

The Road to Thessaloniki: Cohesion and the Western Balkans

Berlin, 12 March 2003

As the political and economic map of Europe is redrawn in 2004, there is a growing fear among the countries of the Western Balkans that they will be left on the margins of the new and integrated Europe. There is a risk that, instead of catching up with the rest of the continent, the countries of the Western Balkans will fall further behind, and the goal of integration – and the promise of regional stabilisation this brings – will become even more distant.¹

This discussion paper sets out an alternative scenario. The starting point for a new European approach is the reflection on the needs of the Western Balkans set out in a working paper of the current Greek EU Presidency in January 2003:

“As the Western Balkan countries gradually move from stabilisation and reconstruction to association and sustainable development, policies pursuing economic and social cohesion at both national and regional levels become increasingly relevant, in particular having in mind the very high level of unemployment in most of them, as well as the social and regional dimension of ethnic problems. The Greek presidency intends to initiate a reflection on integrating the aim of *economic and social cohesion* into EU policy towards the region, and on ways and means, including financial, of promoting cohesion through the *Stabilisation and Association Process*.”²

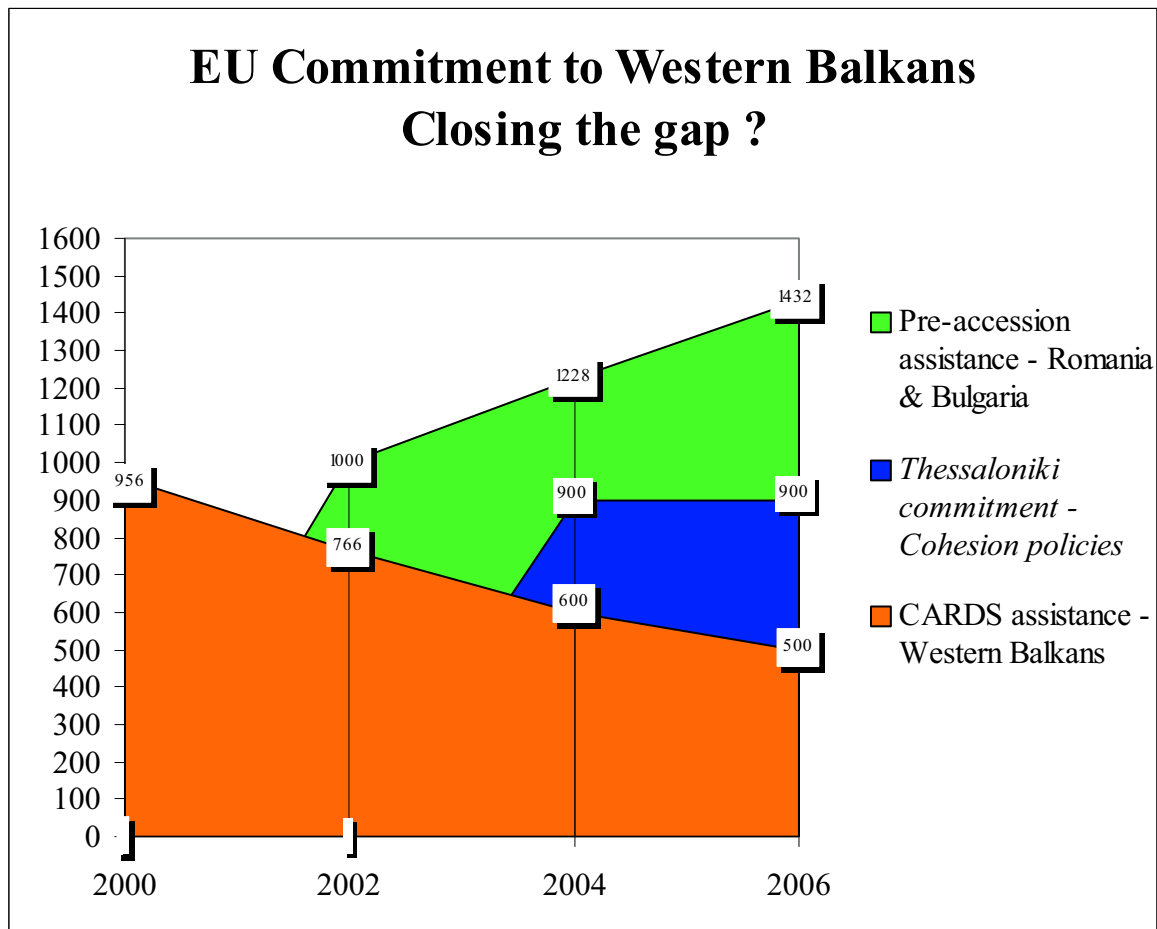
This paper analyses possible ways and means for such a policy.³ It recognises that Western Balkan countries today face very different threats and opportunities from those which existed

¹ This risk is described in the ESI discussion paper *Western Balkans 2004 – Assistance, Cohesion and the new boundaries of Europe*, 3 November 2002. This is a follow up paper to the **October 2002 Wilton Park Conference**, which was supported by the *British Foreign and Commonwealth Office* and the *Government of Norway*. ESI's outreach activities in early 2003 were also supported by the *Open Society Institute*.

² Greek Foreign Ministry, *Working Document: Greek Presidency Priorities for the Western Balkans*, www.eu2003.gr/en/articles.

³ This paper builds on numerous presentations by ESI which followed the October 2002 Wilton Park conference dedicated to the issue of a new European policy towards the Balkans. In December 2002

only three years ago. It notes that European policy instruments have not yet adapted sufficiently to meet these new challenges. There is a pressing need for new strategies to promote structural reform across the region, which is essential to reversing more than two decades of deep economic decline. The European Union, working through the European Commission, needs to build its capacity to bring about serious reform, such as reducing the cost of public administration, liquidating loss-making companies and initiating the retraining of workers left stranded by the collapse of old industrial complexes across the region.



Romania & Bulgaria: 30.7 million people
Western Balkans: 24.7 million people

ESI director Gerald Knaus was invited to present ESI's analysis to the *European Commission Western Balkans team* at a brainstorming in Brussels, as well as to the *EU Council on the Western Balkans (COWEB)* at the invitation of the Danish presidency (Brussels). On 1 February 2003 ESI presented its analysis at a brainstorming held in the *Brussels Hotel Dorint* and chaired by former Finnish president Martti Ahtisaari and the Chairman of the Open Society Institute, George Soros. The brainstorming, attended by policy makers and experts from across Europe, including the Deputy Prime Minister of Macedonia and the Minister of Finance of Montenegro, was devoted to a discussion of the ESI November report. ESI also presented these ideas to members of the Bosnian, Croatian and Serbian governments, as well as to the Office of the High Representative (Sarajevo) and UNMIK (Kosovo). This was followed by another ESI presentation to the *COWEB* in Brussels at the invitation of the Greek EU presidency in early March and presentations at a regional meeting organised by the Macedonian Presidency on 16th March and at a Public Hearing of the *European Parliament Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy* in Brussels on 18 March 2003. FOR MORE INFORMATION ON THE 2004 CAMPAIGN PLEASE CONTACT ESI Berlin, tel: 49 30 53214455 or Gerald Knaus, mob: 00 49 173 6197797.

Moving towards a European cohesion policy for the Western Balkans need not be a costly undertaking. In 2006, the European Union promises to spend €1.432 billion to help Bulgaria and Romania prepare for accession and catch up with the rest of the continent. This is equivalent to 2.6 percent of the combined GDP of these two countries. At present, the European Union intends to allocate no more than €500 million in total assistance to the countries of the Western Balkans - equivalent to only 1 percent of their GDP. Narrowing the gap between the new member countries, the candidates states Bulgaria and Romania and the Western Balkans SAP countries would not involve a major new commitment of EU resources, beyond the budgets already foreseen for the CARDS programme and those available to support the pre-accession process after the accession of 10 new members in 2004.

The real challenge is to increase the impact of European aid to the Western Balkans by introducing new assistance strategies, based on the lessons and techniques of *European regional development policy*. Across the region, public administrations steeped in traditions of authoritarian, top-down development policies need to learn new techniques of supporting development under market conditions. They need to be encouraged to mobilise their own limited public resources to support development. They need to develop modern statistical systems to guide their policies, and to build new relationships between national, regional and local governments. These are precisely the kind of problems which European regional development assistance is designed address. Over the past decades, the European Commission has worked with economically peripheral regions of the European Union, and later with the accession candidate countries, to help them meet these challenges. The instruments and techniques which it has developed are directly relevant to the Western Balkans.

The central proposal for this paper is that, at the Thessaloniki Summit in June 2003, the European Union formally incorporates *cohesion* as a guiding principle of EU policy towards the region, broadening the Stabilisation and Association Process to include additional forms of pre-accession assistance. This would send a strong signal to the countries of the region that the EU is serious about helping them reach their European destination.

The uses of regional policy

The rationale behind regional policy is that economic geography and specific historical legacies have important consequences for patterns of development, and that *structural causes* of underdevelopment can determine the fate of entire regions, be they old industrial centres or peripheral rural areas. Given the prevalence of such structural economic problems in the Western Balkans, the experiences gained in implementing regional policy elsewhere in Europe are directly relevant.

Regional policy (also referred to as *cohesion policy* or *structural policy*) and the institutions to implement it were first developed within EU member states on a national basis, and later became a central policy goal of the European Union itself. The historical context which saw the emergence of a consensus about the importance of *national* regional policies was the social and economic crisis in Europe's oldest industrial society, the United Kingdom.

In the aftermath of the Great Depression of 1929-1932, it became apparent that some regions in the UK recovered relatively quickly while others did not. Those hardest hit were the older industrial regions and sectors: shipbuilding in Clydeside; coal, iron, steel and heavy industry in north-east England; cotton and engineering in Lancashire; export coal, iron and steel in south Wales.⁴ In response to this, the British government appointed a *Royal Commission on the Geographical Distribution of the Industrial Population* (the Barlow Commission) to examine the problem and suggest a public policy response.

The Barlow Commission discovered what it called the “structural effect”: the growth of the more prosperous regions was directly related to their more favourable industrial structures. In depressed areas, by contrast, industries were declining so rapidly that they were dragging the local economy down with them, such that “it would be necessary to make superhuman efforts just to keep the economy in the same place.”⁵ There were powerful, objective forces pulling new enterprises and investments away from the old industrial centres, which tended to be isolated from the main marketing centres, leaving large concentrations of stranded population and social capital. Economic adjustment under these conditions implied heavy social costs in the form of high levels of structural unemployment. As Peter Hall has noted, “The Barlow Commission could find no good cause why the patterns of forces, left to itself, should start working in a different direction.”⁶ The recognition of structural causes of regional underdevelopment became the intellectual foundation for British post-war regional policies. Indeed, it was the membership of the United Kingdom in the European Community in 1973 which triggered the creation of a *European Regional Development Fund* at the European level precisely to address the problems of declining regions and create the preconditions for new and viable sources of economic growth.

Emerging European regional policies also drew heavily on the French experience. In the French post-war tradition, a central planning institution (the *Commissariat general au plan*), working through a regional arm, coordinating regional agencies and administering regional development funds, was tasked to create incentives for a territorial redistribution of employment in manufacturing and services and support the creation of non-agricultural jobs in rural areas.

The principle of balanced economic development is as old as the European Economic Community, part of the Treaty of Rome of 1957. Regional development policy acquired a heightened significance during the late 1980s, however, with the accelerated development of a single market and monetary integration and the reforms carried out in the Commission headed by Jacques Delors. The key objectives of the Delors Commission were to eliminate the remaining barriers to a common European market and prepare for a common European currency.

There was a recognition, however, that the benefits of lifting trade barriers and enforcing monetary stability could have detrimental effects on economically marginal regions. In a well-known report published in 1987, the economist Tommaso Padua-Schioppa, today a member of the executive board of the European Central Bank, argued that market liberalisation could aggravate existing regional imbalances, requiring accompanying measures to promote the adjustment of weaker regions. It is today explicitly recognised among those dealing with regional policy in the European Commission that “closer economic integration

⁴ Peter Hall, *Urban and Regional Planning*, 4th ed., p. 56.

⁵ *Ibid.*, p. 60.

⁶ *Ibid.*

would not necessarily permit the reduction of regional disparities and could, initially at least, lead to them widening.”⁷

By the late 1980s, European regional policy had been formalised into a formal commitment to *cohesion*, which was written into the Maastricht Treaty of 1991 as one of the central pillars of the new European Union:

“In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion... The Community shall aim at reducing disparities between the levels of development of the various regions.” (Article 158)

Ray Mac Sharry, a former finance minister of Ireland, one of the countries to benefit most visibly from European regional policy, has written that without the right balance between efficiency (the single market), stability (monetary union) and solidarity (the structural and cohesion funds), “the community would be unlikely to survive the social tensions generated by the introduction of the single market and single currency in such quick succession.”⁸

Ireland remains the most outstanding success story of European cohesion policy. As Mac Sharry and the former head of the Irish Industrial Development Agency, Padraic White, noted, “if Irish economic history had ended in 1986, the verdict on national economic performance since Independence would be damning indeed... [I]t is difficult to avoid the conclusion that Irish economic performance has been the least impressive in western Europe, perhaps in all Europe, in the twentieth century.”⁹ However, Irish GDP has risen from two thirds of the EU average when it joined in the 1970s to 118 percent today. This rapid development was driven in part by a sharp increase in foreign investment, which in turn “benefited from almost every item of spending under transfers from what in the late eighties became the EU structural and Cohesion funds.”¹⁰ For instance, the training of Irish staff for foreign companies investing in the country was paid for by the Irish Development Agency, which recovered 75 percent of the costs from the European Commission.¹¹ As Mac Sharry put it, the role of the European Union in this process of catching up was crucial. The country’s great economic leap since 1989 was “underpinned by the 17 billion pounds received in total EU support since 1989 – more than half of which came from the Structural and Cohesion funds.”¹²

The impact of Europeanisation has also been striking in the Mediterranean countries. In Spain, Greece and Portugal, *per capita* GDP leapt from 68 percent of the EU average to 79 percent between 1989 and 1999, as these countries benefited from the combination of joining a large common market, the fiscal discipline inherent in moving toward monetary union, and a major injection of EU structural assistance.

The Marshall Plan, credited with dramatic successes in helping Europe recover from the effects of the Second World War, is often held up as the most successful example of structural

⁷ Tommaso Padoa-Schioppa, *Efficiency, Stability and Equity: a Strategy for the Evolution of the Economic System of the European Community*, Oxford University Press, London, 1987.

⁸ Ray Mac Sharry, Padraic White, *The Making of the Celtic Tiger – the Inside Story of Ireland’s Boom Economy*, 2000, p. 168.

⁹ *Ibid.*, p. 40.

¹⁰ *Ibid.*, p. 179.

¹¹ *Ibid.*, p. 181.

¹² *Ibid.*, p. 154.

economic assistance working in the service of long-term stability and democratisation in recent history. The United States transferred resources equivalent to 2 percent of GDP in the recipient countries between 1948 and 1951, for a cumulative total of 8 percent. By comparison, the cumulative transfers from the EU structural and cohesion funds to Spain between 1986 and 1997 amounted to 9.5 percent of its GDP.¹³ In the case of Portugal and Greece, the national figures are even higher.

However, the European Union has been much less effective at marketing the impact of its regional development policies as a manifestation of *European soft power* on the economic, social and institutional development of Spain, Portugal and Greece. As the Union enlarges, the tools of integration (common market, macroeconomic convergence and cohesion policies) will be applied to an even more diverse set of countries.

EU regional policy seeks to improve the long-term growth performance of recipient countries by targeting assistance to the supply side, with the bulk of its interventions focused on infrastructure and vocational training. The structural funds are intended to create “synergies and positive spin-offs through a series of co-ordinated measures to improve human capital, set up infrastructure and promote productive activity.”¹⁴ They must encourage investment over consumption within the recipient economy. It is assumed that EU grants can only have a positive impact if they add to, rather than replace national expenditure.

To ensure a positive impact, the EU has developed a number of operational principles to guide its interventions, including:

- **Additionality:** EU funds are added to domestically financed public investments, to avoid substitution; they also rely on mandatory co-financing on the part of recipients;
- **Development planning:** all projects supported by the EU must be embedded in long-term development programmes developed by the region/country, so as to increase spill-over effects. The EU procedures require the formulation of a hierarchy of planning documents, which ensure that each specific project is tailored to the needs of the community and the wider economic policy of the country concerned;
- **Partnership:** to ensure that the best interests of the recipient communities are reflected in the programming, the EU requires close partnership between the Commission and national and regional governments, who work closely together to design, implement, supervise and evaluate operational programmes. This reflects the EU principle of subsidiarity, and has directly contributed to strengthening regional governments in a number of member states.¹⁵

These assistance strategies are at present being expanded beyond the Union to the candidate countries. As the Directorate for Regional Policy noted in 2001, “the presence of new member states composed almost entirely of regions with a general need for support for economic development will necessitate a massive refocusing of the effort in order to achieve a

¹³ Horst Reichenbach, *The Implications of Cohesion Policy for the Community's budget*, in Jorgen Mortensen ed., *Improving Economic and Social Cohesion in the European Community*, CEPS, 1994.

¹⁴ Goybet and Bertoldi, 1994, p. 229.

¹⁵ Herve & Holtzmann, *Fiscal Transfers and Economic Convergence in the EU: An Analysis of Absorption Problems and an Evaluation of the Literature* (Nomos Verlagsgesellschaft, Baden-Baden, 1998), pp. 32-3.

significant catching up within a reasonable period.”¹⁶ In 2006, the EU has budgeted €9.7 billion in structural actions for new EU members.

It is instructive to compare this experience to the way reconstruction programmes have been implemented in the Western Balkans in recent years, where projects have rarely been embedded in sound development strategies. As a result, much of the assistance has been poorly targeted, and recipient governments continue to lack the capacity or resources to support private-sector growth or even to maintain public assets. Capital investment is already declining sharply with the end of the reconstruction programme.

Principles and strategies developed in connection with European cohesion policy would have ready application to EU assistance to the countries of the Western Balkans, when adjusted for local conditions. Conditionality could be used to encourage fiscal discipline and sound macroeconomic policy. The cohesion funds have been used to ensure that EU member states developed economic convergence programmes in accordance with the Maastricht Treaty.¹⁷ In the Western Balkans, they could be used to encourage responsible economic policies which support long-term development and EU convergence strategies. Conditionality could also be used to encourage policy measures aimed at improving supply-side performance, for example by reducing state aids to former socially owned enterprises and hardening budget constraints on loss-makers. Within an appropriate financial and institutional framework, the options for encouraging improved economic management in the region would increase dramatically.

Structural problems in the Western Balkans

In economic, social and political terms, the Western Balkans is a highly diverse region. However, serious structural development problems are common to the region as a whole, visible legacies of a half century of (Yugoslav) socialist development followed by a lost decade of war, sanctions and population displacement across the region. The two most visible of these are the extent of de-industrialisation and the enduring problem of large-scale rural underdevelopment.

An ongoing process of de-industrialisation has led in many areas to a catastrophic decline in employment, which is not yet captured in official statistics. The successor states of the former Yugoslavia share a legacy of industrial companies established during the investment boom of the 1970s, when foreign capital was freely available. Job creation in socially owned enterprises was the principal social policy of the socialist regime. In Bosnia and Herzegovina, for example, new industrial employment was created at the extraordinary rate of 2,500 jobs per month throughout the 1970s. The geographical spread of industry was dictated by social rather than economic considerations, and much of the investment proved economically and technically inefficient. The industrial companies which resulted were rarely able to turn a profit, and were already visibly de-capitalising during the 1980s.

Across the region, these old industries are declining rapidly. Large companies laden with debt, excess workers and outdated technology are proving impossible to privatise to credible investors. Many have already closed their doors; others are sustaining production only through accumulating heavy losses which end up on the public budget. The viability of entire

¹⁶ European Commission, *Second Report on Economic and Social Cohesion*, January 2001.

¹⁷ Horst Reichenbach, *The Implications of Cohesion Policy for the Community's budget*, in Jorgen Mortensen ed., *Improving Economic and Social Cohesion in the European Community*, CEPS, 1994.

regions is now threatened by the collapse of these companies. De-industrialisation generates massive structural problems for the economy, from unused industrial capacity, to infrastructure which is too expensive for post-industrial communities to maintain, workforces which lack the skills required by the new private sector, and entire population centres whose economic rationale has disappeared.

An equally serious challenge is the existence of large areas of rural underdevelopment. This is a result of decades of neglect of private agriculture and the countryside under the socialist system. As one economic historian has noted, in socialist Yugoslavia “productivity per active agriculturalist did not establish itself above 1939 levels (except temporarily) until 1963. In 1976-8, labour productivity in Yugoslav farming was but 10 percent that of Britain, 16 percent that of France and at about the same level as Pakistan. The large peasant farming sector never broke clear of its subsistence farming origins.”¹⁸

Today, across Bosnia, Macedonia, Kosovo and parts of Serbia, the collapse of industrial employment has led to a return to subsistence farming among those forced out of the formal economy. Agricultural smallholders are working small plots of land with little mechanisation. With agricultural techniques which have changed little in fifty years, they produce little surplus for the market, and are therefore unable to make investments in improving productivity. The capacity of the agricultural sector itself to lift these rural areas out of their poverty is limited. There is a need not just for investment in agriculture, but for new, diversified rural development strategies. For the time being, however, inadequate transport and infrastructure and low skill levels among the rural population mean that private sector development in these areas remains extremely weak. In the absence of rural development, the best option available for the rural population is massive economic migration.

These twin structural problems have major consequences for governance in the region. Governments are faced with an inadequate revenue base to support modern, European-style administrations. One result is that the resources available to provide any form of social safety net to cushion the effects of employment losses are grossly inadequate.¹⁹ Another result is that the infrastructure built up to support the needs of socialist industries is simply too expensive for post-industrial communities to maintain, leading to a steady de-capitalisation of public assets. In an environment of inadequate public resources, there is a tendency for the costs of sustaining the public administration to absorb a disproportionate share of the budget, crowding out the delivery of government services and investment. This creates a development trap: it both undermines the legitimacy and effectiveness of public institutions (with dangerous political consequences for new and often fragile states) and discourages private-sector growth. There is a clear need for different kinds of assistance which help to mobilise domestic resources, rather than substituting for domestic capital expenditure.

These are precisely the kinds of problems which regional policy in Europe was developed to overcome. Recognising that many of the basic problems of the Western Balkans are not fundamentally different in nature from those dealt with elsewhere in Europe opens the door to mobilising valuable lessons and expertise from the wider European experience.

¹⁸ See: Michael Palairret, unpublished manuscript, *The mismanagement of the Yugoslav rural economy, 1945-1990*, p. 31. Palairret also refers to Veselinov, *Sumrak seljastva*.

¹⁹ In Bosnia and Herzegovina, for example, of 420,000 people registered as unemployed in 2001, only 4,900 unemployment benefits were paid out in any given month.

Pre-accession without negotiations

Until very recently, there has been a sharp division in European Union policy towards the European continent. On the one hand, for accession candidates, there exists a clearly articulated strategy for helping them through the accession process in parallel to accession negotiations. They receive the benefit of pre-accession funds drawn from a special EU budget line (chapter 7 of the EU financial framework), and are dealt with by a dedicated Enlargement Directorate, together with progressively intensifying engagement by other Directorates and EU institutions.

On the other hand, there is the “wider Europe”, which falls into the same category as the rest of the developing world. The wider Europe is dealt with by the External Affairs Directorate and draws funds from the budget line for external actions (chapter 4 of the EU financial framework).

Until the end of 2002, this system appeared to be purely binary in nature: the countries of Europe were either candidates on the path to accession, or were consigned to the wider Europe. The states of the Western Balkans were offered a political commitment that, in due course, they would be able to graduate from the wider Europe and become EU candidates. However, for most of them, this prospect remains in the distant future.

In recent times, the distinction between the two camps has become blurred. Turkey was elevated to candidate status in 1999, together with Romania and Bulgaria. It became the responsibility of DG Enlargement, but continued to receive European assistance from the external affairs budget line. At the end of 2002, the decision was taken at the Copenhagen summit to take future assistance for Turkey from the pre-accession budget (chapter 7), even though accession negotiations are yet to commence. Turkey is now dealt with as though it were a full EU candidate, even though the decision on whether it meets the conditions to open negotiations will not be made until the end of 2004. It is even discussed in the 2001 EU Cohesion Report, where the Western Balkans are not mentioned. In short, Turkey now constitutes a new category: **pre-accession without negotiations**.

There are powerful strategic arguments for the European Union to treat Turkey in this way. It enables the EU to engage much more intensively in its development challenges, bringing new financial resources and institutional tools into play and encouraging its internal reform processes, without committing itself at this stage to a specific accession timetable.

There are equally powerful strategic arguments for **extending this new category to the Western Balkans: to treat these countries as pre-accession candidates without the obligation to open negotiations on membership until they are found to be fit by the Commission on their *individual* merits.**

The progress of each state through the stabilisation and association process and then the accession process is determined by individual circumstances and capacity. This differentiated approach is a key element of EU strategy in the region, and should be retained. At the same time, there is a strong EU interest in addressing the structural economic problems common to the region as a whole, which pose a continuing threat to the region’s fragile political and social stability. It is in the EU’s interest to bring its full range of financial and institutional tools to bear on these challenges as soon as possible, whatever the progress of particular states through the stabilisation and association process.

Extending this new, intermediate category – pre-accession status without negotiations – to the Western Balkans would resolve a number of tensions inherent in the EU’s current strategy in the region. First and most importantly, it would help to prevent the region falling further behind in the fundamental development goals of European integration. The countries of the Western Balkans are unlikely to become credible accession candidates unless they manage to address their structural economic problems. Enabling them to access pre-accession aid while still in the Stabilisation and Association Process would provide immediate incentives for them to develop their own tools for regional development, while providing them with the technical and financial assistance to begin addressing their structural economic problems.

Second, this would help to prevent the accession process itself from creating new lines of division within the region. Croatia has recently submitted its application for membership. Once negotiations with Croatia begin, the gap between Croatia and its eastern neighbours would widen, creating further pressures in the region. However, *not* addressing the Croatian application for fear of its impact on other countries is not a credible policy option either, given the European Commission’s commitment to judging membership prospects on an individual basis.

Indeed, the EU should be concerned that its current strategies may have created incentives for other countries in the region to submit their membership applications as soon as possible, to avoid missing the accession train and being consigned to a “wider Europe” which offers few perspectives. Such a rush towards formal accession would risk undermining the Stabilisation and Association Process. The best way to avoid this is to introduce forms of pre-accession assistance into the Stabilisation and Association Process.

Third, the provision of structural assistance in advance of the formal accession process would provide a major boost to present EU efforts to strengthen reform processes and governance capacity in the region. The strength of the assistance methodology developed by the European Commission through pre-accession funds and regional policies is its ability to deliver a **governance dividend** – that is, to provide aid in such a way as to build the incentives and capacity of national governments to carry out regional development, and to mobilise domestic resources through the principle of co-financing. A recent review of absorption capacity and transfers notes “the fundamental contribution of Structural Fund intervention to improve the effectiveness and efficiency of the public administration in Greece.”²⁰

Thessaloniki and the promise of cohesion

The Thessaloniki Summit planned in June 2003 offers a real opportunity to redefine the nature of the European engagement in the Western Balkans. It needs to send a strong signal that the promise of the Europeanisation for the region will not fade with the next wave of enlargement.

²⁰ Yves Herve, Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU: An Analysis of Absorption Problems and an Evaluation of the Literature*, 1998, p. 73. The same review notes that, from the point of view of academic economics, “a conceptual framework for comprehensively assessing the issue of absorption problems related to large-scale fiscal transfers is largely missing.” (p. 11)

Thessaloniki provides an opportunity for the EU to make a commitment to cohesion for the Western Balkans, beginning a process of engaging a new set of instruments and strategies to help the region reach the point where EU accession becomes a realistic possibility. The success of the Thessaloniki Summit could be measured by the following three benchmarks:

1. *A pledge to make cohesion an explicit EU objective in the Western Balkans*

Cohesion is not an objective of the EU in the wider Europe or the rest of the world, but a specific aspect of EU integration. It requires a more significant commitment of resources, and more intensive involvement by European institutions.

In return, it offers the EU significantly more leverage to bring about real change in the region. It would place the EU in a much stronger position to demand a credible commitment to the other pillars of EU policy: responsible fiscal policies and an open trade environment. Already today most countries of the region have reduced inflation. Some already use the Euro as official tender or have introduced currency boards. Across the region, bilateral free-trade agreements are reducing trade barriers with each passing year. By making a pledge to support cohesion on a regional basis, it would also place the EU in a strong position to demand a common Western Balkan effort along these lines.

In effect, this means extending to the Western Balkans the category of “pre-accession without negotiations”, along the lines of recent decisions on Turkey. It means that the EU makes a serious commitment to preventing the countries of the Western Balkans from falling behind the wider region, and helping them to reach a level of development where formal accession becomes a real possibility.

2. *A commitment to applying lesson from cohesion policy in the EU and the candidate countries to the Western Balkans*

To use any funds more effectively, it would be essential to begin to employ new assistance strategies, applying the experiences gained from cohesion policy elsewhere in Europe as to how to mobilise domestic resources, build governance capacity and encourage the emergence of regional development policies. It may be appropriate at Thessaloniki for the Commission to undertake to examine how lessons from the cohesion funds can be applied in the Western Balkans, including co-financing, conditionality, regional development planning and partnership between the Commission and national and regional governments.

3. *A commitment to sustaining assistance levels so that the gap between present candidate countries, such as Bulgaria and Romania, and the countries of the Western Balkans does not widen further.*

Making a serious commitment to cohesion in the Western Balkans is more about developing new assistance strategies, than about mobilising large new financial resources. However, the gap in resources envisaged to be spent past 2004 in Romania vs. Serbia, or in Bulgaria vs. Macedonia, raises obvious questions as to the credibility of European engagement in the region. To make a serious commitment to promoting cohesion in the Western Balkans, the European Union needs to stabilise its assistance levels and place them within a credible long-term strategy.

The sums of money required to achieve this are not as high as might be supposed. At present, the EU assistance planned for the Western Balkans in 2006 is €500 million, equivalent to only 1 percent of GDP. Bringing this commitment up to the level of 2 percent of regional GDP would still be less than the EU commitment to Bulgaria and Romania. It would also be consistent with the lessons on national absorption capacity that the Commission has learned in recent decades.

This would involve a commitment of some €1 billion in 2006 for the Western Balkans, a sum equivalent to what the EU has spent in the region in recent years. To finance cohesion policies in the period 2004-2006, the European Union could supplement the existing CARDS budget with pre-accession funds, beginning the process of moving the Western Balkans from appropriation 4 (external actions) to appropriation 7 (pre-accession aid).