

Serbia's democratic and economic transition –
which has EU conditionality promoted more?

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1. Abstract

Serbia has undergone a political and economic transition after the fall of Yugoslavia and Milosevic. The carrot of EU accession and the stick of EU conditionality have aided these transitions immensely. In this dissertation, I shall evaluate the most important benefits from EU conditionality from both a political and economic perspective. Politically, I shall discuss how EU conditionality has helped Serbia's democratic transition through judicial reform, the fight against corruption, the development of regional cooperation within the Western Balkans and the facilitation of social inclusion and improved fundamental rights. Economically, I shall evaluate the effect of Serbia's transition from a command economy to a market based economy focusing on free trade, competition policy and economic reform.

I will argue that each of these benefits has the potential to facilitate democratic and economic transition in Serbia and include an assessment of the effectiveness of EU conditionality – how much can it achieve and can it potentially hinder democratic or economic transition?

I conclude that Serbia's democratic transition has been promoted more by EU conditionality than its economic transition, as little would have been achieved democratically without the EU. The main priority of the EU for the Western Balkans region is political stability and the alignment with European democratic standards. It is clear that Serbia's democratic transition also has an economic dimension owing to the increased stability of the country thanks to EU conditionality. Because of this, Serbia will become a more desirable place for investors and businesses, and the lives of its citizens will be improved.

2. Introduction

After the Yugoslav Wars in the 1990s, the EU has become committed to integrating Serbia and the Western Balkans region into the EU. During these wars, Serbia was a command economy led by an authoritarian government and dictator, Slobodan Milosevic, but now Serbia has embarked upon the greatest democratic and economic transition in its existence. After two decades of transition, the promise of EU integration has aided this transition significantly. The EU's method to promote this integration is the assurance of EU accession if Serbia meets EU conditionality¹. If Serbia hopes to join the EU, it must become a democratic state and a market economy as dictated by EU standards, values and principles. As a result, EU conditionality and financial assistance has accelerated these transitions in the anticipation that Serbia will become a member by 2020.

¹ See glossary for a definition of EU conditionality

In this dissertation I will focus on seven ways that the EU has aided Serbia's transitions, of which four are democratic and three economic. To choose these benefits I read EU enlargement strategy papers and Core Treaties, the SAA, Serbian public opinion polls and academic papers, studies, reports and books published in and outside Serbia. Through this approach, I feel that I have selected the benefits of EU conditionality most specific to Serbia. Each benefit matches these criteria and I provide evidence for the following reasoning within the discussion and assessment of each benefit:

- Corruption: Serbia faces problems with high and low-level corruption in the public and private sector. A democratic society has little or no corruption, and EU anti-corruption conditionality is the main driver of the fight against corruption in Serbia. Some academics argue that the EU does not have the potential to promote anti-corruption in Serbia as the Serbian government still lacks the political will to fight it.
- Judicial reform: Serbia's judiciary is inefficient, unprofessional, not independent or impartial and does not meet the needs of the Serbian people. An equitable and competent judiciary is an important part of a democratic country. I argue that there would be very little political impetus for reforming Serbia's judiciary without EU conditionality, and that conditionality will promote judicial reform and aid Serbia's democratic transition immensely. I discuss that some academics argue that EU judicial reform conditionality is too high level and the problem of an implementation gap hinders its success.
- Regional cooperation: following the Yugoslav wars, Serbia's international relations have been poor, especially in the Western Balkans region. I argue that regional cooperation will only be improved thanks to EU conditionality, and that it is an important part of a stable and peaceful democracy.
- Fundamental rights: Serbia's record of protecting fundamental rights is poor: Serbia currently is an intolerant discriminatory society. An inclusive, tolerant and fair society is one of the foundations of democracy. It can be argued that EU conditionality can improve fundamental rights and social inclusion in Serbia. I assess that EU fundamental rights conditionality may have been ineffective in promoting democratic transition owing to the problem of an implementation gap.
- Trade liberalisation: as Serbia's biggest trading partner, the effect of EU facilitated trade liberalisation is important to develop an open and connected market economy. Although this has the potential to increase the volumes of trade in and out of Serbia,

liberalisation could result in unemployment, a larger trade deficit and the loss of some industries if Serbia does not manage subsidies and trade well.

- Competition policy: like most post-communist countries, competition within Serbia is poor - state monopolies are prevalent and competition and intellectual property law is not sufficiently comprehensive and enforced. A market with internal competition is a foundation of a market economy, and EU competition conditionality has aided Serbia's economic transition in a way that would be impossible without it. Some argue, however, that multiple failed privatisations have not succeeded in reducing state influence and improving competition within Serbia.
- Economic policy: many economists and IFIs argue that Serbia's economic policy currently lacks in quality, stability and scalability: Serbia has been in and out of recession for twenty years and Serbia needs a comprehensive economic reform strategy (International Monetary Fund, 2014). The EU acts as a catalyst for reform since, following the global financial and Eurozone crises, the EU places additional conditionality on economic governance: the development of a stable, prosperous and balanced macroeconomy. Increased integration with a European market because of EU promoted economic reform has left Serbia's economy more vulnerable to external shocks and excessively reliant on the EU. These problems need to be managed by Serbia to prevent future economic downturn.

Finally, for reasons of consistency, I have adopted a uniform structure for the discussion of each way that conditionality promotes democratic and economic transition. I start by discussing the present state of play of each benefit in order to review literature and provide context to the reader – for example, how large an issue is corruption in Serbia? Next, I discuss the ways in which EU conditionality can promote the benefit – for example, how can EU conditionality promote the fight against corruption in Serbia? This is followed by a focus on a specific way EU conditionality has promoted this benefit. I then include a discussion on how the benefit can promote democratic or economic transition – for example, how EU anti-corruption conditionality promotes democratic transition. Finally, I assess the effectiveness of EU conditionality for this benefit – for example, could EU conditionality make corruption *worse* in Serbia? This structure enhances the readability and consistency of my dissertation and effectively separates literature review from discussion and assessment.

2.1 Glossary

Some areas of this dissertation are rather technical, so a glossary is important to define these technical aspects of the EU:

Accession	The process of becoming a Member State of the EU ²
<i>Acquis - Acquis Communautaire</i>	The entire body of EU legislation, legal acts and court decisions ³
EU Conditionality	The requirement of an aspiring member state to meet specified criteria before EU membership. For Serbia, this means that it must meet the Copenhagen Criteria and the conditions of the Stabilization and Association Process ⁴
IPA - Instrument for Pre-Accession Assistance	The EU's means of funding candidate countries such as Serbia to meet EU conditionality
SAA - Stabilization and Association Agreement	The legally binding framework for implementing the SAP in the Western Balkans on a country-specific basis
SAP - Stabilization and Association Process	The EU's policy towards the Western Balkans with the aim of eventual EU membership
Western Balkans	The region comprising of Albania, Bosnia and Herzegovina, Kosovo, Macedonia (the Former Yugoslav Republic of), Montenegro and Serbia

Table 1: Glossary

3. Serbia and the EU

In this section I shall briefly outline the major landmarks and barriers on Serbia's road to EU accession. This is followed by a summary of the theory behind EU enlargement, focussing on the purpose of enlargement and the criteria for membership as well as a definition of EU conditionality – what it means and how the EU uses it as its change-promoting instrument in enlargement.

² See Annex 2 for a history of Serbia and the EU

³ See Annex 3 for the sections of the EU *acquis*

⁴ See section 3.2 for these conditions

3.1 Serbia and the EU: a brief history of a bumpy road

A brief history of recent EU-Serbia relations is necessary to contextualize Serbia within the EU as well as demonstrate the importance of certain benefits of conditionality that are more specific to post-communist Serbia.

Throughout the last two decades, Serbia has undergone political and economic transition from a communist to a democratic state and market economy. After the devastation of the Yugoslav Wars from 1991-99 the EU has had a presence in the Serbia to oversee and aid these transitions and ensure the stability of the Western Balkans region.

Serbia's post-conflict road to EU accession has not been without its problems. In order to accede, Serbia must relinquish its claim of sovereignty over Kosovo, which unilaterally declared independence in 2008. For many years, the Serbian government was unwilling to do so, halting the accession process. In 2013, the Brussels Agreement was signed by Serbia and Kosovo after over 10 rounds of talks lasting two years facilitated by the EU, signifying the start of Kosovo-Serbia normalization. Other issues such as rights of the LGBTI and Roma people and regional tensions, still present challenges to EU accession. These problems have reduced the benefits of certain aspects of EU conditionality and shall be covered more in subsequent sections.

3.2 Theory of EU enlargement: purpose, criteria and conditionality

The EU's goals are defined in the Core Treaties (Treaty of Lisbon, Treaty on European Union, Treaty on the Functioning of the European Union and Charter of Fundamental Rights of the European Union). These define the EU as a body to create a closer European union, ensure economic progress and development, strengthen peace, liberty, the rule of law and fundamental and human rights, ensure balanced trade and competition, create an economic union via European Integration, create a common foreign, defence and security policy, develop a knowledge economy and facilitate free movement of people, goods, services and capital.

"The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities...non-discrimination, justice, solidarity and equality between men and women" Article 2, Treaty on European Union (European Union, Consolidated 2012b)

Article 49 of the Treaty on European Union defines that *"any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union"* (European Union, Consolidated 2012b). These conditions for membership were made more explicit in 1993 in the Copenhagen Conference, which

established the Copenhagen Criteria for membership consisting of three main sections (European Council, 1993):

- “Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”
- “The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union”
- “The ability to take on the obligations of membership” [harmonization with EU *acquis*]

The Stabilization and Association Process defines regional cooperation and good neighbourly relations as further conditions for EU membership.

These criteria define the EU’s strategy for the Western Balkans: conditionality. This strategy is based on the need for aspiring member states to satisfy the membership criteria, and the assumption that benefits of membership and substantial change will come because of this process.

4. Transition to a democratic society

In the 1980s and 90s, Serbia was led by a corrupt authoritarian regime led by Slobodan Milosevic. After his arrest and rendition to the ICTY in 2001 for allegations of war crimes, Serbia’s democratic transition became a priority for the Serbian government and the EU. The EU was originally set up as a democratic union, and its democratic goals are identified in its Core Treaties:

“The Union is founded on the values of respect for human dignity, freedom, democracy, quality, the rule of law and respect for human rights.” Article 2, Treaty on European Union
(European Union, Consolidated 2012b)

Since the EU was developed as a pan-European promoter of democracy, the EU can help Serbia consolidate its democracy further and complete its transition from an authoritarian state to a free democratic society. In this section I shall discuss the main ways that EU conditionality is promoting Serbia’s democratic transition. I start by discussing and evaluating EU anti-corruption conditionality followed by judiciary conditionality. A key part of a stable democracy is creating sustainable peace and neighbourly relations, and this is demonstrated in EU conditionality: Serbia must develop good regional cooperation with each country before membership. I conclude by discussing and assessing fundamental rights conditionality. The benefits of EU conditionality in promoting Serbia’s democratic transition include many others, but these are the four main benefits I have identified (for the reasons set out in the introduction). For example, rights of political parties (freedom of assembly) and empowerment

of civil society manifest themselves in EU democratic conditionality. In these cases, Serbia is already moderately aligned with EU standards, and, although conditionality will improve the rights of political parties and empower civil society, the benefits of conditionality compared with other areas of democratic conditionality, such as regional cooperation and judicial reform will be more limited:

“An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the state institutions. The civil society sector in Serbia has continued to grow, especially at local level.” (European Commission, 2014e)

“Freedom of assembly and association is in general upheld.” (European Commission, 2014e)

4.1 Defining a democratic society

Democracy is hard to define and has many different definitions, such as in the Oxford English Dictionary: “a system of government by the whole population or all the eligible members of a state, typically through elected representatives”

This definition is expanded upon by Freedom House. A country is democratic when (Freedom House, 2014):

- Elections are secret, fair and competitive
- Right of assembly and the independence of civil society is upheld
- Freedom of expression and the independence of the media are protected
- Local and national governments are independent and accountable
- The judiciary is independent, impartial, efficient and timely. Human and fundamental rights are enforced and protected
- The public and private sector are free of corruption

4.2 Serbia’s democratic indicators⁵

Freedom House defines Serbia as a “consolidated democracy” with free elections. However, several key foundations of a democratic society are weak. I argue that EU conditionality has the potential to strengthen these foundations, promote, and catalyse democratic transition.

⁵ These data are compiled by the independent Freedom House charity, an NGO that conducts research on democracy, freedom and human rights. I fully trust these data as they are used by multiple organisations across the world such as the CIA and World Bank. Each country has an annual report that is evaluated by multiple researchers and analysts. The charity produces the most comprehensive evaluation of Serbia’s democracy I could find with the most amount of background research conducted. As a result I know that this source is reliable. Perhaps the only concern with this source is the fact that it may be slightly over critical as the charity may use critical assessments as a method to drive reform by the Serbian government or the EU. This would decrease its reliability, but I am still confident in the accuracy of this source.

	2009	2010	2011	2012	2013	2014
<i>Electoral Process</i>	3.25	3.25	3.25	3.25	3.25	3.25
<i>Civil Society</i>	2.75	2.50	2.25	2.25	2.25	2.25
<i>Independent Media</i>	3.75	4.00	4.00	4.00	4.00	4.00
<i>National Democratic Governance</i>	4.00	3.75	3.75	3.75	3.75	3.75
<i>Local Democratic Governance</i>	3.75	3.50	3.50	3.50	3.50	3.50
<i>Judicial Framework and Independence</i>	4.50	4.50	4.50	4.50	4.50	4.50
<i>Corruption</i>	4.50	4.50	4.25	4.25	4.25	4.25
Democracy Score	3.79	3.79	3.71	3.64	3.64	3.64

Table 2: Serbia's democratic indicators

Ratings between 1 (most democratically progressed) and 7 (least)

(Freedom House, 2014)

4.3 Corruption

This section covers EU anti-corruption conditionality. It starts by discussing Serbia's current state of play in regards to corruption, demonstrating high-level issues with Serbia's anti-corruption framework. The focus then turns to the recent EU screening exercise on chapter 23 of the *acquis* (see annex 3) and EU financial assistance in order to understand specific ways that the EU helps the fight against corruption at a high level. I then discuss how anti-corruption conditionality promotes democratic transition. Finally, I conclude this section by evaluating the success of EU anti-corruption conditionality and assess whether the EU may not actually help fight corruption at all or even make Serbia more corrupt.

4.3.1 The present state of play

Serbia suffers from widespread corruption in both the private and public sectors. According to research conducted by Transparency International, 70% of Serbs view corruption as a serious problem, 80% of public enterprises violate transparency laws and Serbia is one of the most corrupt countries in the Western Balkans region and the rest of Europe (Transparency International, 2014)⁶. Specifically, bribery is a problem in Serbia, where 18% Serbia's population were calculated to have paid a bribe in 2012 (European Commission, 2014c).

⁶ These data were collected, analysed and evaluated by Transparency International, an NGO that monitors corruption in over 170 countries across the globe. The data I have used has been researched by Transparency Serbia, the Serbian office of the charity. They work with the government, the EU and other NGOs in Serbia to assess corruption in Serbia and the effectiveness of Serbian legislation and capacity to combat it. I rely on this

Corruption Perceptions Index (2014)

Rank	78/175
Score	40/100

Table 3: Indicators of corruption in Serbia

(Transparency International, 2014)

Freedom House has scored Serbia's corruption as 4.25/7, where 7 is the highest level of corruption (Freedom House, 2014). Similarly, the EU has identified corruption as a large problem Serbia faces:

"Corruption remains prevalent in many areas. Serbia needs to build up a track record of concrete results in the fight against corruption and organised crime." (European Commission, 2014e)

This fact that Serbia is a corrupt country is little disputed and major charities, think tanks and institutions agree that corruption in Serbia currently acts as a barrier for democratic consolidation and the efficient running of public, and even private administration.

4.3.2 How can EU conditionality combat corruption?

The EU has identified the fight against corruption as a priority for Serbia, as part of chapter 23 of the EU *acquis* (Judiciary and Fundamental Rights). Serbia's signing of the SAA contracted Serbia to combat and prevent corruption as part of its process to EU accession:

"The Parties shall cooperate on combatting and preventing criminal and illegal activities, organized or otherwise, such as:... corruption, both in the private and public sector, in particular linked to non-transparent administrative practices" Article 86, SAA (European Union & Republic of Serbia, 2008)

To aid Serbia's efforts to comply with this article, the EU has provided financial assistance to aid it reform its public administration, to increase transparency and reduce corruption, help Serbia align with the EU's corruption *acquis* and develop the institutional capacity to fight corruption. Between 2007 and 2013, EUR 130mn of IPA assistance was provided to Serbia to improve governance and the fight against corruption. The new IPA II between 2014 and 2020 aims to increase the quantity assistance into the fight against corruption with the following results expected (European Commission, 2014c):

- "An integrated approach to the prevention and fight against corruption is implemented, including an effective system for the protection of whistle-blowers, strengthening

globally recognized and distinguished charity's data owing to the comprehensive nature of the data and the fact that the charity has an office on the ground in Serbia compiling these reports.

capacities and efficiency of the relevant bodies, in particular the Anti-Corruption Agency”

- “An improved track record of inter-agency cooperation, investigation, processing, prosecution and final convictions in corruption cases”
- “Legal framework enabling efficient fight against corruption is strengthened”

EU assistance via IPAs hopes to improve significantly Serbian governance, by stipulating improved legislation and institutional capacity for fighting and preventing corruption.

4.3.3 Focus: the corruption screening exercise

The EU conducted a screening exercise of chapter 23 – judiciary and fundamental rights. Part of this chapter and exercise focuses on anti-corruption efforts. The EU found that Serbian legislation is moderately aligned with EU *acquis*, but, as is common in Serbian legislation, there is a wide implementation gap between *acquis*-compliant legislation adopted and the implementation of this legislation and the capacity of Serbian institutions to enforce them. The Commission suggested over twenty “recommendations” for Serbia to comply with before accession. Serbia must (European Commission, 2014d)⁷:

- fully align with the EU *acquis* and the UN convention against corruption
- improve its law on public procurement to prevent corruption in privatisation and the handling and allocation of public contracts
- tackle corruption in taxation more effectively
- develop legislation on conflict-of-interest and depoliticize its public administration
- enhance the capacity of its ACA and investigate all corruption allegations
- develop a legal framework for whistle blowers
- conduct regular audits of employees and firms in the public sector

These recommendations are already being complied with in the MoJ’s *Action Plan for Chapter 23* and its *Anti-Corruption Strategy for the Period 2013-2018*. The MoJ hopes that Serbia will be able to meet EU anti-corruption conditionality by 2018, demonstrating the beneficial effect that EU conditionality can have in the future on Serbia’s anti-corruption framework.

⁷ This is Serbia’s Screening Report for Chapter 23 drafted by SEIO and published by the European Commission. It is an objective document that assesses Serbia’s current alignment with EU *acquis* and provides recommendations on how to align fully. This document is objective, reliable and accurate.

4.3.4 Discussion: how does combatting corruption promote Serbia's democratic transition?

Similarly to the EU's involvement in judicial reform, EU conditionality also works alongside financial assistance in promoting anti-corruption efforts. This was discussed by Tanja Miscevic, chief negotiator of Serbia to the EU and member and vice-president of Serbia's ACA, in a lecture at the LSE:

"[The EU provides a] unique opportunity to establish sound democratic institutions" (Miscevic, 2014b)⁸

She argues that the most important aspect of the EU's involvement in Serbia lies in the fight against corruption. This is because, she comments, the fight against corruption is a necessary foundation for the implementation of the rule of law and the development of a consolidated democracy.

Other areas of EU anti-corruption conditionality include an independent Anti-Corruption Agency, a transparent and accountable public tax administration, stronger sanctions and punishment for violations of anti-corruption laws and public information campaigns on the criminality of corruption (European Commission, 2013b). These will develop Serbia's business environment and help the Serbian people achieve a secure and stable democratic future.

Tanja Miscevic's perspectives on corruption broadly align with why the EU believe the fight against corruption to be so important:

"[Organized crime and] corruption are threats to security and democratic stability" (European Commission, 2005)

If Serbia remains a corrupt society, democratic transition cannot proceed – if politicians, businessmen and public administration act in their own interests with disregard to the fair democratic processes of the constitution and law, there can be no democracy. Democratic transition relies on the obedience of the rule of law and trust in the democratic system. Corruption at all levels demonstrates disobedience to the system and causes a loss of trust in it. Democracy is built upon the concepts of fairness and equality, and corruption lacks both. Anti-

⁸ Tanja Miscevic is Serbia's chief negotiator to the EU, vice president of Serbia's European movement, member and vice president of Serbia's Anti-Corruption agency, former director of SEIO, a negotiator of Serbia's SAA and a professor at Belgrade's Faculty of Political Sciences. She therefore knows a significant amount about Serbia's EU accession, having been one of the most prominent figures involved in the process. This vastly increases her reliability. I must note, however, that Miss Miscevic does display a considerable amount of pro-EU bias, especially towards the fight against corruption. This may be due to her position as former head of Serbia's ACA and chief negotiator to the EU. I still use this source in my dissertation since Miss Miscevic is one of the most knowledgeable people in the whole of the EU, let alone Serbia, on how Serbia can benefit from the EU.

corruption policy is one of the foundations for democratic transition. This idea is developed in the book *Embracing Democracy in the Western Balkans: From Post conflict Struggles toward European Integration*⁹ by John Lampe and Leonard Cohen. In the book, the authors discuss the development of a transparent and corruption-free public administration:

“Forging an administrative culture that is professionally orientated, intolerant of corruptive practices and unresponsive to illegal overtures by political party officials and financial interests is a critical facet of establishing a democratic political culture” (Lampe & Cohen, 2011)

The authors argue that the key to a democratic government is accountability, transparency and strong institutional capacity, which conditionality requires. The EU’s financial assistance helps Serbia develop institutional capacity for the prevention of, protection from, and punishment of corruption in the country. Lampe & Cohen argue that professionalism of public administration and the fight against corruption at all levels promotes democratic transition and is especially important in the development of a fair, just and equal democratic society.

4.3.5 Assessment: can the EU potentially increase corruption in Serbia?

EU conditionality clearly promotes the combatting of corruption at all levels in Serbia, but could also have a detrimental effect. This opinion is argued in the paper *The widening implementation gap: the impact of EU accession on governance in the Western Balkans*:

“The EU accession process unwittingly introduces new opportunities for corruption due to the influx of EU funds” (Mungiu-Pippidi, 2013)¹⁰

Upon accession to the EU, Serbia will receive considerable amounts of EU funds given to Serbia for its discretionary spending – they may be siphoned off into the pockets of Serbian

⁹ This book assesses the democratic transitions of countries in the Western Balkans region after the breakup of Yugoslavia. It is written by two authors immensely knowledgeable on democracy in the members of the former Yugoslavia. For example, Cohen has written the book *Serpent in the Bosom: The Rise and Fall of Slobodan Milosevic* and Lampe *Yugoslavia as History: Twice There Was a Country*. This book has been praised by multiple journals, authors and academics such as Nick Miller from Boise State University who wrote, “This book presents new information which is the result of recent research. The scholarship is superior. The authors have addressed almost all of the relevant topics in a discussion of democratization and integration.” This demonstrates to me that this book is reliable and accurate and is an excellent source to use and rely on in this dissertation.

¹⁰ Alina Mungiu-Pippidi has published extensively on the rule of law and governance as a part of EU enlargement. She usually focuses on countries in the Western Balkans region. She is extremely knowledgeable and displays a considerable amount of expertise in these fields, increasing her reliability as an author. This article does display a bit of anti-EU bias, as it criticizes and evaluates the role of the EU in promoting governance as part of EU accession in the Western Balkans. I still use this paper, however, as the author is reliable, the content is justified and I can use extracts from this source to evaluate the EU’s role in preventing and combatting corruption in my own dissertation.

businessmen and politicians. Furthermore, opening the Serbian market more to the European market creates another potentially corruption-creating injection of money into Serbia via public procurement and public sector contracts. These contracts could easily induce bribes or cause conflict of interest issues when allocated. This suggests that, if not managed and monitored extremely comprehensively, corruption may actually worsen, not improve as a result of EU accession in the short-term. The size of EU funds spent in Serbia is also important to consider. In the financial year of 2013, EUR 666mn in commitments and EUR 374mn in payments were provided by the EU to Croatia, 80% of which is directly managed by local and national governments (European Union, 2014)¹¹. In an economy in a considerably worse state than Croatia, Serbia can expect a more considerable injection of EU funds, potentially increasing the opportunity for corruption within Serbia.

While these arguments are true, there is an existing framework in place for the effective financial control and protection of EU funds from corruption. This manifests itself in chapter 32 of the EU *acquis*, financial control:

“[Chapter 32] relates to the adoption of internationally agreed and EU compliant principles, standards and methods of public internal financial control that should apply to the internal control systems of the entire public sector, including the spending of EU funds. In particular the acquis requires the existence of effective and transparent financial management and control systems... This chapter also involves the acquis on the protection of EU financial interests and the fight against fraud involving EU funds.” (European Commission, 2013e)

Since Serbian politicians and businessmen are those most likely to benefit from the corrupt use of EU funds, the EU acts out of self-interest to ensure that the injections of money into Serbia are transparent, non-corrupt and used legally. This was the first chapter of the *acquis* to undergo a screening exercise by the EU and is expected to be opened first early 2015. This demonstrates the importance the EU places on protecting EU funds, negating the negative impacts on corruption of EU funds for Serbia’s discretionary spending upon EU accession. The screening report for chapter 32 published by the European Commission concluded that:

“Serbia has further committed to preparing a national anti-fraud strategy and improving the legal basis for the management of EU funds. In this context, and in view of improving Serbia’s overall public financial management system, Serbia’s plans to manage irregularities and prevent and detect fraud... in the EU... are welcomed.” (European Commission, 2013f)

¹¹ These data come from the book *European Union Public Finance*, which is a financial report detailing the allocation of EU funds. These data are reliable, since the report is compiled and rigorously checked by the EU

In addition, if the EU and the Serbian government develop a solid legal framework and institutional capacity for preventing corrupt discretionary spending, public procurement and allocation of public sector contracts, corruption caused by EU accession will be much less significant.

4.3.6 Assessment: how effective is EU anti-corruption conditionality?

Alina Mungiu-Pippidi disagrees with the opinions stated by Tanja Miscevic, who believes that the role of the EU in enhancing Serbia's ACA is one of the most important benefits of the EU's cooperation with Serbia to fight corruption (Miscevic, 2014b):

“Countries in Europe with specifically prosecuting ACAs do not perform significantly better than countries who deal with corruption through their normal judiciary” (Mungiu-Pippidi, 2013)

She points to countries like Romania as examples where Romania's national ACA performed better, but corruption worsened, arguing that a dedicated ACA is only established by candidate countries to tick boxes and comply with EU conditionality – in most cases, countries do not provide the ACA with necessary enforcement power, funding or capacity. It can be argued that EU conditionality does not actually help combat corruption since the high-level approach of conditionality does not address these issues of lack of institutional capacity or political impetus. Furthermore, critics of anti-corruption conditionality like Mungiu-Pippidi contend that EU anti-corruption conditionality does not benefit democratic transition because politicians at the highest levels are not willing to combat corruption. In fact, in most cases, it is these politicians and public administrators that are the most likely to lose out if corruption is combatted – a relic of Serbia's post-communist past is the increased prevalence of corrupt state officials and administrators. This lack of will to tackle corruption not only renders the ACA less effective in promoting democratic transition, but also conditionality, since conditionality relies as much on implementation of legislation as it does on its adoption.

Although there are issues surrounding the effectiveness of an ACA, in a country like Serbia, where the judiciary is currently inefficient and lacks impartiality and independence¹², the fight against corruption through Serbia's judicial system would be a much worse alternative than by a dedicated ACA. EU conditionality for an ACA may not have perfect results, but it still has a significant impact in improving corruption in aspiring member states.

¹² See the “present state of play” section of the judicial reform discussion to better understand why this is the case

4.3.7 Conclusion

EU conditionality and assistance has promoted public awareness of corruption and the will of Serbia's national institutions to fight against it. Serbia's anti-corruption framework is weak, but the EU's recommendations, *acquis*, institutional requirements and financial assistance through IPAs can improve it. Serbia needs to have a motive to improve this framework, and the EU presents that motive.

Although the potential of EU accession to cause increased corruption is a concern, with good financial control, auditing, transparency and a strategy and budget for EU funds, these negative impacts can be reduced or even negated entirely in the long-term. Serbia needs an ACA to enforce and implement a successful anti-corruption policy. If left to Serbia's judiciary, very little would be achieved fighting corruption in Serbia.

4.4 Judicial reform

This section covers EU judiciary conditionality. It starts by discussing the current state of play of Serbia's judiciary and demonstrates the incompetence, inefficiency, large backlog, corruption and lack of accountability in Serbia's judiciary. It then looks at the ways EU conditionality can help Serbia reform its judiciary and why this important: judiciary reform is necessary for successful democratic transition. I conclude this section by evaluating the success of EU judicial reform conditionality and discuss the problem of an implementation gap.

4.4.1 The present state of play

As identified by Freedom House, Serbia's judicial framework is poor and a barrier to democratic consolidation, scoring a poor 4.5/7.0 by the think tank:

"The judiciary is inefficient and vulnerable to political interference. Professional standards are weak. Following a failed reform effort launched in 2009, the government adopted a new five-year strategy to increase judicial independence, accountability, and efficiency. The latter is of particular concern, with the case backlog at over 3 million." (Freedom House, 2014)

Serbia's judiciary has been repeatedly identified as the weak link in Serbia's legal framework, and this has been often acknowledged by the European Commission (European Commission, 2013c & 2014e). For an example of the mind-set in Serbia's legal system, in 2014 all criminal lawyers in Serbia went on strike over a law requiring them to charge their clients accountably using receipts. In 2013, 539 complaints were filed against judges and prosecutors, but only 8 were investigated (Freedom House, 2014), calling into doubt the competency of Serbia's judicial system.

4.4.2 How can EU conditionality promote judicial reform?

EU conditionality requires that Serbia develop a fair, impartial, independent, efficient, professional and competent judiciary. This manifests itself in the SAA and the Treaty on European Union:

“In their cooperation on justice, freedom and security, the Parties shall attach particular importance to the consolidation of the rule of law, and the reinforcement of institutions at all levels in the area of... law enforcement and the administration of justice in particular. Cooperation shall notably aim at strengthening the independence of the judiciary and improving its efficiency” Article 80, SAA (European Union & Republic of Serbia, 2008)

“The Union shall offer its citizens an area of freedom, security and justice...” Article 3 TEU (European Union, Consolidated 2012b)

Serbia must develop legal provisions and institutional capacity for meeting EU conditionality in the field of the judiciary before it joins the EU. To aid Serbia's alignment with EU judiciary conditionality, the EU conducted a screening exercise on Serbia's current provisions and capacity for meeting this conditionality and provided recommendations on how to reach full alignment EU *acquis* in chapter 23 (judiciary and fundamental rights). The Commission produced a screening report in 2014, which produced some “suggestions” that Serbia has to comply with for EU accession to occur. Serbia must (European Commission, 2014d):

- develop an e-justice system to randomly allocate cases to judges and prosecutors
- develop a Backlog Clearance Programme for dealing with 3 million pending cases
- adapt Serbia's Law on Judges and Constitution to align with EU standards on the recruitment, dismissal, transfer and political connections of judges
- revoke the power of the National Assembly to elect and dismiss judges
- develop provisions for dealing with conflict of interest within the judiciary
- conduct regular evaluation of judges, prosecutors and their declared assets

Serbia's MoJ has already produced a number of *acquis*-compliant legislation and bolstered its institutional capacity, although much still needs to be fully aligned (European Commission, 2013c). Both the MoJ and the EU hope that the screening exercise of Serbia's judiciary and the Commission's recommendations will help Serbia meet the EU's administrative and legislative conditionality for the judiciary in the near future.

4.4.3 Focus: EU financial assistance

Judicial reform is a costly process, and the EU provides considerable financial assistance to increase EU judiciary conditionality's prospects for success. Ardit Memeti's journal article *Rule of Law through Judicial Reform: A key to the EU Accession of the Western Balkans*¹³ covers the importance of the EU in improving the region's judicial framework and argues about the importance of IPA funds in promoting the rule of law and judicial reform. Memeti argues that, without EU assistance, very little would have been achieved in promoting the rule of law in the Western Balkans region. He points out the following strategies, action plans and legislation that have been partially or entirely funded by IPA funds: the National Judicial Reform Strategy for the period 2013-18 and its accompanying Action Plan; the establishment of judicial and prosecutorial councils and academies; the development of an online e-justice administrative system; vetting processes for judges and prosecutors and increased transparency of the judicial system via asset assessments (Memeti, 2014). Clearly, EU conditionality and assistance has had a huge impact in promoting judicial reform in Serbia, and will continue to help Serbia's judiciary become independent, impartial, efficient, accountable, professional and competent.

4.4.4 Discussion: how does judicial reform promote Serbia's democratic transition?

This theme of the EU being the main driver of judiciary reform is prevalent in my research. I interviewed Stanislava Pak in Belgrade in October 2014, spokesperson for the President of Serbia, in the Serbian presidency and asked her about the importance of judicial reform and the EU's role in promoting it. Miss Pak felt that Serbia's judiciary system is exceptionally poor at the moment, and would not be reformed by the Serbian government in the near future without EU conditionality. It is only thanks to the EU, she felt, that Serbia is actually conducting judicial reforms. The government has other priorities at the moment such as improving the economy and lives of its people, that democratic consolidation through judicial reform is not considered, however important it is in establishing a free democracy (Pak, 2014)¹⁴.

¹³ Ardit Memeti is an assistant professor at the Faculty of Law of the South East European University in Tetova, has a PhD from the Faculty of Law at Maastricht University and teaches at the China-EU School of Law. Therefore, he is knowledgeable on the rule of law. This means that this paper is more reliable, as his teaching and education demonstrate to me that he knows a lot about rule of law and the EU. I do have to say, however, that this paper is slightly pro-EU biased, as it focusses extensively on the role of the EU in promoting judicial reform and how it would not have happened without EU assistance. I feel that this is a minor bias, as he still evaluates the actual effect that the EU has had on the judiciary in the region (i.e. discussing how countries like Serbia have aligned with much of EU law on the judiciary, but not actually implemented very much)

¹⁴ Stanislava Pak is the spokesperson for Serbian president Tomislav Nikolic under a pro-EU government. For this reason I expected her to display a considerable amount of pro-EU bias. When I interviewed her, however, I was pleasantly surprised that this bias did not affect her words – she critiqued the effectiveness of EU judicial reform

Whilst in Belgrade, I also interviewed Mirjana Cvetkovic, legal officer at SEIO, and she agreed with this idea. She felt that, in the area of judiciary reform, if it were not for EU conditionality, Serbia would have never reformed its judiciary. She considers justice and security as the foundations for democracy, and a fair life for Serbia's people. Judicial reforms involving increased independence, impartiality, competence, efficiency and professionalism of the judiciary result in a more stable democratic society, where politicians cannot influence the rule of law and the Serbian people can trust their country's institutions, government and judiciary (Cvetkovic, 2014)¹⁵.

4.4.5 Assessment: an implementation gap

Although Serbia's constitution and legislation is broadly in line with EU standards, Serbia's judiciary still is in need of reform. The problem lies in the difference between adopting legislation and implementing it:

"Progress has been made notably in the legal framework [and there is]... no comprehensive approach towards judiciary reforms" (Memeti, 2014)

Memeti suggests that the cause of this implementation gap lies with the EU. Alina Mungiu-Pippidi agrees with this in her paper *A house of cards? Building the rule of law in the Balkans*:

"[The accession process is] a bureaucratic exercise... countries are judged in the monitoring process not by the effectiveness of their reforms or even by their real potential to change, but the number of prescription pills taken" (Mungiu-Pippidi, 2011)¹⁶

Here, the "prescription pills" the author refers to is the alignment of legislation with EU *acquis*. The judicial reform process, she evaluates, simply involves a country adopting laws, but not putting them into practice effectively. It is evident that there is a serious fault in Serbia's implementation of the EU judiciary *acquis* in terms of laws adopted and successful implementation. The EU has tried to place an increasingly significant emphasis on

conditionality. This is a credit to her reliability. Of course, she never said anything bad about the EU throughout the whole interview, and did display a considerable amount of pro-EU bias, but I feel that, in the parts of the interview I have used, the bias displayed did not affect her words considerably.

¹⁵ Mirjana Cvetkovic works at the EU delegation in SEIO as a legal advisor and officer for over 10 years. She is a graduate from Belgrade University's Faculty of Law, and is extremely knowledgeable on legal matters related to the EU and indeed elsewhere. Owing to her profession, she did display some pro-EU bias when interviewed, reducing the reliability of the interview. This meant that she has the potential to exaggerate the role of the EU. Since her comments are direct and similar to other interviews and literature (e.g. with Stanislava Pak), I feel that her reliability as a source is still exceptional.

¹⁶ This source contains a considerable amount of anti-EU bias. This is because it is a critique of EU efforts to promote the development of the rule of law. As a result, its reliability is considerably lower. I still am using it, as it corroborates with Memeti, 2014 in its discussion of why judicial reform has such an implementation gap.

implementation recently in various enlargement strategies, screening reports and assessments, but the problem lies with the use of conditionality to promote reform: conditionality is too high level and involves too much box ticking. Although this implementation gap will most likely be less significant by the time Serbia accedes to the EU, it will still exist and hinder complete judicial reform.

“The rule of law is now at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform....This maximizes the time countries have to develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible” (European Commission, 2013a)

4.4.6 Conclusion

Serbia’s process of judicial reform is vital for democratic consolidation and transition. It is an important part of the daily lives of the Serbian people. An efficient, impartial, independent, accountable, competent and professional judiciary would not be possible without EU conditionality; therefore I consider judicial reform to be one of the largest areas that EU conditionality has benefited. Implementation gaps hinder the effectiveness of conditionality in promoting true judicial reform, and the EU needs to carefully monitor and enforce implementation of legislation in Serbia pre-accession.

4.5 A framework for regional cooperation

Regional cooperation does not appear in the definition of democracy used in this dissertation, but is nonetheless important for Serbia. The reasons for this are twofold. Firstly, as argued later, regional cooperation is important for a stable and robust democratic society. Secondly, and more importantly, is that Serbia’s recent history has been plagued by regional conflict, preventing democratic transition. This means that the development of good regional cooperation is especially relevant to this transition, since it is a prerequisite and catalyst for democratic consolidation in both Serbia and the entire Western Balkans region.

This section covers EU regional cooperation conditionality. It starts by discussing Serbia’s present situation in regional cooperation and then looks at the EU regional cooperation conditionality, focussing on how the EU has promoted regional cooperation and how can it in the future. The focus then turns to assessing the recent breakthrough high-level bilateral talks and improved diplomatic relations with Kosovo that I argue could only have been facilitated by EU conditionality. I conclude this section discussing why regional cooperation is so important to Serbia’s democratic transition.

4.5.1 The present state of play

Serbia currently suffers from the legacy of a bitter war-ridden past. After the breakup of Yugoslavia and the subsequent wars in the Western Balkans, Serbia's regional cooperation with other countries in the region has been insignificant and often negative, as Serbia's government adopts a reluctant inward approach to enhancing diplomatic relations with neighbouring countries in the region. Furthermore, following the Yugoslav wars, many Serbs still hold a considerable amount of resentment against neighbouring countries, blaming them for the atrocities committed in the wars and the casualties experienced.

Since the wars, Serbia's diplomatic relations with other Western Balkans countries have been strained multiple times in border disputes with Croatia, diplomatic spats with Albania, the issue of failure to arrest internationally-wanted war criminals and succession of Kosovo and Montenegro.

4.5.2 How can EU conditionality promote regional cooperation?

The EU was created as a body to prevent another European war by promoting political stability, regional cooperation and peace, as defined in its Core Treaties:

"The Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterized by close and peaceful relations based on cooperation" Article 8, TEU (European Union, Consolidated 2012b)

Since the development of the SAP, the EU has focused on promoting regional cooperation as a key criterion for enlargement. This is reiterated in seven different articles of the SAA:

"In conformity with its commitment to international peace and stability, and to the development of good neighbourly relations, Serbia shall actively promote regional cooperation." Article 14, SAA (European Union & Republic of Serbia, 2008)

In order to promote the development of regional cooperation, the EU has chosen to use IPA funds, as identified in its paper *Indicative Strategy Paper for Serbia IPA II*¹⁷. This paper sets out four goals for EU financial assistance to Serbia for the period 2014-2020. The final goal is "strengthening regional integration and regional cooperation". To do this, IPA funds will be

¹⁷ This strategy paper was developed and published by the European Commission. It is an objective document that covers how the EU will help Serbia between 2014 and 2020. It does have the potential to exaggerate the potential effect that IPA funds can have improving Serbia's economy (it does imply that IPA funds will vastly reduce Serbian employment and pull the country out of recession) but I am still confident in its reliability as it remains relatively objective.

used to develop bilateral cooperation programmes between IPA beneficiaries, help reconciliation and normalization of Serbian relations with Kosovo, develop cross-border programmes with FYROM and Albania and support already established cross-border cooperation with Hungary, Romania, Bulgaria, Croatia, Montenegro and BiH (European Commission, 2014c). Thanks to IPA II funds, Serbia can expect to improve its cooperation throughout with other accession countries in the Balkan region.

4.5.3 Focus and assessment: regional cooperation with Kosovo

EU conditionality specific to Serbia (chapter 35 of the *acquis*: other issues) requires Serbia to normalize relations with Kosovo before accession. Little progress had been made until 2013 when, after ten rounds of EU facilitated dialogue between Serbia and Kosovo, the two sides came to an agreement known as the Brussels Agreement, heralding a major landmark in improving regional cooperation in the Western Balkans. The agreement consisted of fifteen sections, some of which include (Republic of Serbia, Kosovo & European Union, 2013)¹⁸:

- The liberalisation of movement across the Serbia-Kosovo border
- The establishment of judicial cooperation between Serbia and Kosovo
- The development of a Kosovo police force
- The acknowledgment that both Serbia and Kosovo must not block either Party's path to the EU

The Brussels Agreement signified start of Serbia's recognition of Kosovo, and a milestone for Serbian regional cooperation.

At first sight this EU facilitated dialogue seems to be an exceptional example of how the EU is promoting regional cooperation in the Western Balkan region. In reality, argues Dr Johanna Hansen, it was not so successful¹⁹. Speaking at a lecture at the LSE, she criticized the agreement as being badly written, ambiguous and achieving nothing as it did not recognize Kosovo as an

¹⁸ These agreements are from a leaked copy of the document *First agreement of principles governing the normalisation of relations*. I cannot verify its reliability as a source, but I do know that RTS, Serbia's public service broadcaster, who leaked this document, deem it to be authentic. Therefore I feel that I can use this source, but do so with apprehension.

¹⁹ Dr Hansen has worked as a foreign office adviser in the Western Balkans during the Yugoslav Wars before retiring and setting up an NGO in Kosovo, to inform Kosovars about the benefits of Kosovo's EU accession. She spent time in Kosovo during the 2013 dialogue talking to Kosovar politicians and people to understand the success of the 2013 dialogue. This increases her reliability, as she is extremely knowledgeable on Western Balkan politics, the EU and 2013 dialogue. However, she did seem to display rather a lot of anti-EU and anti-Serbia bias in this lecture owing to location of her charity work, which is entirely contained within Kosovo. It is clear she is passionate about Kosovo and this shows in her lecture. I feel that she justifies her points and provides an interesting evaluative view of Serbia-Kosovo normalization, so I am confident citing this lecture.

independent country. Furthermore, she argues that very little has been implemented, especially in free movement of people, and the EU has “no ownership of the process”. In fact, she suggests that the EU “made things worse” by “undermining itself” and being “disenfranchised” (Hansen, 2014). The points Dr Hansen made were all correct, but I believe that the EU has indeed helped consolidate relations, even if the Brussels Agreement and the facilitated dialogue have not had all the success the EU hoped. I asked Dr Hansen whether she thought that the Belgrade-Pristina agreement would have occurred without EU conditionality and facilitation, and if so how successful would it have been. Dr Hansen felt that the dialogue would not have been possible without EU facilitation and conditionality, suggesting to me that the EU has indeed had a role to play in improving regional cooperation in the region (Hansen, 2014). I understand Dr Hansen’s arguments, but the prevailing argument is that, even though the normalization agreement was not as successful as hoped, regional cooperation was still improved as a result, and the future seems even more promising now.

4.5.4 Discussion: how does regional cooperation promote Serbia’s democratic transition?

In her paper *Regional Cooperation*²⁰, Lidija Topic explains why regional cooperation is so important:

“...cooperation between neighbouring countries...could lead step by step to further cooperation in a broader range of areas, to regional stability [and] reconciliation...” (Topic, 2013)

I think that the point to take from her paper is the aspect of reconciliation. Serbia’s recent history has been plagued by war, spats and diplomatic incidents. Thanks to EU conditionality facilitating regional cooperation, Serbia now has the opportunity to reconcile and put the past behind it. Now that the international requirements of the ICTY are over, and all indicted war criminals of the Yugoslav wars are behind bars or dead, it is now up Serbia and other countries in the Western Balkans to move on and reconcile through the framework of regional cooperation. Since EU conditionality requires regional cooperation, EU membership offers the best framework for reconciliation, the prevention of a future Balkan war and the opportunity to cooperate and prosper without fighting over borders, country status or the past.

²⁰ Lidija Topic works for the Regional Cooperation Council in South East Europe and was head of Bosnia and Herzegovina’s Mission to the EU. She therefore is an expert on regional cooperation and the EU accession process, increasing her reliability as a source. This paper displays some pro-EU bias, as it aims to demonstrate how the EU has promoting regional cooperation. I am still confident in this paper’s reliability, however, as the sections I have used, although opinionated, are well justified.

When I interviewed Luca Micheta, former managing director of Serbia's Tanjung news agency, in Belgrade in October 2014, he had a similar argument. He believes that the very process of EU accession provides the opportunity for improved integration with Serbia's neighbours, facilitating the sharing of cultures, politics and ideas. He argues that if Serbia fails to cooperate with its neighbours, as it most likely would without EU conditionality, it risks becoming an isolated country. If this were the case, increased right wing politics and extremism and lower quality of life would be traits of a Serbia without regional cooperation (Micheta, 2014)²¹.

4.5.5 Conclusion

In 2005, Oli Rehn, former European Commissioner for Enlargement and European Neighbourhood Policy, commented that:

"The development of regional cooperation is in the best interests of all the Western Balkans countries: it is a key factor for establishing political stability, security and economic prosperity" Oli Rehn (European Commission, 2005)

Regional cooperation facilitated and promoted by the EU is the foundation for reconciliation, stability and democratic transition. Without regional cooperation, Serbia will be left behind, isolated in the Western Balkans and faces the problem living in the past. Thanks to the EU, Serbia has the opportunity to put its dark past behind it, move on and learn from the mistakes of the Yugoslav Wars. Although some aspects of EU facilitated regional cooperation such as Serbia-Kosovo normalization have not been as successful as they could have been, the impact that the EU has had improving regional cooperation in Serbia is substantial, and promises to increase over the coming years.

4.6 Fundamental rights and inclusion

This section covers EU fundamental rights and inclusion conditionality. It starts by discussing Serbia's current state of play surrounding tolerance, inclusion of minorities and fundamental rights. Next, it turns to the ways the EU conditionality can improve fundamental rights and inclusion in Serbia. This is followed by a focus on EU financial assistance and the recent screening exercise on fundamental rights to understand better how the EU is promoting the protection of fundamental rights in Serbia. Subsequently, I discuss how EU fundamental rights and inclusion conditionality can promote democratic transition. I conclude this section by

²¹ Luca Micheta was the managing director of the Tanjung news agency, the Serbian equivalent of Reuters. He has lived through Serbia's transition and interviewed almost all Western Balkans leaders at some point in his life. He is a reliable source, owing to his intelligence, justification of his points and experience of the political situation in Serbia during the Yugoslav Wars.

evaluating the success of EU fundamental rights and inclusion conditionality and discuss the problem of an implementation gap.

4.6.1 The present state of play

The EU has repeatedly identified that Serbia has ratified most international human rights instruments, and broadly aligns with EU fundamental rights *acquis* (European Commission, 2013c & 2014e). The problem lies with the implementation of this legislation and the political support for minorities, members of the LGBTI community and other cases of anti-discrimination policy (European Commission, 2013c & 2014e). Now that Serbia's legislation covering fundamental rights and protection of minorities is broadly in line with EU standards, the EU's priority for its conditionality in Serbia focusses on social inclusion and the Roma community, assisting Serbia develop adequate institutional capacity for enforcement and implementation of legislation and continuing to promote anti-discrimination within Serbia. This is reflected in the EU's 2014-15 enlargement strategy, which has been adapted to open chapter 23 (judiciary and fundamental rights) first, and close it last before accession, demonstrating the importance of consolidating fundamental rights to the EU as part of the accession process (European Commission, 2014a).

In 2014 the first Gay Pride parade in four years took place in Belgrade, after the cancellation of the previous parades over fears of violence. Over 50 anti-gay protestors were arrested, and over a thousand gay rights activists took part in the parade overseen by thousands of riot police and water cannons (The Independent, 2014). Serbia's track record with fundamental rights has also been harmed by numerous sports events, such as the U21 football match between Serbia and England, where extreme racism from Serbian fans occurred (The Guardian, 2012). This suggests systemic failures in the prevention of discrimination and racial hate as well as the need for the Serbian government to increase public awareness in an attempt to make Serbia a more tolerant society.

4.6.2 How can EU conditionality promote the protection of fundamental rights?

The EU was set up to promote democracy and human rights, as identified in its Core Treaties. This is reflected as part of the SAP and SAA, since Serbia is contracted to improve human rights before accession.

"The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities These values are common to the Member States in a society in which

pluralism, non-discrimination, tolerance, justice, solidarity and equality between men and women prevail” Article 2, TEU (European Union, Consolidated 2012b)

“Respect for democratic principles and human rights as proclaimed in the Universal Declaration of Human Rights and as defined in the Convention for the Protection of Human Rights and Fundamental Rights...shall form the basis of the domestic and external policies of the Parties and constitute essential elements of this Agreement” Article 2, SAA (European Union & Republic of Serbia, 2008)

The Charter of Fundamental Right of the European Union expands upon the Core Treaties and values of the EU. This section of this dissertation will focus on equality, non-discrimination and protection of minorities, as I have identified them as the most important benefits of the EU to Serbia based on Serbia’s lack of successful implementation and enforcement of these areas of fundamental rights.

“Everyone is equal before the law” Article 20, CFREU (European Union, Consolidated 2012a)

“Any discrimination based on any ground such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited” Article 21 CFREU (European Union, Consolidated 2012a)

4.6.3 Focus: the fundamental rights screening exercise and EU assistance

Since the protection of fundamental rights is a large priority for the EU in Serbia, the EU has provided considerable assistance of EUR 200mn to the enforcement of the rule of law, much of which has been spent improving fundamental rights in Serbia. With the arrival of IPA II, there is a promise of increased support for fundamental rights as identified by the European Commission:

“Support will be provided for implementation of training, monitoring and evaluation systems for fundamental rights; improved and consistent implementation of related policies throughout the region; national and/or community-based mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender and all other types of violence and pain-in infliction in prisons; improving legal aid, access to justice and anti-discrimination measures for national minorities, including the Roma and other vulnerable groups such as LGBTI... and supporting the implementation of the Serbian anti-discrimination strategy and Roma action plans and eventually the future action plan to be devised under Chapter 23.” (European Commission, 2014c)

The European Commission expects the following results:

“Fundamental rights, including the protection of minorities in particular Roma, LGBTI persons and freedom of expression are efficiently ensured, especially through improved access to justice, consistent implementation of anti-discrimination policies and measures.” (European Commission, 2014c)

Clearly, the Commission has set itself a large task, but one it hopes to achieve using considerable financial assistance. Without EU assistance and IPAs, it is extremely unlikely that Serbia would be able to improve its framework for the protection of fundamental rights. EU assistance is a method of helping Serbia comply with EU conditionality in the field of fundamental and minority rights. To help the EU assess its key priorities for Serbia in these areas, the Commission conducted a screening exercise into chapter 23 of EU *acquis* (judiciary and fundamental rights), and produced 15 “recommendations”. Serbia must (European Commission, 2014d):

- ensure state neutrality and the protection of minorities
- produce an anti-discrimination plan with a focus on ending discrimination towards LGBTI persons
- produce a dedicated action plan on the implementation of protection of minorities
- produce a multi-annual strategy and action plan on Roma inclusion and protection
- ensure adequate legislation and enforcement of hate crime
- develop a strategy and action plan for combatting violence and misbehaviour at sports events

As a result, Serbia has developed an *Action Plan for Chapter 23*, partially funded by EU IPA and has acted upon the Commission’s recommendations. It is important to note the nature of the Commission’s recommendations: they do not focus on the alignment of legislation as is common in recommendations in other areas of EU involvement in Serbia. Instead, they focus on the actual implementation of existing legislation and the improvement of Serbia’s institutional capacity in the area of fundamental and minority rights.

In their paper *Ethnic Minorities in Serbia*²², Sabrina Ramet and Ola Listhaug argue for the importance of EU conditionality in promoting the inclusion of ethnic minorities in Serbia. They

²² This is a section from the book *Serbia Matters: Domestic Reforms and European Integration (Southeast European Integration Perspectives)*. The book presents “a series of policy essays on Serbia’s post-Milosevic era written by internationally recognised authors, policy makers, academics and political analysts actively engaged in the Balkans discourse”. The authors have published many sources on the topic of human rights and the Western Balkans/the EU. For example, Sabrina Ramet has written a paper called *“Redefining the Boundaries of Human Rights: The Case*

point out that social inclusion is important to a functioning democracy, and this is especially important in Serbia, where ethnic minorities suffer from social exclusion and stereotyping. Only 40% of Roma people in Serbia have a primary school education and 2% pre-school have attended pre-school. There are over 100,000 Roma in Serbia, and, without the EU, Serbia would not face up to its ethnic problems (Ramet & Listhaug, 2009). As suggested by these authors, the EU has promoted ethnic minority rights in Serbia, especially involving the Roma. In 2010, the Serbian government adopted the *Strategy for Improvement of the Status of the Roma in the Republic of Serbia*, funded by EU IPAs. This has signalled the start of a strategy to increase Roma social inclusion, and improve minority rights.

4.6.4 Discussion: how does the protection of fundamental rights and social inclusion promote democratic transition?

The UN affirmed the importance of the protection of fundamental rights for the functioning of a democratic society in the resolution *Human rights, democracy and the rule of law*:

“[The UN’s human rights council] recalls that... the respect of human rights and the rule of law are essential for the stability of democratic societies” (United Nations, 2012)

A democratic society is founded upon ideas of equality – all citizens have the same rights and are treated equally without discrimination. By promoting the inclusion of the Roma, LGBTI and racial minority communities into Serbian society, these democratic principles of fairness and equality are ensured. Protection of fundamental rights has a similar beneficial impact on Serbia’s democratic transition – if all Serbian citizens have equal rights, then democratic stability is safeguarded.

4.6.5 Assessment: an implementation gap

In her journal article *Human Rights Promotion in Serbia: a difficult task for the EU*²³, Teresa Cierco develops upon the essential nature of EU fundamental rights conditionality in Serbia:

of Eastern Europe” in the Human Rights Review, and Ola Listhaug “*Patterns of Ethnic Intolerance in Europe*” in the Journal of International Migration and Integration. As a result, I am confident in the reliability of this source, owing to the authors’ expertise and the lack of bias in the paper.

²³ This journal paper is included in the Portuguese peer-reviewed journal *Revista Brasileira de Política Internacional*. It covers the importance of the promotion of human rights as part of EU accession. It is slightly anti-EU biased, since the paper was written to criticise the EU’s role in improving human rights via conditionality. I do still rely on this journal paper, as its contents and evaluation is justified, and the author has lots of expertise surrounding human rights and the EU. For example, she contributed to the book *European Institutions, Democratization, and Human Rights Protection in the European Periphery* demonstrating her reliability as an author and academic.

“Accession to the EU is sometimes considered as the most successful instrument for the promotion of human rights in post-communist countries, such as the Western Balkans”
(Cierco, 2011)

She argues, however, that the EU’s methodology for improving fundamental rights in Serbia is currently weak owing to the nature of conditionality: it is a top-down approach. On paper, Serbia may adopt *acquis*-compliant legislation for fundamental rights, but the success of this legislation not only depends on its adoption and compliance, but also on its implementation:

“Important actors of a democratization process like civil society, economic elites, political parties, the administration or the judiciary on local or regional level[s] cannot be reached through conditionality... [As a result] human rights legal frameworks can be established through the threat of conditionality but not its real implementation” (Cierco, 2011)

On balance, this assessment is solid, since there is a considerable implementation gap in the field of fundamental rights, and the EU’s approach of simply assessing legislation aligned is simply not working. On the other hand, the EU is beginning to see the error of their ways, and has begun focusing on actual implementation of legislation via capacity building, action plans and strategies. This shows in the Commission’s recommendations in the chapter 23 screening report, where all recommendations are concentrated on developing action plans and strategies, and the institutional capacity to start actually implementing and enforcing laws (European Commission, 2014d). This is still not enough: It is essential for the EU to develop a more bottom-up approach in the field of fundamental rights, as this is the sort of methodology that is needed to promote change within Serbia on the ground, and not just on paper.

4.6.6 Conclusion

As with all areas of EU conditionality, success of fundamental rights conditionality relies on the implementation of laws, not simply their adoption. EU conditionality and IPA assistance has created a framework for implementation and enforcement of legislation through the development of strategies, action plans and institutional bodies. As a result, Serbia has experienced increased toleration of LGBTI persons and the start of social inclusion of ethnic minorities such as the Roma people. Although it can be argued that equality will never be possible owing to hard-core beliefs of some Serbs (Pak, 2014), the EU provides the opportunity for Serbia to become a progressive democratic society, as long as it adopts a more bottom-up approach to fundamental rights. In the end, however, it is not up to the government to make Serbia more tolerant, but up to the Serbian people.

4.7 Conclusion and synthesis on democratic transition

The EU has promoted significant democratic consolidation and transition in Serbia as a result of its conditionality. The future promises even more benefits through EU financial assistance and increased emphasis of EU conditionality on successful implementation and not just adoption of legislation. The EU was set up as a democratic political union, and that cannot be forgotten when assessing the impact of accession on a post-communist, post-authoritarian and post-Milosevic Serbia. There has been newfound political impetus to fight and prevent corruption, reform Serbia's judiciary, cooperate more with countries that Serbia was at war with twenty years ago and improve social inclusion and fundamental rights. This demonstrates the power of the EU to endorse and stipulate democratic change. Speaking at the LSE in 2014, Tanja Miscevic acknowledged the importance of the EU in promoting domestic reforms, and this is reiterated by Lampe & Cohen:

"Reforms aren't possible without the EU... We cannot neglect that the EU is a powerful instrument for change" (Miscevic, 2014b)

"It has been the frequently mentioned "gravitational pull" of EU prosperity that has kept the troubled Western Balkans regimes focused on moving in a democratic direction" (Lampe & Cohen, 2011)

My research in this section demonstrates some common themes. The first theme is that there would be little political impetus for consolidating democracy without EU conditionality. For example, Tanja Miscevic (Miscevic, 2014b), Lampe & Cohen (Lampe & Cohen, 2011), Teresa Cierco (Cierco, 2011), Alina Mungiu-Pippidi (Mungiu-Pippidi, 2011), Stanislava Pak (Pak, 2014) and Mirjana Cvetkovic (Cvetkovic, 2014) all comment that, in the areas of judicial reform, anti-corruption efforts, improvement of fundamental rights and regional cooperation, very little would have been achieved in Serbia without EU conditionality and the prospect of EU accession.

Another theme is the issue of an implementation gap: Serbia may fully align with EU *acquis* and legislative conditionality, but actual implementation of this legislation is more important. To do this, Serbia must develop institutional capacity to help bridge the gap. This is a theme suggested in the paper *The widening implementation gap: the impact of EU accession on governance in the Western Balkans* (Mungiu-Pippidi, 2013), EU screening reports (European Commission, 2014d), progress reports (European Commission, 2013c & 2014e), enlargement strategies (European Commission, 2013a & 2014a), evaluations of EU conditionality (Cierco, 2011 & Johanna Hansen, 2014) and strategy papers (European Commission, 2014c).

These sources among others also suggest a third theme: more can be done to help Serbia to consolidate its democratic transition. A common argument states that, although the EU has improved Serbia's democratic transition, the future offers even more opportunities for the EU to do more. There are cases where the EU's top-down approach has not worked as well, but a key conclusion to take from this research is that the EU is trying to adapt its strategy to improve and increase its potential to promote Serbia's democratic transition.

5 Transition to a market economy

Since the Second World War, Serbia was a command economy where the state had influence and ultimate control of all parts of the economy. Since the fall of Milosevic and promise of future EU membership, Serbia has undergone a still incomplete transition to a more market based economy. The EU has a large economic dimension, and Serbia must become an efficient and functioning market economy to accede to it.

In this section I shall investigate the main ways that EU conditionality promotes Serbia's economic transition. I shall discuss and evaluate the effect of EU conditionality in promoting bilateral trade liberalisation between Serbia and the EU, the development of a competition policy and high level economic policy and European integration. The benefits of EU conditionality in prompting Serbia's economic transition include many others, but these are the three main benefits I have identified (for the reasons set out in the introduction). For example, taxation reforms (chapter 16 of the *acquis*) and financial services (chapter 9) are all areas of EU conditionality that would benefit Serbia immensely. Fair, efficient and enforced tax administration and a stable financial sector is important in the functioning of a market economy, but I have chosen not to focus on these benefits because these have been identified as areas that Serbia currently aligns with EU conditionality in the EU's progress reports on Serbia as well as by the IMF (International Monetary Fund, 2013).

"Overall, preparations in the area of taxation are moderately advanced." (European Commission, 2014e)

"Overall, alignment in the area of financial services is moderately advanced." (European Commission, 2014e)

5.1 Defining a market economy

In this dissertation I use the EU's definition of a market economy, since all economic conditionality is based around this definition. A market economy is an economy that has (European Commission, 2014f):

- “macroeconomic stability”
- “a free interplay of market forces (including liberalised prices and trade)”
- “free market entry and exit (including issues of establishment/bankruptcies of firms)”
- “an adequate legal system (including a system of property rights, enforceability of laws/contracts) and a sufficiently developed financial sector”

5.2 Serbia’s macroeconomic indicators

		2001	2009	2010	2011	2012	2013
Real GDP (EUR millions)		12 819	28 952	27 968	31 472	29 601	31 980
GDP/capita (EUR)		1 708	3 955	3 836	4 351	4 112	4 453
Real economic growth (% year-on-year)		5.3	-3.5	1.0	1.6	-1.5	2.5
Unemployment (%)		12.2	16.1	19.2	23.0	23.9	22.1
Employment (%)	Agriculture	n/a	n/a	22.3	21.2	21.0	21.3
	Industry	n/a	n/a	21.0	21.5	21.3	21.1
	Construction	n/a	n/a	5.0	5.3	5.2	4.8
	Services	n/a	n/a	51.7	52.0	52.6	52.9
Debt (% of GDP)		104.8	34.0	43.5	46.0	59.0	63.2
R&D expenditure (% of GDP)		n/a	0.92	0.79	0.77	0.96	n/a

Table 4: Serbia’s macroeconomic indicators

(European Commission, 2014e) (International Monetary Fund, 2013)

5.3 Trade liberalisation between Serbia and the EU

This section covers the liberalisation of trade between Serbia and the EU. It starts by defining the focus of this section: the SAA – a bilateral free trade agreement between Serbia and the EU. It then refers to a case study assessing the effect of trade liberalisation on neighbouring Croatia, a recent new member state with a similar history in the Western Balkans. Next, it discusses and assess the effects of trade liberalisation on Serbia itself – what is the economic basis of trade liberalisation, how will liberalisation benefit Serbia or will it harm Serbia’s economy? I conclude this section by focussing on the effect of liberalisation on the Serbian agriculture sector and evaluate the potential for the EU common agricultural policy to prevent the negative effects of liberalisation on this industry.

5.3.1 The present state of play

Serbia's main trading partner is the EU (Figure 1²⁴) In 2013 Serbia ran a trade deficit of EUR 4473mn (14% of GDP), of which almost 60% originated from bilateral trade between Serbian and the EU.

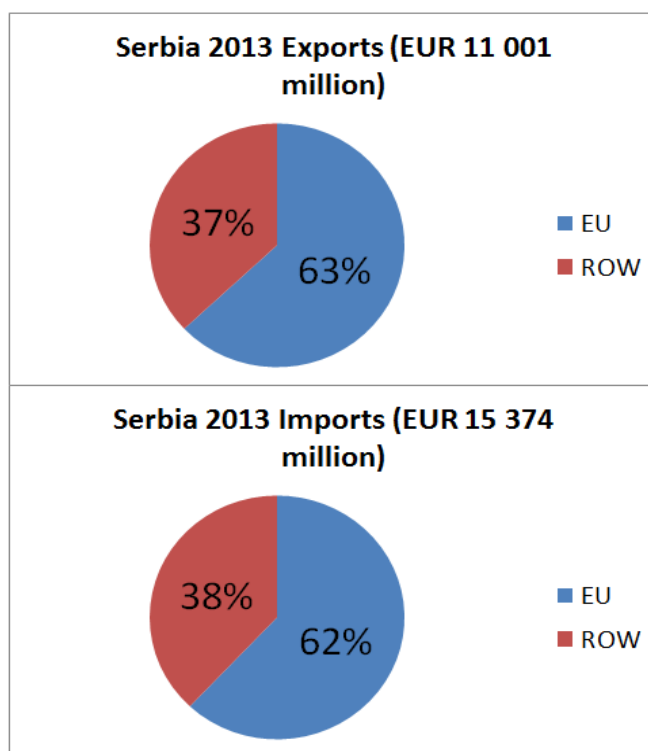


Figure 1: Serbian trade 2014 (European Commission, 2014e)

In 2008, Serbia signed a SAA with the EU in order to help Serbia align with all forms of EU conditionality and start its integration into the EU single market. One of the key components of the SAA was the liberalisation of trade between the EU and Serbia. This involves the abolition of and alignment with EU standards for trade tariffs, duties and quantitative restrictions in bilateral trade between Serbia and the EU:

"The Community and Serbia shall gradually establish a bilateral free trade area" Article 18, SAA (European Union & Republic of Serbia, 2008)

5.3.2 How can trade liberalisation promote economic transition?

While conducting research at SEIO in Belgrade, I was given authorised access to an internal memo entitled *Briefing on the Entry into Force of the SAA*²⁵ discussing the advantages the SAA

²⁴ These data originate from the European Commission's Serbia 2014 Progress Report. It is not affected any since they match with government, World Bank and IMF sources. Therefore, I know I can trust these data.

²⁵ The document displays a considerable amount of bias owing to its source of origin: EU run office. It consists of two main sections: "What advantages will the SAA bring to Serbia?" and "Benefits of the IA [Interim Agreement]"

will bring to Serbia. The memo states that trade liberalisation as a result of the agreement's signing will lead to increased export growth, particularly in agriculture: "the Serbian agriculture sector demonstrates an important potential for future growth" (Serbian European Integration Office, 2009). It argues that exports will increase as the barriers for trade will be removed, leaving Serbian companies to sell onto a large economic union more cheaply and in larger quantities. On balance, in a developing transition economy like Serbia's where growth is largely export led, the potential for the SAA to benefit Serbia's economy and economic transition is immense.

Furthermore, since the EU is Serbia's biggest trading partner, an increase in bilateral trade will profit both Serbian companies and people greatly. As a result of trade liberalisation, Serbian firms will have access to the largest trading bloc in the world – one where they are able trade goods and services with EU member states as if they were based in a member state. This means that Serbian firms will be able to trade and profit more, boosting Serbia's economy and resulting in increased employment as these firms rush to expand production. Liberalisation will not only increase volumes of trade between Serbian firms and member states, but also between companies based in member states to Serbia. The Serbian people will benefit from lower prices and increased consumer choice as a result of this – inevitably many EU sourced goods and services will have lower prices and be more competitive than if they were produced by Serbian companies. As such, Serbian firms will have to become more competitive and efficient, promoting Serbia's economic transition as increasing competitiveness is a key part of becoming a market economy.

5.3.3 Focus: the effects of a SAA: a case study of Croatia

The potential effects of trade liberalisation in Serbia can be assessed by looking at other neighbouring countries that signed a SAA and joined the EU. One such example is Croatia, which joined the EU in 2013, having signed a SAA in 2001. Trade liberalisation in Croatia was a widely discussed topic in academic journals and studies. One such paper is *The Economic Effects of Croatia's Accession to the EU*²⁶ that models the potential effects of trade liberalisation and

Implementation". As a result, I consider this to be extremely one-sided as it does not cover or counter any negative impacts of trade liberalisation. Therefore I have been careful to make sure I do not rely on this source too heavily. On the other hand, this is a document free of opinion, meaning that it is not very subjective. Furthermore, this source contains well-justified benefits of the SAA, so I feel that I can cite it to justify positive benefits of the SAA.

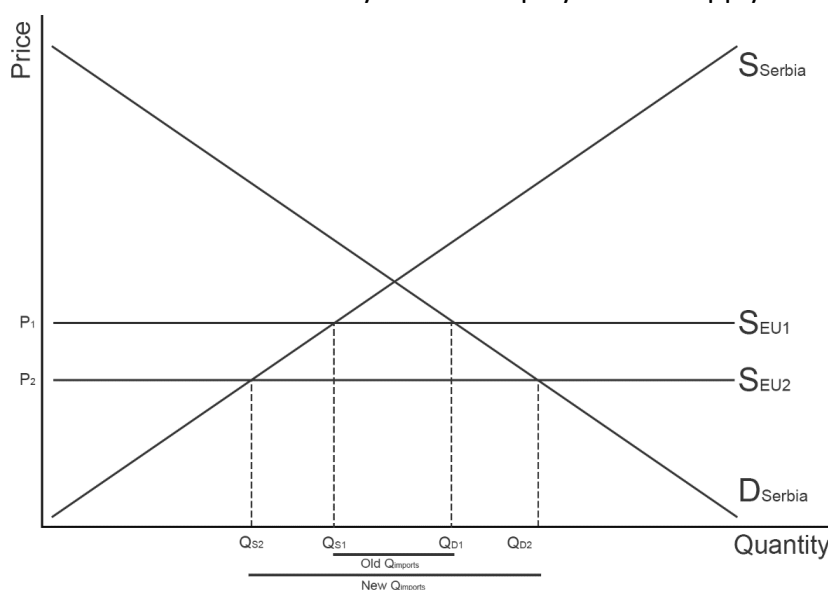
²⁶ This paper uses economic models and equations to calculate trade, consumption and GDP increases as a result of the SAA. The paper makes the following assumptions: 1) there is imperfect capital mobility across borders; 2) labour does not migrate; 3) technology and knowledge do not change as a result of EU membership. In the EU, a knowledge economy with free movement of people and capital, some of these assumptions perhaps are over-simplified, reducing the reliability of the source. I still believe that the study is reliable, as it has been peer

institutional reforms as a result of EU accession. Using gravity equations and the *WorldScan* model, the author's estimated that the weighted average of trade increases in 15 sectors would be 34% as a result of liberalisation. Furthermore, the SAA's requirements of institutional reforms are expected to increase trade by up to 30%. As a result, GDP would rise by 7.8% by 2025 and consumption 12.9% by the signing of a SAA alone.

This study demonstrates the large potential benefits that the signing of the SAA and trade liberalisation have on the Serbian economy. As a result of liberalisation, Serbia may experience similar growth in GDP, trade and consumption as is forecasted in Croatia.

5.3.4 Discussion: how does trade liberalisation affect Serbia's economy?

The effects of trade liberalisation can be analysed and displayed on a supply-demand diagram.



Upon the removal or reduction of all trade tariffs on bilateral trade between Serbia and the EU and the resulting decrease in costs of production for firms, supply shifts out to S_{EU1} , affecting Serbia's economy in several ways. Firstly, prices of goods on the Serbian market reduce to P_2 . Secondly, the quantity of goods supplied by Serbian firms supplied on the market reduces to Q_{S2} . This reduces the output of Serbian firms. Thirdly, owing to lower prices, Serbs will demand more, so quantity demanded on the market increases to Q_{D2} . Finally, since Serbian consumers

reviewed by Zagreb's Institute for Economics as well as the CPB Netherlands Bureau for Economic Policy Analysis and is written by reliable published authors. I am also aware that these are estimates, but although they are based on assumptions (which economic model is not?), the results are free from bias and, as far as I can tell, seem to be accurate and reflect actual increases in Croatian trade post-accession. The same model was used by other authors studying climate change and EU integration in Central East Europe. This means that I feel confident citing this source.

demand more than is supplied on the market by Serbian firms, the difference ($Q_{D2}-Q_{S2}$) must be imported from the rest of the EU increasing Serbia's trade deficit.

The size of the cut in tariffs is important to consider when discussing how liberalisation will affect Serbia's economy. A larger cut shifts S_{EU1} out further, causing a more significant decrease in prices and Serbian firm's output and increase in imports. A smaller shift will have a less significant macroeconomic effect.

The SAA came into force in September 2013, and is designed to establish gradually a free trade area over 5 years. This means that, assuming Serbia accedes to the EU in 2020, all customs tariffs on bilateral trade between the EU and Serbia will be abolished.

<i>Sector</i>	<i>Average Customs Rate (%) – after the Law on Customs Tariffs in July 2005</i>
<i>Textiles</i>	12.19
<i>Agriculture</i>	16.95
<i>Wood industry</i>	5.27
<i>Chemical industry</i>	2.97
<i>Printing industry</i>	6.50
<i>Ferrous and non-ferrous metallurgy</i>	5.71
<i>Energy sector</i>	2.01
<i>Construction materials</i>	7.17
<i>Miscellaneous</i>	8.53
<i>Metal processing industry</i>	5.39
<i>Leather and shoe industry</i>	8.20
<i>Glass industry</i>	8.70
<i>Overall average customs rate</i>	8.69

Table 5: Serbian tariffs in 2005

(Serbia Investment and Export Promotion Agency, 2006)

Table 5 details current customs rates in specific sectors of the Serbian economy. The average customs rate is a high 8.69%, but this hides the bigger picture. A low-tech sector such as agriculture, which employs over 20% of Serbians and contributes to over 10% of GDP, has the highest customs tariffs of almost 17%. Furthermore, Serbia has a 20% seasonal tax duty on agricultural products originating from the EU. Since the SAA will abolish these high tariffs and seasonal tax, the supply diagram will shift outwards more considerably for these sectors rather than, for example, the chemical sector which has a customs rate of almost 3%. Many of the sectors with high customs duties in Serbia are low skill and inefficient – the customs rate is high in order to protect these sectors from external competition. Although the whole of the Serbian

goods market will be affected by removal of tariffs, these sectors will be affected most by trade liberalisation. An assessment of the consequences of the removal of these high tariffs is covered in subsequent sections.

5.3.5 Assessment: will trade liberalisation benefit Serbia?

Trade liberalisation will affect Serbia's balance of trade. It can be expected that the volume of Serbian exports and imports will increase, but imports more so due to relative price competition, as confirmed by a report by SEIO (Serbian European Integration Office, 2009) increasing Serbia's trade deficit. The negative effects of liberalisation extend beyond a larger trade deficit, however. The relics of Serbia's communist past remain - state ownership of major Serbian firms is high, the presence of monopolies is significant and many firms, both large and small suffer from inefficiencies²⁷. As I have previously suggested, liberalisation will require firms to undergo substantial restructuring and privatisations, all of which have an associated adjustment cost. This cost is not just monetary, but also manifests itself in redundancies – the simplest and most common way of increasing a company's efficiency is to lay-off a large proportion of the workforce. Unemployment hinders economic transition, so it is possible that EU conditionality on the free movement of goods may not benefit Serbia's market transition, but instead perhaps harm it.

In October 2014, I interviewed Petar Petkovic, spokesperson for the now disbanded Democratic Party of Serbia, a right wing anti-EU party and an economist at Belgrade's Institute for International Politics and Economics. Whilst discussing the ways that the EU will negatively affect Serbia's economy and people, Mr Petkovic commented that trade liberalisation with the EU will damage Serbia's existing industries, particularly in agriculture and manufacturing and other primary and secondary industries (Petkovic, 2014)²⁸. The reasons for this are simple: Serbia has a poor government that invests little into technology and subsidies for agriculture and manufacturing. In contrast, richer EU countries such as Germany have more competitive industries, presenting a barrier to doing trade with those countries. As a result, EU-28 goods will have a lower price than Serbian goods, so that when trade barriers are removed, Serbian

²⁷ See section 6.2 for discussion of the effect of EU conditionality on competition and efficiency as well as evidence for this statement

²⁸ Petar Petkovic was a former Member of the Serbian Parliament and economic policy adviser to the ex-president of Yugoslavia and prime minister of Serbia. He currently works at the pro-EU Institute for International Economics and Politics. Therefore, it can be said that Mr Petkovic is a reliable source since his economic and political opinions are justified. This was definitely the case when I talked to him – I felt that, although his comments were immensely subjective, they were justified and, to a certain degree, correct. However, as spokesperson for an anti-EU party, I had to be careful when using this interview, as there was a large degree of bias. Having researched the costs that he described, I feel that his points are reliable and valid, so am confident citing his opinions.

goods will be less competitive and be demanded in much lower quantities. In Serbia, where agriculture and manufacturing are proportionally larger than the EU average (10% and 32% vs 3% and 16%), this will present a significant problem as these industries will no longer be viable.

For example, a cost-benefit analysis of the impacts of EU accession on Serbian agriculture conducted by Belgrade's FEFA estimated that, of the 200 dairy producers in Serbia, only 20-26 will remain, all of which are large or medium firms (Crnobrnja & Trbovich, 2009b). This suggests that the firms most affected by liberalisation are small enterprises that do not have the financial capacity to withstand the competitive forces of the EU single market. In 2009, over 260,000 workers were employed in Serbia's milk sector (Vienna Institute for International Economic Studies, 2010)²⁹ and the potential damage to Serbia's dairy industry would cause large-scale unemployment and the reduction of output of this revenue-making sector.

This is a serious issue that Serbia faces, and one that has been quantified in the study *Effects of Serbian Accession to the European Union*³⁰ that uses similar models to *Economic Effects of Croatia's Accession to the European Union* but reaches a different conclusion. Using the Global Simulation Model, the paper concludes that consumption will rise thanks to lower prices but there will be a substantial loss in tariff revenues of up to 0.5% of GDP (Crnobrnja & Trbovich, 2009a)³¹, an increased trade deficit and substantial falls in output, especially in agriculture.

"In the agriculture sector we can expect an 81 million USD fall of production which represents 40% of the overall fall in production" (Holzner & Ivanic, 2012)

²⁹ This paper *Assessment of the Labour Market in Serbia* was funded by the EU and thus is naturally a pro-EU piece of literature. The paper was also developed to criticise Serbia's labour market and point out the most important areas of Serbia's labour market for the EU to focus on and improve as part of the accession process. Therefore, it is possible that negative impacts may be exaggerated. I believe, however, that since the part I have used of this paper (low labour mobility and employment data) is an often stated and proven feature of Serbia's labour market, I feel that I can rely on the part of the source I have used.

³⁰ This paper uses the Global Simulation Model (GSIM), based on "partial equilibrium analysis of trade policy on a global level". This model was developed and used by economists in the World Bank, increasing its reliability since it used by such a large international financial institution. Similarly to WorldScan, the GSIM makes certain assumptions. Specifically: it uses unit elasticities of export supply and import demand. In the real world, this is not the case but these elasticities are, admittedly, impossible to calculate. Something important to note is that the paper mentions many more costs of EU accession than benefits, so I consider it to be slightly biased. This is by design, as the Vienna Institute for International Economic Studies describes itself as a body "assessing the impact of other European Union policies on economic, social and territorial cohesion", so most papers like this one are likely to be critical.

³¹ This paper was part of a larger study title *Impact Assessment of Serbia's EU Accession*. It was funded by the Serbian Government and EU. As a result, I have to be careful when using this source, as it displays a considerable amount of pro-EU bias. Furthermore, this entire study was commissioned by the EU to encourage EU accession, so there will be more bias. To mitigate this, I have only cited this study where its opinions stated corroborate with other pieces of research or have been backed up by sufficient evidence.

5.3.6 Assessment: agriculture and the CAP

Agricultural products form a large part of Serbia-EU trade, and, as discussed previously, agriculture in Serbia will be one of the hardest hit industries by trade liberalisation. The CAP offers a potential solution. The EU's Common Agricultural Policy (CAP) "allows European farmers to meet the needs of 500 million Europeans". Consisting of agricultural subsidies to farmers, market support funds and rural development instruments, the EU allocated 39% of its entire 2013 budget to the CAP and Europe's 12 million farmers (European Commission, 2013d)³². Belgrade's FEFA conducted research examining the potential effect of the CAP on Serbia's agricultural sector, and wrote the paper *Impact of Serbia's EU accession on agriculture*³³. The paper estimated that "upon EU accession the total transfer to Serbia should be close to EUR 10bn over 7 years" and came to the conclusion that subsidies into agriculture will increase tenfold, from EUR 30 in 2009 to EUR 300 per capita in 2015. In fact, if Serbia becomes a member of the EU, it will be among the 5 largest recipients of EU CAP funds (Crnobrnja & Trbovich, 2009b). This is important, as it demonstrates a long-term solution to the problems of uncompetitive Serbian goods upon trade liberalisation. As a result of joining the EU and receiving substantial financial assistance from the CAP, Serbia will be able to develop a competitive agricultural sector quickly.

Furthermore, alignment with the CAP offers Serbian firms the opportunity to trade within the EU single market without tariffs. In 2000, the EU began Serbia's alignment with the CAP by granting Serbia preferential access to the EU market. This involved the reduction or removal of levies and customs duties on some Serbian agricultural exports:

"The benefit created only from unpaid levies on export of agricultural goods... has totalled EUR 1.6 billion... [These benefits] have been reflected in the contribution to macroeconomic stability, higher investment, job creation, stability of domestic prices etc." (Crnobrnja & Trbovich, 2009b)

Unpaid levies allow Serbian agricultural firms to retain more of their profits and increases net income. As such, these firms may reinvest their increased earnings to expand production. In this process of expansion, jobs will be created and investment will increase. Since the value of unpaid levies is so high, the significance of job creation and investment will be equally high. As

³² These data were sourced from the European Commission's MEMO/13/631 on "The common agricultural policy (CAP) and agriculture in Europe – Frequently asked questions". I can trust this data as it originates from research conducted by Eurostat, the EU's body for statistics. All data is checked thoroughly, and EU budgets even more so.

³³ See footnote 31 for source evaluation

such, this may negate the negative employment and output effects of trade liberalisation and may perhaps result in a net benefit.

Another aspect of the CAP is price stability, since alignment with the CAP promotes the convergence of prices of agricultural goods in Serbia to that of the single market. The reasons for this are twofold – if Serbian prices are higher than those of EU member states, then fewer people will buy Serbian agricultural goods, driving down prices since Serbian firms want to stay competitive, until they converge with the EU price. If Serbian prices are lower than those of EU member states, then Serbian firms will see an opportunity to increase total revenue without compromising market share. As such, they will increase prices to the point, i.e. the EU price, at which total revenue will decrease following a price increase. Price stability of agricultural goods will benefit Serbia in many ways since price stability causes market stability. Firstly, market stability is a prerequisite for investment. If the Serbian agriculture market becomes more stable then foreign and internal investors will be incentivised to invest within Serbia. This will create jobs and increase output of industries invested in as they develop and expand thanks to increased inflows of money. Furthermore, price stability causes income and employment stability for those employed in agriculture in Serbia. This increases confidence and productivity of the Serbian workforce since employees know that their job and income is secured in the near future. Finally, since agriculture is a large component of Serbian GDP (10%) and employs an even greater percentage of the working population, the stability of agriculture is important to the stability of Serbia's economy. This stability will also benefit Serbia's economic transition – macroeconomic stability is a vital foundation of a viable market economy.

It is important to remember, however, that this is not a short-term solution. Jobs will be lost, and output will decrease before it potentially improves. For example, FEFA's recent calculations show that, after neighbouring Slovenia's 2004 accession, employment in Slovenian agriculture decreased by 13% after 5 years (Crnobrnja & Trbovich, 2009b). Slovenia's agri-food employment has not returned to its pre-accession levels and nor will it ever.

The role of agriculture in the economies of Slovenia and Serbia differs. 23.9% of Serbia's workforce are employed in agriculture, contributing to 10% of GDP (CIA World Factbook, 2014a), but 2.2% of Slovenia's workforce are employed in agriculture, contributing to 2.8% of GDP (CIA World Factbook, 2014b). This demonstrates that Slovenia's agricultural sector is considerably smaller than Serbia's, and suggests that a similar, but more severe situation can be expected in Serbia, resulting in more unemployment and output decline. Although the CAP may improve agricultural output in the long run, it cannot fix the problems of unemployment Serbia faces. Furthermore, other manufacturing industries like furniture and steel have no such

Common Policy as agriculture does, so these industries will not receive EU subsidies and thus have lower employment and output. This causes an even larger problem, as these industries in Serbia remain uncompetitive owing to high unit labour costs, and they cannot cope in the European economy.

Labour mobility is a key point to consider when discussing the potential unemployment impacts of trade liberalisation. Currently Serbia has a 43.6% rural population (CIA World Factbook, 2014a) of which the majority are employed in low skill primary and secondary sectors of employment. Since Serbia has low labour mobility with a low skilled population (Vienna Institute for International Economic Studies, 2010), if low skill industries suffer as a result of liberalisation, it is likely that the unemployment caused by redundancies will be a long-term problem. This is a large problem that is nearly impossible to solve without a long-term strategy correctly implemented. As a result, the significance of the unemployment caused by trade liberalisation will be increased.

Furthermore, if agriculture shrinks and jobs are lost, regional disparities will increase and rural development will suffer. Cities such as Belgrade and Novi Sad are home to highly skilled tertiary and quaternary sectors, but rural regions such as Vojvodina, which alone accounts for 47.3% of food production in Serbia, 35% of agricultural land and almost 23% of all land in Serbia (Novković, et al., 2013), have low skilled primary sectors. Since low skilled sectors like agriculture are the sectors that will suffer the most from trade liberalisation, so too will these regions which rely on agriculture for prosperity and development. For example, agriculture in the rural region of Vojvodina is worth EUR 225mn to its economy, but this will decline as a result of liberalisation. As such, rural regional economies will experience more output decline as a result of liberalisation than urban regions, contributing to increased rural disparity and inequality. Moreover, rural development will suffer as a result, since urban regions will prosper from free movement of services and capital, whilst rural regions will suffer from free movement of goods.

5.3.7 Conclusion

At first glance, it seems clear that trade liberalisation would lead to an improved Serbian economy with export-led growth. Trade liberalisation, however, has the potential to harm significantly manufacturing and agriculture in Serbia, where almost half the workforce are employed. As such, liberalisation may not benefit Serbia's economic transition as significantly. When I interviewed Freek Janmaat, head of SEIO's economic section, in Belgrade in October 2014, he expressed his opinion that there is little the EU can do to prevent these negative

impacts of liberalisation in the short-term. This casts into doubt the benefits of EU integration economically for Serbia. On balance, it is Holzner & Ivanovic's arguments that seem the most plausible – in the long-term, trade liberalisation will make Serbia a more efficient and productive economy:

“However, it can be stressed that free trade is desirable because of the positive effects it has on the efficient distribution of resources. Inwards orientation is negatively related with economic growth in the long run” (Holzner & Ivanic, 2012)

If Serbia develops a manufacturing and agricultural strategy and aligns with the EU's Common Agricultural Policy, then the negative effects of liberalisation will be reduced. The economic effects of liberalisation may be negative in the short-term, but in the long-term, provided Serbia plans well, the country will benefit from liberalisation.

5.4 The promotion of competition within Serbia's economy

This section covers EU competition conditionality. It begins by discussing the quality of Serbia's competition policy, followed by a discussion of how the EU can promote the development of sound competition policy within Serbia. A large part of becoming a competitive market economy is the reduction of state aid, ownership of firms and influence, so this section focusses on how the EU has promoted privatisations. I then discuss how competition conditionality can promote market transition. I end by assessing the success and potential negative impacts of privatisations.

5.4.1 The present state of play

	Rank /144	Score, 1-7 (best)
<i>Domestic Competition</i>	122	4.0
<i>Intensity of local competition</i>	128	4.2
<i>Extent of market dominance</i>	136	2.8
<i>Effectiveness of anti-monopoly policy</i>	126	3.3
Competition	128	3.6

Table 6: Indicators of competition within Serbia's economy

(World Economic Forum, 2014)

To understand better how EU competition policy can improve Serbia's economy, it is important to assess the current level of competition within the Serbian economy. Table 6 shows a measure of competition in the Serbian economy. As demonstrated, Serbia ranks poorly when it comes to competition policy: 128 out of 144 countries assessed and ranks even worse in the sections of domestic competition, market dominance and intensity of local competition (World

Economic Forum, 2014)³⁴. These are all defined by the World Economic Forum as barriers to business.

5.4.2 How can EU conditionality promote competition?

The EU defines competition as one of its core values, and a necessity for a good business environment. As part of the EU's conditionality, Serbia must comply with EU competition policy as embodied in chapters 3 (right of establishment), 5 (public procurement), 7 (intellectual property law) and 8 (competition policy) of the EU *acquis*. According to the *Serbia 2014 Progress Report*³⁵ published by the European Commission, Serbia's policy in these chapters has improved dramatically as a result of EU conditionality (European Commission, 2014e). In 2014, Serbia adopted the Law on Competition Protection, improved the capacity of the Commission for the Protection of Competition and improved its provisions on state aid in order to align with EU conditionality. These are concrete examples of how EU conditionality has prompted Serbia to improve competition within its economy.

Further examples of EU competition conditionality are: alignment with EU-Directives on public procurement (2004/17/EC, 2004/18/EC and 2009/81/EC); compliance with EU antitrust rules against cartels and monopolies; the establishment of an Intellectual Property Rights Agency and the existence of a patent office and a National State Aid Monitoring Agency (European Commission, 2013b)³⁶. Serbia currently does not fully comply with all these requirements, according to the 2013 and 2014 Progress Report as "limited progress has been made in the area of competition" (European Commission, 2014e). Although little progress has been made so far, the potential for the EU to improve Serbia's competition policy is large.

³⁴ The World Economic Forum (WEF) conducts an annual global competitiveness report, assessing over 140 different countries on their competitiveness using 8 different pillars to measure competitiveness. I can rely on the content of the report, as the WEF are designed to provide objective comprehensive data that has been properly researched and conducted. The results are used by multiple international authorities such as the World Bank, increasing its reliability. Furthermore, since this report has been published for 35 years and improved the quality of its rankings over time, I am confident citing this source as I trust in its reliability.

³⁵ This document was drafted by SEIO and published by the European Commission. It is an entirely objective document covering the progress Serbia has made in the 2013-14 time period in complying with the Copenhagen criteria. It is published by the EU, so, as I have discovered, the achievements of the EU in Serbia can be exaggerated. For this reason, I have chosen to include policy, laws and institutions that the EU was directly involved in improving/developing.

³⁶ These examples of EU prerequisites in the field of intellectual property rights, competition, public procurement and right of establishment were given in the European Commission's document *Guide to the Main Administrative Structures Required for Implementing the Acquis: February 2013*. This document was published by the European Commission and therefore I can rely on this source, as it was developed by the body managing EU enlargement.

5.4.3 Focus: privatisation

Privatisations are a central part of EU competition conditionality, especially in a post-communist country like Serbia where almost all large firms were once owned or heavily influenced by the state. The EU addresses the issue of privatisation in the Copenhagen Criteria for a market economy under the section “interplay of market forces” – Serbia must reduce the state influence in the economy considerably to accede to the EU. Serbia has already begun alignment with EU standards, as it has enacted a new EU-compliant privatisation law and has developed and consistently enhanced the Serbian Privatisation Agency, which currently has 502 companies for sale (European Commission, 2014e).

The excessive influence and presence of the state in the Serbian economy is a barrier to doing business in Serbia. By encouraging privatisation, the EU hopes to break down these barriers, resulting in more inward investment into Serbia. Consequentially, the Serbian government is attempting major privatisations in order to increase efficiency of these businesses and save costs of running state-owned enterprises. A more competitive economy is one where a business can develop without interference or competition from government.

To achieve these privatisation goals, the EU is cooperating with IFIs such as the EBRD to fund privatisations and ensure success. In the EBRD’s *Strategy for Serbia*³⁷, the bank defines 3 main priorities for Serbia one of which involves enhancing the role and competitiveness of the private sector: The 3rd pillar will be covered in section 4.3, and the 1st pillar remains the focus of this section.

“The Bank will seek selected opportunities to enhance the viability of companies in the process of being fully privatized, through its participation in pre-privatisation and privatisation transactions, preferably alongside strategic investors.” (European Bank for Reconstruction and Development, 2014)

The EBRD works with the EU to aid and fund these activities. So far, large publically owned companies have been successfully privatized, such as Naftna Industrija Srbije (national gas supplier), which is now majority owned by Russia’s Gazprom. Other privatisations include 500 small companies (accounting for 3% of GDP) in September 2014. Almost all companies privatized so far have been loss making relieving over EUR 1bn of burdens on public finance

³⁷ I cannot doubt the reliability of EBRD in its strategy, since this is an objective strategy paper. I do believe, however, that the EBRD has the potential to exaggerate its potential effect on Serbia, affecting the bias of this source. Since I am citing sections of the source covering strategy goals and methods of implementation I know that the content I am citing is reliable and objective.

(Prelec, 2014). This demonstrates how privatisation acts a catalyst for competition, reducing wasteful government spending and increases the efficiency of Serbia's economy.

5.4.4 Discussion: how does EU competition conditionality promote economic transition?

Since EU conditionality demands that Serbia improves its competition policy, breaking up monopolies, reducing state aid and privatizing state enterprises, Serbia's businesses will become more competitive. A more competitive Serbia will encourage investors to build or expand companies into Serbia, improving Serbia's economy vastly.

Whilst in Belgrade, I interviewed Freek Janmaat, head of SEIO's economic section. He was a main proponent of increase competition being the most important benefit of the EU to Serbia for the reasons stated above as well as the benefit to the consumer: more competition within Serbia will lead to lower prices for Serbian goods exported out of Serbia and consumed within. He argues that in a competitive economy, for a firm to stay ahead of its competition, it has to reduce prices. If it does not, it will have lower sales and profits. Furthermore, as previously discussed in this dissertation, EU firms have generally lower prices for goods and services, so Serbian firms have to match these prices to retain market share and maintain profit. Mr Janmaat regards this as important, saying "everything flows from the lower prices" (Janmaat, 2014)³⁸.

Competition is not just beneficial for consumers and firms, but it is important in helping Serbia transition to a functioning market economy, as expanded upon in FEFA's *Impact of Serbia's EU Accession on Competition Policy*³⁹. As well as expressing similar opinions to other's on competition, this paper assesses the importance of a market economy to Serbia.

"Strong competition ensures the necessary efficiency and effectiveness of the economy and its steady development... to make the market more attractive for new investment and the interest of the consumer. These are all the goals of the Serbian competition policy, which is one of the most solid bridges linking the national legislation with the EU" (Crnobrnja & Trbovich, 2009c)

³⁸ Freek Janmaat works as head of the economic subsection of SEIO. Mr Janmaat has worked with the EU since 2005, working as a policy advisor to the European Commission, before becoming deputy head of Kosovo's European Integration Office then head of SEIO. Therefore, it is clear that his knowledge of how the EU can benefit a country like Serbia is immense and he is thus a very reliable source. It must be noted, however, that Mr Janmaat worked in the European Commission as a state-aid case handler. State-aid is a subsection of competition policy, and I believe that there may be a considerable amount of bias in his words (Mr Janmaat expressed competition as the most important benefit of Serbian EU accession) owing to his past dealing with competition cases. Although this increases the bias of his opinions, he still justified his opinions incredibly well and intelligently, so I have no fears using his interview in this dissertation.

³⁹ See footnote 31 for source evaluation

This makes it incredibly clear how important the EU's competition policy is in order to help Serbia's long term economic stability and prosperity as well as help consolidate Serbia's transition from a post-communist war affected state into a global competitive market economy.

Competition and privatisations will also help Serbia's economic transition, as it will increase volumes of Serbian trade to the EU in the medium-long term. In the previous section on trade liberalisation, I discussed the negative effects of liberalisation on Serbian firms, but, thanks to EU competition and privatisation conditionality, these negative benefits will be reduced significantly, as this conditionality will promote the development of competitive and efficient Serbian firms. As a result, in the near future these firms will be able to compete with existing EU companies, increasing Serbian exports. As Serbian firms become more competitive and expand to the single market, so too does employment – expansion of production involves employment of workers. This means that EU competition conditionality will reduce the negative effects of trade liberalisation and thus help Serbia's economic transition further.

5.4.5 Discussion: linking trade liberalisation and competition

Trade liberalisation and competition policy are very much linked. The potential negative effects of trade liberalisation have already been discussed in the previous section and these problems stem from the lack of competitiveness of Serbian firms. The more competitive Serbian firms are, the more easily they are able to respond to trade liberalisation by cutting prices and remaining competitive in a wider market with other European competitors. This means that competition policy has the potential to mitigate certain negative effects of liberalisation, since Serbian firms and thus the Serbian market are less affected by the abolition of customs tariffs.

The question that must then be discussed, however, is of timing. The mitigating effects I described of competition policy are only the case if substantial competition reform occurs *before* liberalisation. This has not been the case, however. In the year of 2013, when the SAA came into force and the process of trade liberalisation began, the EU reported, "no progress was made in the area of competition" (European Commission, 2013c). This suggests that Serbia's economy is not competitive enough yet for the negative effects of trade liberalisation to be mitigated.

Furthermore, increasing the competitiveness of the Serbian economy does not have an immediate positive effect on Serbia's economy and economic transition. In the short term, in order for firms to become more competitive, jobs will have to be cut. This is done to increase efficiency and increase output in the medium-long term. In the future, once the Serbian

economy become people may be reemployed as more efficient and thus prosperous firms invest to expand production. This means that it is very important to consider timing when discussing making Serbia's economy more competitive – in the short term, Serbia's economy and market transition will suffer, but will benefit considerably in the medium-long term.

5.4.6 Assessment: how much have privatisations achieved?

In her paper *The Economic Development of the Western Balkans since Thessaloniki*, economist Milica Uvalic points out the importance of privatisation in expanding the role of the private sector in the economy, but criticizes the successes of Serbian privatisations:

“However privatisation has not led to improved corporate governance or to deep enterprise restructuring since...the new owners often lacked the resources and skills to successfully modernize their firms” (Uvalic, 2013)⁴⁰

Tena Prelec of the LSE blames Serbia's legal and institutional framework for dealing with privatisations for the quantity of privatisations that failed:

“Out of the main institutional flaws identified, the most serious were the lack of adequate controls on money laundering, unclear legislation concerning restitution, and a lack of adequate company valuation. The opacity of the origins of capital – and thus the opportunities for money laundering – was one of the main reasons why the privatisation process still had serious setbacks, and continued to be regarded by the public as deeply flawed.” (Prelec, 2014)⁴¹

This is a theme running through much of the literature covering privatisations in Serbia and explains why the number of Serbian state-owned companies privatised successfully is a low 52% (European Bank for Reconstruction and Development, 2014). These privatisations have cost Serbia millions in lost revenue as well as spending on the doomed process of auctioning and restructuring these enterprises for privatisation. Tanja Miscevic of Serbia's anti-corruption

⁴⁰ This paper was written as a section of the book *The European Future of the Western Balkans* by the EU's Institute for Security Studies. Milica Uvalic is a prominent professor of economics at the University of Perugia, and has published extensively on Serbia, the Western Balkans and European Integration. She has written on the topic of Serbia and the EU extensively, such as in *Serbia's Transition: Towards a Better Future*, multiple articles published in peer-reviewed journals and edited the book *Western Balkans' Accession to the European Union*. As such, I trust Professor Uvalic's opinions very much. I do have to admit that across all her literature, there is a slight pro-EU bias, but I am confident that this paper displays no such bias, as it evaluates on the benefits of privatisations, trade and investment.

⁴¹ Tena Prelec is the managing administrator of the London School of Economics' South East Europe Institute. This article is very opinionated, and anti-privatisation, as it written to criticise Serbia's framework for privatisations as well as demonstrate the failure of many privatisations and how something must be done about it. Therefore, its reliability is reduced, but the points she made are backed up by peer-reviewed journal research and are entirely correct.

agency was interviewed about the number of privatisation failures, and mentioned that the reform of privatisation laws and the privatisation agency is a key priority for the government. (Miscevic, 2014a). She also mentioned the large problem of corruption in the privatisation process – currently the European Commission is investigating 23 privatisations amid allegations of illegality. Serbia hopes to improve this, via new EU-compliant laws on bankruptcy, privatisations and public procurement (European Commission, 2013c)

Privatisations also have the potential to damage Serbia's economy further owing to restructuring of privatized companies. As previously mentioned, most privatized firms are loss making, and, in order to generate profit for stakeholders, heavy restructuring occurs in most cases. As a result, many jobs are cut, causing increased unemployment. Since state-owned enterprises have become increasingly bloated over the last two decades (Prelec, 2014) and the number of public sector employees is 11% of the total workforce (World Bank), the number of workers unemployed after privatisations and restructuring is likely to be large. The paper *Privatisation Effects on Labour Market of Serbia: Bottlenecks of the Transition Process*⁴² calculated the large unemployment caused by privatisations between 2000 and 2005:

“But although the number of employees in such an enlarged number of small firms increased by 44 thousand in the observed period of three years, the number of employees in medium size firms decreased by 52 thousand and in large firms more than 217 thousand employees. This indicates that the most obvious impact of the privatisation process is the reduction of employment, namely increased unemployment.” (Jovicic, 2005)

This will have negative knock-on effects on Serbia's economy, increasing welfare benefits and decreasing consumer spending.

5.4.7 Conclusion

The EU promotes competition as one of its core values, dedicating multiple chapters of its *acquis* to it. Complementary to competition is privatisations. These will reduce the influence of the state in Serbia, making Serbia's economy and business environment more efficient and stable. The privatisation process has not been without its failures but the much-needed modernization of state-owned enterprises outweighs the costs of administration, loss of sales revenue and unemployment. Since Serbia has a labour force with low mobility (Vienna Institute

⁴² This paper is part of the project *Effects of Privatisation in Serbia* commissioned and paid for by Serbia's Ministry of Science. Therefore, it is possible it is biased towards promoting privatisation as being successful. However, since this paper is criticising the privatisation process, I can firmly say that there is a considerable amount of anti-privatisation bias. I feel that I can rely on this since it was published in the internationally peer reviewed Economic Annals journal of Belgrade's Faculty for Economics by a commended author who has published on privatisation's effects before.

for International Economic Studies, 2010), privatisations and restructurings will cause more unemployment in Serbia. Such an effect is hard to avoid, but is a necessary cost of modernizing Serbia's economy. Sound EU aligned competition law on state aid, intellectual property, monopolies, mergers and domestic competition policy coupled with good administration will improve ease of doing business in Serbia and remove obstacles to investment and growth.

Serbia's alignment with EU competition *acquis* and administrative structures is not close to complete – Serbia can benefit more from EU conditionality on competition. If Serbia's government remains committed to increasing competition and develops a medium-term strategy, Serbia's economy will achieve a stable economic transition and the range of Serbian goods will increase and their prices will decrease. It is hard to challenge the direct benefits EU competition policy will have on Serbia's economic transition.

5.5 Serbia's economic policy and European integration

This section covers EU economic reform conditionality. The section starts by discussing the state of play of Serbia's macroeconomic policy followed by a discussion of how EU economic policy conditionality can promote economic transition. It then focusses on the development of a National Economic Reform program and how this EU required program can benefit Serbia's market transition. Next, it covers European integration – how is the EU promoting Serbia's integration into the European market, how does this benefit Serbia and does it actually help Serbia's economy or make harm it? I conclude by discussing why EU economic reform conditionality is important in the promotion of Serbia's economic transition.

5.5.1 The present state of play

Serbia's economy has suffered significantly during its transition to a market economy, and this has worsened following the 2008 global financial crisis and subsequent Eurozone crisis. A recent country report on Serbia produced by the IMF found the Serbian government's economic policies to lack in sustainability and stability needed to complete Serbia's economic transition. Furthermore, European integration – the increased economic integration with the European market via FDI, trade flows and foreign ownership of Serbian companies and banks – has rendered Serbia reliant on the EU single market for future growth:

“The global financial crisis exposed significant external and internal vulnerabilities reflected in sharply lower growth. Sustained implementation of sound macroeconomic policies and broad-based structural reforms is needed to complete Serbia's transition to robust growth and a stable macroeconomy” (International Monetary Fund, 2013)

5.5.2 How can EU conditionality promote macroeconomic reform?

The SAA develops the foundations for Serbia's transition from a command to a market-based economy.

"The Community and Serbia shall facilitate the process of economic reform by cooperating to improve understanding of the fundamentals of their respective economies and the formulation and implementation of economic policy in market economies... Serbia shall strive to establish a functioning market economy and to gradually approximate its policies to the stability-oriented policies of the European Economic and Monetary Union" Article 89, SAA (European Union & Republic of Serbia, 2008)

Since global financial crisis and Eurozone crisis in 2008, the EU has become more focused on stabilizing and improving Serbia's economy partly to preserve its own financial interests. As a result, EU conditionality has become increasingly focused on delivering economic reform.

5.5.3 Focus: National Economic Reform Programmes

Serbia was required by the 31st January 2015 to submit a National Economic Reform Programme to the EU (European Commission, 2014a). Western Balkans states will receive country-specific guidance in the production of these NERPs, and must follow a template dictated by the European Commission's *Guidance for National Economic Reform Programmes*⁴³. NERPs must consist of two sections. The first is a macroeconomic and fiscal framework for the pre-accession period 2014-17. It must consist of a "realistic and consistent medium-term macroeconomic scenario" as well as a 2015 budget and 2016-17 fiscal plans. Obstacles to growth must be identified and a plan to address them developed (European Commission, 2014b). The second part builds on the first part, but uses a structural reform approach designed to improve four main parts of the macroeconomy: product markets and business environment, financial stability, labour market and public finance reforms (European Commission, 2014b).

5.5.4 Discussion: how does a NERP promote economic transition?

In order for Serbia to join the EU, it must improve its economic governance and meet the Copenhagen Criteria. The EU has chosen to do this through the development of NERPs, funded by IPA grants.

⁴³ This document has been produced by the European Commission and has not been published online, so it is likely that it will over emphasize the change-making ability of a NERP, reducing its reliability. It only forms part of the guidance that the EU provides to Serbia, but this document is still useful in producing a top-down view of how the EU is helping Serbia develop a NERP, why and how it will help Serbia's economy.

To understand how a NERP can help Serbia, it is important to consider the specific contents of the programme. Serbia's NERP is required to contain: a sustainable policy for inflation via setting of interest rates; a sustainable exchange rate policy; a capital flow policy to improve FDI and investment; an action plan to improve the stability of banks and the financial sector; and a strategy to manage debt and a strategy to fund Serbia's budget deficit (European Commission, 2014b).

The impacts of these policies, strategies and action plans are designed to improve Serbia's economic stability, transition to a market economy, reduce debt, increase growth and create jobs:

"It is essential that they intensify reforms to return to sustainable growth, improve competitiveness, create jobs and enhance economic convergence with the EU" (European Commission, 2014b)

The EU hopes that, through the development of a NERP, Serbia will be able to cope with the competitive pressures of the EU as well as improve the quality of life for its people. Serbia's NERP is a comprehensive program to develop a stable market economy by reducing debt, increasing growth, investment and employment and macroeconomic stability.

5.5.5 Assessment: Serbia's NERP and European Integration: can the EU really help?

Part of Serbia's economic reform is integrating with the European single market, known as European Integration. In her book *Serbia's Transition: Towards a Better Future*⁴⁴ Milica Uvalic argues that on one hand European integration is good in terms of trade, investment, privatisations and restructuring of publically owned firms, but on the other it reduces the independence of Serbia's economy. Serbia's heavy reliance on EU trade, investment and foreign ownership of Serbian banks and firms has been described as a "double edged sword" (Uvalic, 2013 & 2010). Serbia has become increasingly integrated into the EU, as a result of EU facilitated economic reform. As a result it is now more vulnerable to economic shock thanks to this economic integration (Barlett & Uvalic, 2013). Therefore, it is clear that EU facilitated economic reform integrating Serbia into the EU does indeed have the possibility of harming Serbia's economy if it is not managed well enough.

⁴⁴ Milica Uvalic has written widely on the topic of Serbia's European Integration. Her book has been reviewed by numerous academics such as Sasa Cvrljak of the Croatian International Relations Reviews, who said that her "academic expertise with personal insights offers unique research perspective". Having read the book, I agree – it is well researched, comprehensive and extremely reliable. Milica Uvalic is pro-EU, however, so she may demonstrate a bit of bias. Since the part of her book I have used evaluates the concept of European Integration, am confident citing this book since these sections are reliable.

Additionally, it is important to assess the significance of Serbia's NERP and other EU promoted reforms in promoting economic transition. Speaking at the LSE, Aleksandar Vucic, the Prime Minister of Serbia, referred to many economic policies that Serbia has developed in the last 5 years: a bankruptcy law; a privatisation law; measures for fiscal consolidation and the reduction of budget deficit and national debt and policies of austerity involving public sector wage and pension cuts. Mr Vucic was keen to claim credit for these and downplay the role of the EU in promoting economic reform:

"[Serbia is] doing that not because of someone else, but because of us... for future generations" (Vucic, 2014)⁴⁵

When asked about the role of the EU promoting economic reform, Mr Vucic ignored the question, simply listing economic policies his government developed. On balance, his claims may be exaggerated, since the role of the EU has been considerable in promoting Serbia's economic reform, through NERPS, development of infrastructure for R&D, education, competition policy, trade and SMEs. Furthermore, as footnoted, it can be argued that Mr Vucic is trying to win votes by demonstrating the quality of the government to the Serbian people. Maybe the government has implemented sound economic policy on its own, but, on balance, Miss Uvalic's opinions are well justified: "the EU integration process has promoted and accelerated the process [of economic reform]" (Uvalic, 2010). The key words in this quotation are "promoted" and "accelerated". Without the EU, economic reform may have occurred, but at a much slower rate to the cost of the Serbian people.

I discussed this issue with Dimitrije Stankovic, economic advisor at SEIO, in Belgrade in October 2014. He disagrees with Mr Vucic's stance and instead sees the EU as an essential catalyst for the development of Serbia's economy. He believes that the current problems Serbia faces in taxation, inefficiency of public administration, informal sector and economic policy can only be improved by EU help. Without EU conditionality, he believes that Serbia will have an inefficient system for taxation and fiscal and monetary policy. Its macroeconomic development lies with the EU and its conditionality for economic reform (Stankovic, 2014)⁴⁶.

⁴⁵ Mr Vucic, Prime Minister of Serbia, has to appease domestic voters, some of which are euro-sceptics or suffer enlargement fatigue. Therefore, he was keen to demonstrate that Serbia's economic reforms were not as a result of the EU, and actually because of him and his own government. I can say with confidence that his lecture was biased in downplaying the benefit of the EU. As a result, this lecture's reliability as a cited source is lower.

⁴⁶ Mr Stankovic has worked at SEIO and the EU delegation since 1993, and has experienced Serbia's transition first hand. He is a knowledgeable economist and works on 6 chapters of the EU acquis as part of his job as economic advisor at SEIO. He now works with the Serbian government, where he advises on economic policy and macroeconomic development, so I know that I can rely on what he has to say about the need for EU conditionality in promoting economic reform. Furthermore, I must admit that he is likely to be slightly pro-EU biased, considering

5.5.6 Conclusion

The EU is a huge promoter of economic reform throughout the Western Balkans region. The development of sound economic policy as a result of EU conditionality is important in promoting investment, trade and prosperity. The EU requires administrative reforms, NERPs and European integration from aspiring member states such as Serbia. The global financial crisis has strengthened the need for Serbia to improve its future fiscal plans, budgets and strategies for employment, growth, competition and reduction of budget deficit. Serbia has been able to proceed in reforming its economy without the EU in some cases, but the EU has “promoted and accelerated” economic reform in Serbia immensely (Uvalic, 2010). Although economic reform may have left Serbia vulnerable to external shocks through trade, investment and foreign ownership of Serbian firms, Serbia still needs to become integrated into the European economy. If Serbia develops a comprehensive auditing and regulatory system for large banks and firms, it is likely that Serbia will not suffer as much from the double-edged sword of European integration.

5.6 Conclusion and Synthesis on economic transition

EU conditionality has provided Serbia with a trading partner, enhanced competition policy and more stable macroeconomic policy. Serbia now has the opportunity to consolidate itself in a global economy and conditionality has been successful in requiring Serbia to align with EU *acquis* and meet the criteria for membership, facilitating its transition to a market economy. Although there are costs associated with EU economic conditionality, Serbia’s market transition has significantly been aided by conditionality, and conditionality will aid this transition even more in the medium-long run, after the costs are overcome.

A common theme in my research has been the two-sided nature of EU conditionality that may not be apparent upon first assessment. Each aspect of Serbian accession has costs and benefits, and several of the most opinionated sources cited in this section have considered both sides. For example, FEFA’s book *Impact Assessment of Serbia’s EU Accession* (Crnobrnja & Trbovich, 2009a) covers both the costs and benefits of EU accession in a manner similar to *Serbia’s Transition: Towards a Better Future* (Uvalic, 2010). Another example of this is trade, where the paper *Effects of Serbian Accession to the EU* (Holzner & Ivanic, 2012) demonstrates the costs of EU accession similarly to my interview with Petar Petkovic (Petkovic, 2014), and the benefits of EU accession similarly to *Effects of Croatia’s Accession to the EU* (Lejour, et al., 2009) both using a similar economic model. Reports and strategies published by the EU and associated bodies

he is employed by the EU and his profession as an economic advisor. I still believe that my interview with him is extremely reliable owing to his considerable expertise, so I am confident citing it.

such as *EBRD Strategy for Serbia* (European Bank for Reconstruction and Development, 2014); *EIB Medium-Term Strategy for the Western Balkans* (European Investment Bank, 2011) and *Guidance for National Economic Reform Programme* (European Commission, 2014b) demonstrate a rather one-sided approach to EU accession – normally focusing only the benefits. Interviews I conducted with Dimitrije Stankovic (Stankovic, 2014), Petar Petkovic (Petkovic, 2014) and Freek Janmaat (Janmaat, 2014) also demonstrate similar one-side opinions, but are more varied whether they are for or against the EU. Overall, my research on the economic aspects of EU conditionality has presented me with a balanced picture, especially in the cases of trade liberalisation and economic policy and European integration. It demonstrates more benefits than costs, leading me to reach the conclusion above.

6 Overall Conclusions

Serbia's democratic and economic transition – which has EU conditionality promoted more?

It is clear that EU conditionality has had a significant effect in facilitating and driving both Serbia's political and economic transitions. Conditionality not only promotes the alignment of national legislation with EU *acquis*, but also increasingly the development of institutional capacity to implement it. To Serbia, democratic and economic transitions are equally important: they are not, and indeed should not be, mutually exclusive.

EU conditionality has not been without its failures, and it has the potential to harm not hinder Serbia's democratic and economic transition. EU conditionality adopts a high-level approach, placing more value on the adoption of legislation than it does on its implementation. This has led to multiple implementation gaps, usually in areas that are most legislation heavy such as judicial reform and fundamental rights. This has hindered the progress of Serbia's democratic transition the most, but the future seems to look more hopeful since the EU is increasingly assessing implementation of legislation. For example, when I attended a section meeting at SEIO on the 28th October 2014 I was surprised by the office's focus on assessing implementation of *acquis* compliant legislation and the development of multiannual action plans and strategies to fix implementation gaps. This demonstrates that the benefits of conditionality have not been as significant as they could have been, but, in the future, conditionality will promote Serbia's democratic and economic transitions even more.

Conditionality also has the potential to harm Serbia's economy. For example, conditionality will lead to increased unemployment because of trade liberalisation, privatisations and increased

vulnerability to external shocks owing to European integration. These negative effects cannot be eliminated, but the Serbian government and the EU should attempt to reduce the adverse effects they cause. This is not to say the problem has been overlooked. The Serbian government has developed strategies such as the *Strategy on Agricultural Development of Serbia* and the *Republic of Serbia Trade Development Strategy*. More should be done, however, to combat the negative effects of conditionality. If the EU and Serbia work together to effectively develop action plans, strategies and policies and fund them adequately then these negative effects can be mitigated and Serbia's democratic and economic transition will be promoted even more.

To answer the question, I have looked at the ways that Serbia's democratic and economic transitions have been promoted by the EU in seven main areas: the fight against corruption, judicial reform, development of regional cooperation, consolidation of fundamental rights, liberalisation of trade, promotion of competition within Serbia's economy and development of economic policy and European integration. These aspects of a democratic society and a market economy have been aided immensely by EU conditionality but, in my opinion, EU conditionality has promoted Serbia's democratic transition more. The reasons for this are twofold.

First, there is a lack of domestic political impetus to complete Serbia's democratic transition. In the case of economic transition, the interests of Serbian politicians, policy makers and public administrators are aligned with those of Serbia and the EU. This is not so much the case with democratic transition – Serbian politicians, administrators and policy makers are the ones who would be worse off because of democratic transition owing to vested interests. The theme of an implementation gap is common to all aspects of democratic transition, suggesting there is a lack of political will to enforce and implement EU compliant legislation. The Copenhagen Criteria require alignment with the *acquis* as well as the institutional capacity required to enforce and implement EU legislation. It is only alignment with the Copenhagen Criteria via conditionality that can combat this lack of political impetus and promote true democratic change. For example, as acknowledged by many academics, the reform of Serbia's judiciary cannot occur without the driving force of EU conditionality. Although problems with implementation and enforcement remain, I argue that Serbia's economic transition will continue and complete successfully without the EU, but it is only with EU conditionality that Serbia's democratic transition can occur. This is why conditionality has promoted democratic transition more.

Second, it is important to understand the goals of enlarging the EU to include Serbia and the Western Balkans. The first goal is democratic – the promotion of western liberal democracy in post-communist states such as Serbia. One of the primary motives behind the formation of the

EU was as a political union to prevent another pan-European war. This is identified in the preamble to the Treaty on European Union:

“Recalling the historic importance of the ending of the division of the European continent and the need to create firm bases for the construction of the future Europe,” (European Union, Consolidated 2012b)

From a geopolitical perspective, it can be argued that enlargement of the EU to include the Western Balkans is to prevent the region from regressing into war or turning to Russia’s sphere of influence. For example, regional cooperation does not appear in conventional definitions of democracy, but is still a priority for democratic conditionality since it ensures the stability of the Western Balkans region and thus the rest of Europe. By including the Western Balkans in the EU, long-term democratic stability is ensured for all countries in the region. Whilst market transition has the potential to benefit Serbia immensely, it cannot ensure long-term stability in the same way that democratic transition can. This has led the EU to promote democratisation more through conditionality. Serbia needs to move on from its recent history of conflict and consolidate its democracy, and EU conditionality presents the opportunity to do so.

The second goal for enlarging the EU to include Serbia and the Western Balkans is economic - democratic consolidation and transition has a significant economic dimension. Democratisation offers Serbia the opportunity to improve its business environment, develop stable and enduring diplomatic relations with neighbouring countries and create an accountable and fair judiciary and public administration. If companies of all sizes can trust Serbia’s democratic system, then they will wish to invest in the country. EU judiciary and anti-corruption conditionality will promote democratic transition and also remove barriers to doing business in Serbia.

“Serbia’s rigid business environment hampers foreign investment and needs an urgent overhaul...” (International Monetary Fund, 2013)

Additionally, an economy based on democratic principles free of corruption will benefit SMEs considerably. If an economy is corruption-free, the cost of establishing and developing a business will be reduced. No longer must entrepreneurs bribe a public official to create or expand a business. EU anti-corruption conditionality allows for a competitive business environment especially conducive for SMEs and the private sector. Serbian judicial reform is equally essential to establishing a functioning democratic system and a business environment where firms can establish, expand and invest in Serbia and protect their interests.

EU conditionality offers Serbia the opportunity to consolidate diplomatic relations, but also to develop and enhance the economy of the Western Balkans region. If countries in the region

cooperate, regional trade and investment will increase, people and capital will move through the region, and jobs will be created. In his thesis *EU's enlargement towards Serbia: A study of EU's interests in Serbia*⁴⁷, Seema Sisodia argues that:

"Regional cooperation in the Western Balkans is the foundation for the creation of a business environment, which would attract foreign direct investments... this would create jobs and encourage individuals to take more initiative for their country's welfare" (Sisodia, 2012)

On balance, if Serbia cooperates with other countries in the region, it can promote economic integration at the highest and lowest levels. Serbian businesses can expand into other countries, boosting Serbia's economy and international trade and other regional firms can expand and employ workers in Serbia. Furthermore, external businesses from the EU and the rest of the world will see the Western Balkans region as a prosperous area of opportunity in South East Europe that can be a location for investment.

In their paper *Democratising the Western Balkans: where does the region stand?* by enlargement policy analysts Rosa Balfour and Corina Stratulat of the European Policy Centre summarised the economic and political importance of democratic transition:

"Make no mistake: the effective democratization of the Western Balkans is the best investment that these countries and the EU can make for the future" (Balfour & Stratulat, 2013)⁴⁸

In my opinion, EU conditionality has promoted democratic transition in Serbia more than economic transition first because the need for an external agent to promote democratic transition is greater and second because democratic transition also promotes economic transition. The benefits of democratisation extend beyond those of marketization and this is reflected in the priorities of EU conditionality in Serbia. Furthermore, whilst some of the ways in which EU conditionality has promoted economic transition discussed in this dissertation may have occurred over time without EU conditionality, a number of changes in Serbia's political society would not have occurred without EU conditionality.

⁴⁷ Seema Sisodia looks at the benefits of Serbian EU accession from a "rationalistic" point of view. This view believes that regional cooperation and free trade are the most important benefits of any union. Therefore, this source is very bias, as it looks at EU enlargement from a fixed theoretical point of view. He does justify why he believes regional cooperation is the most important benefit however, so I feel that the source is more reliable. I have used this source based on his justification.

⁴⁸ This is an extract from the paper *Democratising the Western Balkans: where does the region stand?* One of the authors, Rosa Balfour has written a book *Human Rights and Democracy in EU Foreign Policy* focussing on the democratisation of the Western Balkans. Corina Stratulat has written papers such as *EU enlargement to the Balkans: the show must go on*. This demonstrates the expertise of these two authors in the field of democracy and the EU in the Western Balkans. As a result I am confident in this paper's reliability although it does display a bit of anti-EU bias, as the paper is designed to criticise the democratic effect of the EU in the region.

Democratic transition will benefit the EU as well as Serbia - it will benefit external actors (such as the EU) because of the effects of democratisation on political stability and economic prosperity. On the other hand, economic transition will in large measure benefit only Serbia. As such, the aim and result of EU conditionality has been to promote democratic transition more than economic transition.

7 Evaluation

7.1 Research methodology

During the research stage of this dissertation, I spent time in both the UK and Serbia conducting research. In the UK, I emailed academics such as Dr Will Barlett at LSEE and Milica Uvalic at the University of Perugia. I used JSTOR, Google Scholar and Search to search for papers, books, reports, documents and strategies that I could cite. Since the topic of EU conditionality on Serbia is an academic niche, many books on the topic are expensive; I borrowed several books cited in this dissertation from my school library and the British Library. Milica Uvalic sent me a book that she edited and I attended several lectures at the LSE's South East Europe Institute as well as at St Antony's College, Oxford (SEESOX) on the topic of the EU and the Western Balkans.

I spent a week in Serbia's capital, Belgrade, conducting personal research and interviews. I was pleased with my planning and time management since I managed to get a considerable amount of research done in this limited time. Having emailed Michael Davenport, the head of the EU delegation to Serbia, I arranged to spend time working with Freek Janmaat's economic section at SEIO. There I conducted interviews with delegation employees and gained authorised access to some internal documents. I also wanted to conduct an interview with someone who would be critical of the EU, so I contacted Petar Petkovic, the spokesperson of the anti-EU political party DSS and arranged to spend time with him discussing the EU. I also interview Stanislava Pak, spokesperson for the President of Serbia. I also arranged to talk to Luca Micheta, former managing director of the Serbian news agency Tanjug. This is where my knowledge of the Serbian language was an advantage – he spoke no English so I conducted the whole interview in Serbian. Whilst attempting to find individuals to interview, I tried my hardest not to use family contacts, as I felt this would be unfair.

I am content with the scope of research conducted for this dissertation. I have managed to get a variety of sources – books, journal papers, reports, statistical documents, lectures, interviews and conferences – both in and outside Serbia. My knowledge of the Serbian language, whilst not entirely fluent, helped me in Serbia. I am also content knowing that I have researched this dissertation comprehensively and have followed research chains where applicable. By taking

part in the EPQ, I feel I now understand better how to conduct, find, cite, and synthesise research now.

One of the hardest things I had to do in this project was selecting and cutting research, and this caused a problem for me. The topic of the effects of EU conditionality on Serbia is so large and, although it may seem that I have researched a lot, there are a lot more. I am still not entirely content that my research covers as much ground as I originally hoped, since the scope of the project is wide. To mitigate this I focussed on seven main areas of economic and democratic transition promoted by the EU comprehensively and am content I have researched these areas equally comprehensively.

7.2 Development of arguments

I began looking at the project from an economic perspective, but the key area that helped me begin to consider the importance of Serbia's democratic transition was going back to the roots of the EU – why it was set up and what it hopes to achieve in the Western Balkans. As the project developed, I identified more areas of Serbia's democratic transition that are aided by the EU thanks to a common theme developed in my research: the Serbian government is more likely to carry out economic than democratic transition. When it became clear that the EU has been the main actor in promoting democratic transition in Serbia, I concluded that the EU has promoted Serbia's democratic transition more.

I think that this dissertation achieves my objectives of evaluating the effect of EU conditionality on Serbia's democratic and economic transition effectively, as I have managed to address my question and hypothesis comprehensively. The achievement of these objectives has been helped by the management of my project: having finished the first draft of my dissertation considerably before the deadline, I had the opportunity to edit, refine and polish the draft and meet my objectives entirely. On the other hand, I acknowledge that the project would have been improved with greater depth by covering more areas of conditionality. The question I chose to answer is substantial, and so the time available meant that I could not examine all facets of conditionality with suitable rigour. To mitigate this, I chose to focus on seven main ways conditionality has promoted democratic and economic conditionality, and I am content with the depth of writing and research in these sections. In further research I would have liked to explore other areas of conditionality and answer these follow-up questions in writing.

There are some limitations to my project: it would have been interesting to compare the benefits of EU conditionality from different perspectives such as that of the EU itself, a neighbouring country, the Serbian people, government or even Serbia's economy. I would have

liked to look at other areas of EU conditionality that could benefit Serbia as this dissertation by no means covers all of them. Areas like free movement of people and services, the environment, social protection, health, culture, tourism, industrial policy, taxation and external political and economic relations are key economic and political issues and are included within conditionality. Unfortunately, the limitations of the EPQ in terms of length and time did not allow me to explore these interesting and important areas. Investigations including these areas of EU conditionality would be more suited to a university-level thesis or doctorate rather than an EPQ.

If I had more time, I would have liked to investigate the areas mentioned above, as well as include more comparative case studies with other countries that acceded to the EU in the region such as Croatia, Bulgaria and perhaps Romania. I would have also liked to do an analysis comparing the ways Serbia can benefit from EU accession differently or similarly to other accession countries like Montenegro or Turkey. This would have provided me with a different perspective and focus on Serbia's role in the Western Balkans.

My dissertation would be of interest to anyone specializing in EU enlargement and conditionality, especially involving Serbia or the Western Balkans region. This dissertation would be especially useful to researchers investigating how EU conditionality has benefitted and harmed Serbia and why Serbia should join the EU.

Serbia's position in the EU is extremely interesting. Further research could include an analysis of Serbia's relationship between the west (EU) and the east (Russia and the Arab states). If interested in this, read *The New Cold War* by Edward Lucas. Other areas of further research could cover how the EU's strategy for Serbia's EU accession could be used as a model for other countries, how successful has it actually been and what challenges it has faced. Although there are many others, the final area of further research I suggest could assess the impact of Serbia's EU accession on other EU countries such as the UK or Croatia or even non-EU countries such as Russia.

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Annex 1: List of abbreviations

ACA	Serbia's Anti-Corruption Agency
BiH	Bosnia and Herzegovina
CAP	EU Common Agricultural Policy
CDSP	EU Common Security and Defence Policy
CEFTA	Central European Free Trade Agreement
CFREU	Charter of the Fundamental Rights of the European Union
DSS	Democratic Party of Serbia (Demokratska Stranka Srbije)
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
FEFA	Belgrade's Faculty of Economics, Finance and Administration
FYROM	Former Yugoslav Republic of Macedonia
ICTY	International Criminal Tribunal for the former Yugoslavia
IFI	International Financial Institution
IMF	International Monetary Fund
IPA	EU's Instrument for Pre-Accession Assistance
LGBTI	Lesbian, Gay, Bisexual, Transgender and Intersex
LSE	London School of Economics
LSEE	London School of Economics South East Europe Institute
MoJ	Serbia's Ministry of Justice
NERP	National Economic Reform Programme
SAA	EU Stabilization and Association Agreement
SAP	EU Stabilization and Association Progress
SEE	South East Europe
SEESOX	South East European Studies at Oxford
SEIO	Serbian European Integration Office
SME	Small and Medium Sized Enterprise
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UN	United Nations

Annex 2: Timeline of Serbia and the EU

June 1993	Copenhagen Criteria established
21 st June 2003	Thessaloniki Declaration and Agenda adopted by EU heads of state and Western Balkan
21 st May 2006	Montenegro declares independence from Serbia
1 st January 2008	Visa facilitation and readmission agreement between EU and Serbia comes into force
17 th February 2008	Kosovo unilaterally declares independence from Serbia
29 th April 2008	Stabilization and Association Agreement signed by Serbia and the EU
19 th December 2009	Visa liberalisation comes into force. Serbian nationals can now travel to the Schengen area without needing a visa
22 nd December 2009	Serbia submits its application for EU membership
20 th July 2011	Goran Hadzic is arrested. He is the last fugitive wanted by the ICTY
12 th October 2011	European Commission submits opinion on Serbia's application for candidacy
1 st March 2012	European Commission grants Serbia the status of candidate country
25 th September 2013	EU's screening exercise on Serbia's compliance with accession criteria begins
21 st January 2014	Serbia starts accession negotiations with EU

Annex 3: EU *acquis communautaire*

1. Free movement of goods
2. Free movement of persons
3. Right of establishment and freedom to provide services
4. Free movement of capital
5. Public procurement
6. Company law
7. Intellectual property law
8. Competition policy
9. Financial services
10. Information society and media
11. Agriculture and rural development
12. Food safety, veterinary and phytosanitary policy
13. Fisheries
14. Transport Policy
15. Energy
16. Taxation
17. Economic and monetary policy
18. Statistics
19. Social policy and employment
20. Enterprise and industrial policy
21. Trans-European networks
22. Regional policy and coordination of structural instruments
23. Judiciary and fundamental rights
24. Justice, freedom and security
25. Science and research
26. Education and culture
27. Environment
28. Consumer and health protection
29. Customs unions
30. External relations
31. Foreign, security and defence policy
32. Financial control
33. Financial and budgetary provisions
34. Institutions
35. Other Issues (Kosovo)