (1) proper channels of communication and (2) regular interaction processes among varying levels and different agencies, including the general public, and (3) receiving and making proper use of the incentives that should be used in and for (4) establishing proper institutional arrangements and initiatives, capable of producing, promoting and executing successful anti-organised crime or anti-corruption policies, would be of paramount importance (Sergi and Qerimi, 2008).

### 6.3 Recommended policy directions

The separation of powers between national and local authorities and the maintenance of checks and balances would create an unprecedented incentive to uncover and prosecute corruption. The role that separation of powers can play is suggested by various studies (Fishback, Kantor and Wallis, 2005; Bodenhorn, 2004).

An independent judiciary would add much to successful legal prosecutions. In fact, a corrupt judiciary means there is little chance of dealing with corrupt officials. Although there is still a chance that judges who are themselves corrupt may convict corrupt politicians if they do not share the same political affiliation or do not belong to the same political party, they would still be reluctant to apply the same penalties to corrupt politicians of their own political persuasion. Increasing professionalism among members of the judiciary, along with their salaries, would help significantly to improve the fight against corruption in the Balkans. A well-trained professional judge lowers the

2 For further details on specific measures outlined in the Bucharest Declaration, see *Joint Statement of the Ministers of Justice and Home Affairs from the States Participating in the South East European Cooperation Process (SEECP) on a Joint Campaign to Fight Organized Crime and Corruption in South Eastern Europe*, Bucharest, 18 May 2004, available at: <http://www.mae.ro/seecp/main7.html/>.

chances of being a loyal collaborator of a corrupt politician. In addition, the increase in income for judges would further challenge corrupt officials. Special security measures may be considered for members of the judiciary if they are in physical danger or subject to threats which may disrupt or in any way affect the outcome of justice.

A legislative body which passes the necessary legislation for a successful battle against corruption and organised crime is another important tool. As already indicated, international organisations have a role to play in drafting the relevant legislation. Pertinent international instruments, such as the UN Convention against Transnational Organized Crime and the UN Convention against Corruption, should be ratified and strictly observed by all the Balkan member states.

The rise of an independent media is another critical factor in reforming Balkan political corruption. As many new agencies are affiliated or in some way supported by corrupt political groups, facts are often hidden. Dropping party affiliations would be decisive to exposing the truth. For that purpose, well-trained professional reporters and media that are financially independent of political organisations are a *sine qua non*. Investigative reporters in the tradition of, say, Robert Woodward and Carl Bernstein (who exposed the Watergate affair) would make a major contribution to uncovering the malfeasance of public officials. Empirical research has shown that the media has played a major role in exposing corruption scandals in countries which have been successful in fighting corruption, such as the United States, which today is ranked among the 10 per cent of countries with the lowest levels of corruption worldwide (Glaeser and Goldin, 2004). A research paper by Gentzkow, Glaeser and Goldin (2004), examining the decline of corruption in American politics, economy and society, links the significant decrease in corruption in the period between 1870 and 1920 with the rise of an informative and less partisan press, as well as the expansion of press circulation, which was 'one of the reasons why the corruption of the Gilded Age was sharply reduced during the subsequent Progressive Era'. Providing information to the public about the corrupt behaviour of politicians would be likely to curb such corrupt practices. In addition, a higher level of competition, in both politics and business, makes the reporting of corrupt activities more likely (Glaeser and Goldin, 2004).

It may be seen from the matters discussed in the rest of this article that there is neither a single cause nor a single solution to such complex issues. Instead, we propose a shift to a multi-measure approach. Above all, what Joseph Stiglitz refers to as 'openness in process' which would 'contribute to a more open, democratic society' could play a role (Stiglitz, 1998). The significance of such openness is particularly striking when one considers that most corrupt economies are closed economies (Svensson, 2005).<sup>3</sup> The spread of education, the development of an independent and professional media and the creation of a middle class would pay enormous dividends. In fact, it is a necessary tool in achieving the strategic goal of a free, open and democratic society. However, it is equally important that the process genuinely promotes, in parallel,

3 Openness is measured in terms of the criteria developed by Sachs and Warner (1995). They consider an economy to be 'closed' if one of the following five criteria are met: (1) average tariff rates above 40 per cent; (2) nontariff barriers that cover more than 40 per cent of all imports; (3) a socialist economic system; (4) a state monopoly of major exports; and (5) a black market premium exceeding 20 per cent during the 1970s or the 1980s.

democratisation, political equality and economic equality. Lacking any one of them would impact the others. More focused, comprehensive, integrated and systematic action is needed. Such action, and not rhetoric, should aim at shaping institutions and social behaviour in such a way that the best administrative, economic and institutional practices are adopted. Where ethical values are instilled, positive goals are widely shaped and shared, and the highest quality of life is promoted. A corrupt society or region is simply not an option; it is the enemy of an open, prosperous and value-oriented Balkans, and runs contrary to the indispensable aim of making the region self-sustainable and part of a free and larger Europe (Sergi and Qerimi, 2008; Sergi and Qerimi, 2007).

## 7. Solutions and recommendations

Enlargement is a multi-faceted process that depends, among other things, on the political will and attitudes of the member states and peoples of the EU-27 and on recovery from the global economic downturn, but substantial reforms and progress on the part of the current and prospective candidate countries are of major, if not decisive, importance for their success in achieving full EU membership.

The major thrust of the work of Balkans governments will have to address the most pressing problems, both as a matter of policy and as part of their broader programmes on governance and capacity building. There are two priority areas in which the governments in the region will need to concentrate their broader governance efforts:

- (1) policy dialogue directed toward economic liberalisation
- (2) public administration reform.

The liberalisation of licensing regimes, the opening up of access to currency markets, the reduction of administered prices, the removal of subsidies and soft loans to favoured companies and the introduction of a clear distinction between production and regulatory functions are all ways in which policy changes can level the playing field and reduce opportunities for corrupt or illicit behaviour.<sup>4</sup>

The international community, through its missions in the region, may also be called on to assist in pursuing explicit anti-corruption and anti-organised crime programmes. In more concrete terms, we would recommend the following measures:

- (i) continue to expand the international community's assistance on issues of governance and capacity building, with particular attention to promoting market liberalisation and public administration reform;
- (ii) put more emphasis on strengthening key institutions for advancing transparency and accountability in both central and local government institutions, as part of the broader emphasis upon governance and capacity building;
- (iii) where appropriate, support regional initiatives and research on advancing accountability and transparency in the western Balkan region; and
- (iv) upgrade the quality of supervision during project implementation and strengthen project review missions, with particular emphasis upon those projects most at risk.

## References

- Ades, Alberto and Rafael Di Tella (1999) 'Rents, competition and corruption' *American Economic Review* 89(4): 982–994.
- Bevan, Alan, Saul Estrin and Heather Grabbe (2001) *The impact of EU accession prospects on FDI inflows to Central and Eastern Europe, 'One Europe or several'* Policy Paper No. 06/01, London: ESRC.
- Bodenhorn, Howard (2004) 'Bank chartering and political corruption in antebellum New York: free banking as reform' *NBER Working Papers* 10479, National Bureau of Economic Research, Inc.
- Corpora, Christopher and Louise Shelley (2002) *Tragedy, transition, and transformation: the local-international nexus of transnational organized crime in the former Yugoslav Republics* a publication of the East European Studies Program at the Woodrow Wilson International Center for Scholars.
- EBRD (2002) *Transition Report 2002: Agriculture and Rural Transition* London: EBRD.
- EBRD (2004) *Transition Report 2002: Infrastructure* London: EBRD.
- Gentzkow, Matthew, Edward L. Glaeser and Claudia Goldin (2004) 'The rise of the fourth estate: how newspapers became informative and why it mattered' *NBER Working Papers* 10791, National Bureau of Economic Research, Inc.
- Glaeser, Edward L. and Claudia Goldin (2004) 'Corruption and reform: an introduction' *NBER Working Paper* No. W10775, National Bureau of Economic Research, Inc.
- Gupta, Sanjeev, Hamid R. Davoodi and Rosa Alonso-Terme (2002) 'Does corruption affect income inequality and poverty?' *Economics of Governance* 3: 23–45.
- Heineman, Ben W. Jr, and Fritz Heimann (2006) 'The long war against corruption' *Foreign Affairs*, May/June, pp. 75–86.
- Hellman, Joel, Geraint Jones and Daniel Kaufmann (2003) 'Seize the state, seize the day: state capture, corruption, and influence in transition' *Journal of Comparative Economics* 31(4): 751–773.
- Kaminski, B (2001) 'How accession to the EU has affected external trade and foreign direct investment in Central European Economies' *World Bank Working Paper* 2578, Washington, DC.
- Klitgaard, Robert (1988) *Controlling corruption* Berkeley: University of California Press.
- Kubicova, J (2004) 'Tax competition in today's world' in B. S. Sergi and W. T. Bagatelas (Eds) *The Slovak economy and EU membership* Bratislava: Iura, pp. 205–231.
- Lankes, H. P and N. Stern (1997) 'Capital flows to Eastern Europe and the former Soviet Union' *Working Paper* 27, London: EBRD.

- Leite, Carlos and Jens Weidmann (2002) 'Does Mother Nature corrupt? Natural resources, corruption, and economic growth' in George T. Abed and Sanjeev Gupta (Eds.) *Governance, corruption and economic performance* Washington, DC: International Monetary Fund.
- Li, Hongyi, Lixin Colin Xu and Heng-fu Zou (2000) 'Corruption, income distribution and growth' *Economics and Politics* 20(2): 155–182.
- Lobjakas, Ahto (2009) *Impetus for EU enlargement grinds to a halt* Radio Free Europe, 28 March 2009, available at:  
[http://www.rferl.org/content/Impetus\\_For\\_EU\\_Enlargement\\_Grinds\\_To\\_A\\_Halt/1563591.html](http://www.rferl.org/content/Impetus_For_EU_Enlargement_Grinds_To_A_Halt/1563591.html)
- Montinola, Gabriella and Robert Jackman (2002) 'Sources of corruption: a cross-country study' *British Journal of Political Science* 32(1): 147–170.
- Paldam, Martin (2002) 'The cross-country pattern of corruption: economics, culture and the seesaw dynamics' *European Journal of Political Economy* 18(2): 215–240.
- Petrakos, G (2002) 'The Balkans in the New European Economic Space' *Eastern European Economics* 40(4): 6–30.
- Qerimi, Qerim R (2003) 'South-east Europe's EU integration: dreams and realities' *South-East Europe Review for Labour and Social Affairs* 5(4): 43–56.
- Qerimi, Qerim R (2005) 'Human values-based approach to development. Amartya Sen and Central Eastern Europe' in Bruno S. Sergi and William T. Bagatelas (Eds.) *Ethical implications of post-communist transition economics and politics in Europe* Bratislava: Iura.
- Qerimi, Qerim R and Bruno S. Sergi (2006) 'On the relevance of the EU as a means of spurring a socially-sustainable South-East Europe' *South-East Europe Review for Labour and Social Affairs* 8(3): 111–120.
- Rose-Ackerman, Susan (1978) *Corruption: a study in political economy* New York: Academic Press.
- Sachs, Jeffrey D and Andrew M. Warner (1995) 'Economic reform and the process of global integration' *Brookings Papers on Economic Activity* 1–118.
- Sergi, Bruno S (2003a) 'FDI and the Balkans: a regional investment agency and regional centred economic choices to shape this decade' *South-East Europe Review for Labour and Social Affairs* 6(1/2): 7–16.
- Sergi, Bruno S (2003b) *Economic dynamics in transitional economies: the four-p governments, EU enlargement and the Brussels Consensus* New York: International Business Press.
- Sergi, Bruno S (2004) Understanding the EU factor: the Balkan region as recipient of FDI and industries *South-East Europe Review for Labour and Social Affairs* 7(4): 7–20.

- Sergi, Bruno S (2005) The Balkans jump on the tax rivalry bandwagon *South-East Europe Review for Labour and Social Affairs* 8(1): 7–18.
- Sergi, Bruno S (2006) *Central and peripheral regions in Europe: can tax competition attract foreign direct investment forever?* Washington, DC: American Consortium on European Union Studies (ACES), ACES Cases No. 2006.3.
- Sergi, Bruno S (1997) ‘How to speed up growth and keep debts at bay’ *Transition Newsletter* (World Bank) 8(6): 15–16.
- Sergi, Bruno S and Qerim R. Qerimi (2005) ‘The European Union and its prospective enlargement to the south-east’ *South-East Europe Review for Labour and Social Affairs* 8(4): 15–32.
- Sergi, Bruno S and Qerim R. Qerimi (2006a) ‘Business perspectives in Southeast Europe’ *Transition Studies Review* 13(3): 541–555.
- Sergi, Bruno S and Qerim R. Qerimi (2006b) ‘Upgrading the Balkans regional infrastructure’ *South-East Europe Review for Labour and Social Affairs* 9(1): 89–96.
- Sergi, Bruno S and Qerim R. Qerimi (2007) ‘Fighting corruption and organised crime as a means of socio-economic development in south-east Europe’ *South-East Europe Review for Labour and Social Affairs* 2: 81–94.
- Sergi, Bruno S and Qerim R. Qerimi (2008) *The political economy of Southeast Europe from 1990 to the present* New York and London: Continuum International Publishing Group.
- Shleifer, Andrei and Robert Vishny (1993) ‘Corruption’ *Quarterly Journal of Economics* 108(3): 599–617.
- Slaveski, T and P. Nedanovski (2002) ‘Foreign direct investment and transition: challenges for the Croatian economy’ *Eastern European Economics* 40(4): 83–99.
- Southeast European Times* (2006) ‘Rehn urges Bulgaria to show results in fight against organised crime, corruption’ available at:  
[http://www.balkantimes.com/cocoon/setimes/xhtml/en\\_GB/features/setimes/features/2006/04/14/feature-01/](http://www.balkantimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2006/04/14/feature-01/) [last accessed: 14 April 2006].
- Stiglitz, Joseph E (1998) *Towards a New Paradigm for Development: strategies, policies and processes* Prebisch Lecture at UNCTAD, Geneva.
- Svensson, Jakob (2005) ‘Eight questions about corruption’ *Journal of Economic Perspectives* 19(3): 19–42.
- Treisman, Daniel (2000) ‘The causes of corruption: a cross national study’ *Journal of Public Economics* 76(3): 399–457.
- United States Institute for Peace (2002) *Lawless rule versus rule of law in the Balkans* Washington, DC: Special Report No. 97.
- UNCTAD (2004) *World Investment Report 2004: The Shift Towards Services* New York and Geneva: United Nations.

- Wallis, John Joseph, Price Fishback and Shawn Kantor (2005) 'Politics, relief, and reform: the transformation of America's social welfare system during the New Deal' *NBER Working Papers* 11080, National Bureau of Economic Research, Inc.
- You, Jong-Sung and Sanjeev Khagram (2005) *A comparative study of inequality and corruption* John F. Kennedy School of Government Faculty Research Working Papers Series, available at: <http://ksgnotes1.harvard.edu/Rsearch/wpaper.nsf/rwp/RWP04-001> [last accessed: 13 March 2005].