

EU ENLARGEMENT IN TIMES OF CRISIS? READINESS FOR ACCESSION OF THE WESTERN BALKAN CANDIDATE COUNTRIES

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The topicality of the paper's subject "EU accession of the Western Balkan Countries" results from the fact that despite the unresolved crises in the EU, in autumn 2019 the EU member states will decide whether to open accession negotiations with the Western Balkan states of North Macedonia and Albania. Due to doubts concerning the readiness of accession of these countries, the discussion on an alternative option for EU integration between full membership and non-membership for countries that are only partially ready for accession is reviving. The focus here is particularly on economic integration. The corresponding objective of the paper is to clarify whether from an economic point of view doubts about the accession readiness of northern Macedonia and Albania, as well as of the other Western Balkan accession candidates Montenegro and Serbia, are justified. The research tasks in this contribution are reflected in the following modules: drawing conclusions from evaluations by the EU, a statistical analysis of the economic development in the candidate countries, the simulation of convergence processes for each Western Balkan state, the evaluation of international country rankings and finally the execution of a cost analysis of the EU accession of the Western Balkan states.

Problematic enlargement plans of the European Union

In the European Union (EU), which has grown to 28 member states, centrifugal forces are becoming increasingly visible: the efforts of the United Kingdom to withdraw from the EU, the smouldering economic crisis in Southern Europe, the strong differences in refugee and immigration policy, the North-South conflict over the future of the Stability and Growth Pact or the controversial question of further deepening EU integration point to fundamental differences within the EU. In view of a large number of unresolved problems in the current EU, it would be reasonable that the further enlargement of the Community will not be on the European policy agenda. Especially the enlargements during the last 15 years have made the political consensus building in the EU increasingly difficult and can explain the drifting apart of the member states in many policy fields. But a new enlargement of the EU is still planned.

Following their strategy of an Eastern enlargement, in 2004 the EU accepted the majority of Central and Eastern European reform states as full members. The accession of Bulgaria and Romania (2007) as well as Croatia (2013) completed this enlargement process by countries in the Balkans that had been comparatively economically weak or politically unstable until then. From the EU's point of view, however, enlargement is not yet completed—despite all the integration problems that have come to light. In the

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“Thessaloniki Declaration” in June 2003, the Western Balkan states of Albania, Bosnia-Herzegovina, Macedonia (Northern Macedonia since 2019), Serbia and Montenegro and, with restrictions, Kosovo were also given the prospect of accession. This was reaffirmed in the “Sofia Declaration” in May 2018.

This enlargement project seems to focus less on the enlargement of the EU internal market, which is not surprising given the small size and limited economic potential of these candidate countries. Rather, it is a project for the political stabilisation of the Western Balkans, as can be seen from the highlighted objectives: strengthening democracy and the rule of law, fighting crime and corruption, and pacifying regional conflicts. The establishment of functioning market economies is seen as a vehicle to achieve these goals and also to curb migration from these states to the EU. Therefore, the creation of a perspective for young people to stay in the EU plays a special role.

However, it makes little economic sense to extend the freedoms of the EU internal market to countries that are too far from the level of development and competitiveness of the present member states. Without a realistic prospect of catching up and the ability to survive in the European competition for production sites, the capital inflows needed for the modernisation of infrastructure and the business structures will not materialise—instead, a brain drain is more likely. Moreover, countries that are not ready to join the EU would become victims or a ballast as the EU deepens. Member States that cannot keep up pace would be destabilised and would depend on permanent alimony.

Doubtful readiness for accession

Against this background, the readiness for accession of the four Western Balkan states Montenegro, Serbia, Northern Macedonia and Albania, which are the only countries in the region to have received candidate status, is analysed. But even these countries have, from the EU's point of view, made varying degrees of progress on their way to full membership: Only Montenegro and Serbia have started accession negotiations. In contrast, accession negotiations have not yet been opened with Albania and Northern Macedonia, although the EU Commission had already recommended to the EU Council in June 2018 to open negotiations.

The regular evaluations of the candidates by the EU also point to doubts as to whether the four Western Balkan states are ready for accession. Even the better-rated candidates Montenegro and Serbia do not appear to be qualified accession countries. The economic dynamism and reform enthusiasm that characterises catching-up economies in an ideal way are only rudimentarily observed. In all Western Balkan states, fundamental legal framework conditions, which characterise the rule of law and are indispensable for the functioning of a market economy, have yet to be created or put into practice. The candidate countries therefore receive long “to-do lists”, which they would have to work through on their way to full membership. In Northern Macedonia and Albania, the need for reform appears to be particularly pronounced from the EU's point of view, as the even more extensive reform tasks show.

These doubts are confirmed by the development perspectives of the candidate countries presented in the analysis: The per capita income of the Western Balkan states is only 31 to 47 per cent of the EU average, which would put the four countries at the bottom of the EU wealth hierarchy (Figure 1). But here, too, the Western Balkans do not appear as a homogeneous group of countries — Montenegro and Serbia can set themselves apart to some degree.

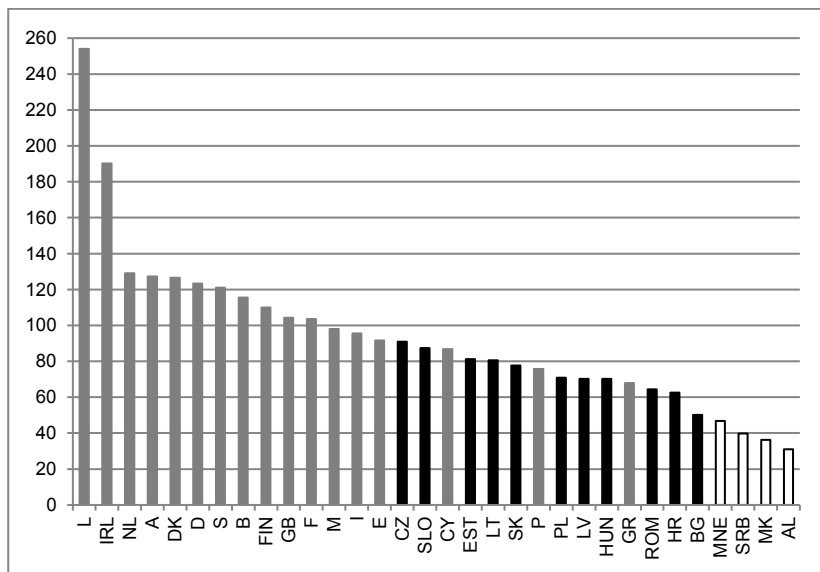


Figure 1: Ranking of relative per capita income of EU members and Western Balkan candidate countries^{a,b}

^aGDP at current market prices in purchasing power standard per inhabitant in % of the EU 28 average; ranking in descending order; values for Croatia, Montenegro, Northern Macedonia, Albania and Serbia estimated on the basis of IMF (2019); Black marked: New EU members in the context of the Eastern enlargements of 2004, 2007 and 2013; marked in white: Western Balkan candidate countries. – ^bFor the country codes see Figure 1 of the full version.

Source: Eurostat (2019a), IMF (2019); own illustration and calculations.

Development scenarios

Catching up within the EU 28 means that the relative per capita incomes of the candidate countries—i.e. their per capita incomes as a percentage of the average per capita income of the EU—would have to rise. This implies that the per capita income of the Western Balkan countries must grow faster than the EU average. The catching-up process can be regarded as successful if their per capita incomes correspond to the EU average, i.e. the relative per capita incomes assume a value of 100 per cent.

Four alternative development scenarios were presented in order to get an idea of the possible course of this catching-up process of the candidate countries: In addition to updating the candidates' previous development path of relative per capita incomes into the future, the development trends of the accession countries Bulgaria, Romania and Latvia were used to simulate convergence scenarios. At the time of their accession to the EU, these accession countries were at a comparable level of development to the Western Balkan states.

These four convergence scenarios for the Western Balkan states reveal that the duration of the catching-up process must be measured after decades due to the current relatively low level of development and partially restrained growth dynamics. As a result of the economic heterogeneity of the four candidate countries, the development paths considered drift very far apart. However, the development paths of the benchmark countries under consideration themselves also differ greatly, so that the scenarios as a whole cover a relatively large scope for development. Montenegro could have caught up between 2036 and 2053, Northern Macedonia between 2042 and 2082, Albania between 2046 and 2065 and Serbia between 2040 and 2055.

A catching-up process defined in this way requires that the catching-up countries achieve economic growth that is regularly above the EU average. Therefore, the Western Balkan states would have to maintain their previous growth rate at least, while Northern Macedonia would have to increase it significantly. The convergence scenarios presented imply that the candidate countries would have to achieve annual economic growth in the 3 percent range over decades. However, the sluggish catching-up process of some of the previous accession countries shows that EU accession will by no means automatically lead to a higher level of growth. For this reason it is worth considering that the Western Balkan states should develop their institutional frameworks more ambitiously on their own than the EU requires them to do.

Three international rankings are used to assess how ambitious the candidate countries have so far been in adapting their institutional frameworks: Human Development Index of the United Nations Development Programme, Worldwide Governance Indicator of the World Bank and Ease of Doing Business Indicator of the World Bank. The evaluation shows that the four candidate countries' economies and other standards of prosperity are clearly lagging behind those of the EU-28, as are obvious deficits in state and political structures. Even though attractive investment conditions exist for companies in Northern Macedonia, there is also a need for a guarantee of the institutional framework through good and reliable government action, which is lacking in this case.

Conclusions

If the Western Balkan states, despite their backwardness in development, were to be admitted to the EU in the near future, all those involved would have to accept disadvantages: The EU would accept new members who would be more or less dependent in the long term on structural and investment aid amounting to billions. This picture is already evident in the previous accession countries from Central and Eastern Europe, which accounted for about half of all fund resources in the 2014 to 2020 funding

period and had the highest per capita payments in the EU 28 (Figure 2). Expenditure for the Western Balkan states from the EU structural and investment funds would be based

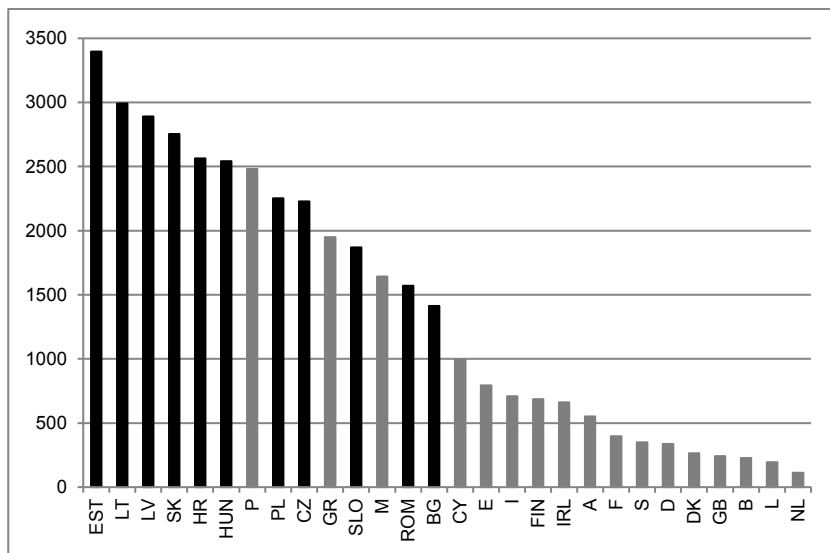


Figure 2:
Per capita transfers to the EU Member States from the European Structural and Investment Funds, 2014–2020^{a,b}

^aThe following funds were considered for the funding period 2014 to 2020: European regional development fund (ERDF), European social fund (ESF), Cohesion fund (CF), European agricultural fund for rural development (EAFRD) and European maritime and fisheries fund (EMFF) ; black marked: New EU members in the context of the Eastern enlargements of 2004, 2007 and 2013. – ^bFor the country codes see Figure 1 of the full version.

Source: Eurostat (2019c), EU Commission (2019b); own illustration and calculations.

on the payments for these accession countries. According to a model calculation, the transfers to the Western Balkans would have amounted to about 24 billion euros in the expiring funding period. This amount would have to be counter-financed by budget increases or by cuts elsewhere. In addition, a further deepening of the EU would reach the limits of feasibility if the development levels of the member states were increasingly spread. The already existing “trade off” between deepening and enlargement of the EU would become even clearer.

The Western Balkan states themselves would also have disadvantages if they had to integrate into the European single market without a prior substantial approximation of their living conditions to the EU average. Their economic policy would lose degrees of freedom by adapting to the regulatory corset of the EU—their fight for investments

would become more difficult. The entitlement to various EU transfers would not provide an adequate compensation for this, and permanent financial support would even tend to hinder development. Furthermore, access to the labour markets and social systems of rich member states would significantly increase the risk of a brain drain in the Western Balkans.

Against this backdrop, full membership of the Western Balkan states in the near future is not recommended. Since, however, for political and geostrategic reasons, the integration of these countries into the EU is desired, an “EU membership light” would be worth considering. Integration of the candidate countries could then take place in a “multi-speed Europe” in which the level of integration is determined by the developmental progress of each individual country. It would not be sufficient for a candidate to formally fulfil the Copenhagen criteria. Progress in development could be better measured by the relative per capita income indicator—also applied by the EU—which could be used to align integration steps.

A per capita income at the level of the EU average might be too ambitious to define a catching-up target. However, the minimum target should be a per capita income of 75 percent of the EU average, which, according to EU guidelines, marks the threshold from less developed regions to transition regions. If the current pace of development in the Western Balkan states were to be maintained, however, even this goal would only be achievable in the longer term: Montenegro would reach this threshold in 2040, Serbia in 2043, Albania in 2045 and Northern Macedonia in 2064.