

EUROPEAN POLICIES FOR REGIONAL AND CROSS BORDER ECONOMIC CO-OPERATION IN SOUTHEAST EUROPE

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Introduction

Borders specify the territory over which a state exerts its political and economic policies. They are a highlighted difference among nations that causes interruption and changes economic and social activities. Instead of making these differences an obstacle, borders may be used to bridge these differences. Cross border co-operation then becomes an important driving force for integration between different or similar political, social and economic national systems. This is of great importance for the fragmented Balkan states, which are small countries with long common borders. In this context cross border co-operation in the Balkans is at the same time «cross-nation» co-operation.

For example, Greece and its northern neighbouring Balkan states have approximately 1000Km long common borders. In the past these borders were an ideological "wall" between the East and the West. Their function started to change in the nineties when perestroika and glasnost opened the once almost completely sealed borders. Another factor that has increased the international significance of these borders is Greece's membership in the EU as well as the EU's orientation as far as the other Balkan states are concerned.

For the Balkans, which are characterised by small internal markets, inefficient cross border infrastructures and to some extent trans-border political tensions and conflicts, the elimination of the economic and political «border-effect» will enable the interaction and the integration between sub-regions belonging to different countries and strengthen the stability in the region.

The role of the private sector in cross border co-operation is crucial. It is clearly understood that the private sector not only is a very important source of growth, but also a factor promoting, via trade and investments, political stabilisation between neighbouring states. Cross border trade and investments create commercial and other business linkages between countries and vested economic interests having as a goal peace and stability.

Cross border trade and investment activities of enterprises need a supportive policy and a proper institutional framework. A set of actions, parallel to the ongoing economic reform programs in the Balkan transition countries, could accelerate the pace of cross border trade, investments and payments, and assist business co-operation and regional market integration.

The aim of this study is to present and analyse strategies, initiatives and policies relating more or less directly to the cross border co-operation between enterprises in the Balkans. The analysis focuses especially on relevant European and some other important international policies, initiatives and programs. In section 2 the analysis concentrates on European regional initiatives and cross border programs before the Kosovo war. The newer approaches and policies, mainly in the framework of the Stability Pact and the one of EU's Western Balkan Integration Policy, are discussed in section 3. Section 4 includes some critical remarks and policy proposals.

Regional Initiatives in Southeast Europe and European Cross Border Policies in the '90s

Regional Economic Arrangements and Cross Border Co-operation

Countries go into regional economic integration arrangements in order to achieve economic and political benefits (see Baldwin and Venables 1995, Shiff and Winters 1998, Fernandez and Portes 1998). The expected economic benefits are both static and dynamic. Trade creation and expansion among the co-operating economies is the most important economic benefit. The expected dynamic effects of regionalism are lower real trading costs, increased rates of return and thus increased capital stock, increased competition and improved function of the markets, inflows of FDIs by expanding the internal market and improving the credibility of members' policies and technology and know how diffusion. The expected political benefits include improvements in political co-operation and stabilisation, a better protection of the government against interest groups and increasing influence of the co-operating nation states in international diplomacy.

There are additional reasons in favour of regional economic integration in the Balkans. Political fragmentation and conflicts, mainly due to ethnic disputes, impedes economic growth in the region (Petrakos 2001a, Jackson 2001). Political crises are spread in the whole region and produce negative externalities. The Balkan economies are small (both geographically and economically) and more or less open. Intra-regional trade is on the average undeveloped (see Table 1) due to small internal markets but also due to political conflicts and trade blockades, the disintegration of former Yugoslavia, unrecorded trade flows, the lack of developed cross border infrastructures and facilities etc. (see Petrakos 2001b). Trade regimes are not very liberal and there are many non tariff barriers to intra-regional trade. Many bilateral trade agreements among the Balkan countries (multiple trade regimes in geographical sense) mean discrimination and lack transparency (see Table 2).

For all the above reasons, regional initiatives and arrangements promoting economic and political co-operation are vital for cross border co-operation among Balkan enterprises.

Table 1. The trade of SEE countries with EU and intra-regional trade (1999)

	Trade with EU		Intra-regional trade (8 countries)	
	Exports as % of total	Imports as % of total	Exports as % of total	Imports as % of total
Albania	89.9	77.6	2.1	7.0
Bulgaria	53.3	50.9	8.6	2.2
Bosnia and Herzegovina	42.3	37.6	42.9	33.7
Croatia	49.4	56.7	14.7	2.5
FYR of Macedonia	50.9	50.7	20.4	20.7
Romania	66.0	62.7	2.9	0.9
Yugoslavia, FR	34.3	38.3	15.8	14.6
Greece	51.7	65.8	12.5	2.6

Source: WIIW

Table 2. Regional Trade Agreements in South East Europe

<i>Agreement</i>	<i>Year of entry into force</i>	<i>Type of Agreement</i>	<i>WTO/GATT Status in the Examination Process</i>
<i>Agreements with other European FTAs</i>			
EC-Turkey	1996	Customs Union	Under factual examination
EC-Greece	1981	Accession	Report adopted
EC-Bulgaria	1993	Free trade agreement	Factual examination concluded
EC-Romania	1993	Free trade agreement	Factual examination concluded
EC-FYR of Macedonia	2000	Free trade agreement	-
EC-Croatia	2001	Free trade agreement	-
CEFTA-Bulgaria	1999	Accession to free trade agreement	Consultations on draft report
CEFTA-Romania	1997	Accession to free trade agreement	Consultations on draft report
EFTA-Bulgaria	1993	Free trade agreement	Factual examination concluded
EFTA-Croatia	2001	Free trade agreement	Factual examination not started
EFTA-FYR of Macedonia	2001	Free trade agreement	Factual examination not started
EFTA-Romania	1993	Free trade agreement	Factual examination concluded
EFTA-Turkey	1992	Free trade agreement	Report adopted
<i>Bilateral FTAs in South East Europe</i>			
Bulgaria-FYR of Macedonia	2000	Free trade agreement	Factual examination concluded
Bulgaria-Turkey	1999	Free trade agreement	Factual examination concluded
Croatia-Slovenia	1998	Free trade agreement	Factual examination concluded
Croatia-FYR of Macedonia			
FYR of Macedonia-Slovenia	1996	Free trade agreement	Factual examination concluded
Turkey-FYR of Macedonia	2000	Free trade agreement	Factual examination not started

Source: WTO

Regional Initiatives in Southeast Europe

Regional co-operation initiatives in the Balkans, emerging only by the end of the '80s and through the '90s, have been linked to two processes (for a more detailed analysis of these initiatives see Lopandic 2001):

The first wave of Southeast Europe co-operation initiatives appeared in 1988/92, directly resulting from the collapse of the Eastern Block and the end of the Council for Mutual Economic Assistance. There was urgent need to replace these organisations by new concepts of interstate co-operation, in order to help integration into the structures of the EU. So, the Central European Initiative (November, 1989), the Black Sea Economic Co-operation (June, 1992) and Central European Free Trade Area (December, 1992) were launched.

The second wave of Southeast Europe's Co-operation Initiatives (SECI) is linked to the former Yugoslavia's disintegration and the end of the war in Bosnia-Herzegovina as well as the need to reorganise relations in the region. The initiatives which have been introduced were the Conference of Southeast European Countries (1996) and the Royaumont Process (1996).

The regional initiatives in SEE can be classified in two main groups. The first includes the initiatives enveloping large fields for co-operation and envisaging numerous bodies and forms such as the Central European Initiative (CEI), the Black Sea Economic Co-operation (BSEC), Co-operation Process in SEE (SEECOP). Herein, the CEI and SEECOP cover co-operation in political, economic and technology areas, while the BSEC has been restricted so far to sectoral co-operation. Other initiatives for regional integration are more limited in terms of covered fields. For example, the Central European Free Trade Area (CEFTA) covers mainly trade and includes two countries of the region only (Bulgaria and Romania). The Southeast European Co-operative Initiative (SECI) includes a limited number of projects in the fields of economic co-operation and environmental protection. The Royaumont Process has primarily political goals and deals with the "civil society" co-operation.

The above mentioned initiatives cover neither all countries of SEE region nor all domains of economic and political co-operation. Also, they are not based on a coherent integration pattern and have not clear

committed teleology. They intend to cover a wide spectrum of diverse issues, that principally might be of interest to the SEE countries and significant for the whole region, but there is not a committed roadmap for their implementation. Thus, active workgroups within the Central European Initiative and the Black Sea Economic Co-operation cover: telecommunications, energy, transport, infrastructure, agriculture, civil defence, migration, small enterprises, statistics, training and education, science and technology, tourism, finances, environmental protection, eradication of trans-border and organised crime, etc.

The main objectives of the regional initiatives in the SEE region could be summarised as follows (see Lobandic 2001):

- They support economic development and political reforms (Objective I);
- They provide a platform for regional co-operation and stabilisation (Objective II);
- They help the process of European integration of the countries in the SEE region (Objective III).

How far did each of those regional initiatives fulfil those objectives in recent years (see Lopandic 2001)?

The Co-operation Process in SEE has been for several years a forum for high-level political meetings and political declarations. It can be characterised as a typical programmatic declaration, without effective results in the field of economic integration. Its greater achievement, until now, has been the signing of the “Charter on good neighbourly relations, stability, security and co-operation in the SEE” and organisation of several summits of the SEE countries. It has very few concrete achievements, due to the lack of clear integration goals, institutions and implementation mechanisms. However, there is a recent tendency from the Stability Pact to support this Process as an example of “project ownership” by the SEE countries. It has some merit in the improvement of regional political understanding, with no concrete achievements regarding regional economic integration.

The Black Sea Economic Co-operation, which includes five Balkan and six non Balkan countries, has shown more vitality and imagination than expected at the beginning, with a number of institutional and projects ramifications (e.g. Council of Foreign Ministers, Chairmanship in Office, Permanent International Secretariat, Parliamentary Assembly, Minister Meetings, Working Groups). Still weak on implementation level, it can claim some unique achievements among regional initiatives, such as an integration target (establishment of a free trade area), the launching of Black Sea Trade and Co-operation Bank and the International Research Center etc. Moreover, BSEC is recently trying to achieve more project-oriented profile in the fields of transport, telecommunication, combating crime, trade, investments, science and technology, banking and finance, tourism, energy, agriculture and environment. Its impact is mainly on offering a platform for sectoral co-operation and political dialogue with poor results regarding the other objectives.

The Central European Initiative includes a great number of participants and institutions. Also, it aims to cover a wide range of fields and projects. However, its impact on regional integration has been very weak so far. The number of implemented projects is very limited and without sustainability.

The Central European Free Trade Area is the most important initiative for economic integration in Central and Eastern Europe. It promotes market integration through the establishment of a free trade area. CEFTA, however, does not cover all Balkan countries (members are only Bulgaria and Romania). Therefore, it can be regarded as a SEE regional initiative.

The Southeast European Co-operative Initiative has lost some of its momentum since its launching in 1996 and especially after the introduction of the Stability Pact (1999). However, it has achieved some concrete results in the fields of trade and transport facilitation, regional road transport and procedures in administration, commerce and transport. But the overall impact of this initiative on regional integration is poor. SECI is a form of sectoral interstate co-operation and not an organisation promoting political and economic integration of the SEE region.

The Royaumont Process has failed to produce the intended results and is already integrated to the Stability Pact.

The above mentioned regional initiatives in the Balkans introduced before the war in Kosovo have played an undoubtedly positive role in the region. They encouraged co-operation among administrations and private sector, reduced different barriers, facilitated communication and set up contact networks. But one should state that these ambitious initiatives of interstate co-operation, because of their deficiencies and shortcomings regarding geographical and thematic coverage, integration concept and implementation mechanisms have not so far crucially assisted regional and cross border co-operation in the region.

The European Union's Development and Cross Border Policy in Southeast Europe

EU Balkan Development Policy in the '90s

To reduce the cost of adaptation and to enable a smooth harmonisation of the socio-political and economic systems of the CEE countries with those of the West, the EC has developed and, since 1989, applied a number of support measures (more about EU's policies in SEE in Kotios 2001a and 2001b) . In order to assist the transition countries of the Balkans, the EC implemented the Phare and OBNOVA programs (since 2000 the CARDS-Programme for Western Balkans); at the same time it is activating co-operative funding mechanisms through the European Investment Bank (EIB). There is also aid granted on a bilateral level on behalf of the country members of the EC. Table 3 contains the total amount of aid given to the Balkan countries to support the process of their transformation and to cover urgent humanitarian needs.

Table 3. EU assistance to SEE, 1991-1999 (Allocation in millions Euro)

Beneficiary country	European Community	Member States [1]	EIB	EU TOTAL
Albania	816.73	712.80	46.00	1,575.53
Bosnia-Herzegovina	2,061.87	507.90	0.00	2,569.77
Croatia	353.76	1,165.90	0.00	1,519.66
Federal Republic of Yugoslavia	471.80	712.40	0.00	1,184.20
FYR of Macedonia	403.89	178.20	60.00	642.09
Regional Co-operation	462.15	0.00	0.00	462.15
TOTAL A [2]	4,570.21	3,277.20	106.00	7,953.41
Romania	1,813.20	3,069.40	1,134.50	6,017.10
Bulgaria	1,480.50	754.80	751.00	2,986.30
TOTAL B	3,293.70	3,824.20	1,885.50	9,003.40
TOTAL A+B [3]	7,863.91	7,101.40	1,991.50	16,956.81

[1] Provisional figures; figures on 1998-1999 are not included as only provided by LUX, I, SV, DK, UK, EL, SF.

[2] These figures include Phare, Obnova, Media, Democracy & Human rights, Demining, Humanitarian aid, Food security and Macro-assistance.

Financial perspectives 2000-20006 (indicative allocation): Albania, Bosnia-Herzegovina, Croatia, Federal Republic of Yugoslavia and FYROM approx. 5 billion Euros. Romania and Bulgaria 6,2 billion Euros

Source: European Commission, External Relations

Through the Phare Programme, the EU offers the necessary know-how, including consulting and training, to a wide range of public, private and non-governmental organisations. In addition it funds studies, subsidises capital, and gives necessary guarantees, credit and finances, often in co-operation with other international organisations, for infrastructure projects. However, it does not aim to serve macroeconomic goals, nor to cover the balance-of-payment or budget deficits of the countries in transition. Specialised international organisations and banks have undertaken the latter kind of support.

The incorporation of a country into the Phare Programme was at first dependent upon political and economic conditions. For example, the supply of EC aid through the Phare Programme was tied to the process of democratisation, as well as the transformation of internal economic systems. Thus, due to the existence of this adjustment of the Balkan countries, there was not a simultaneous incorporation of these countries into the Program. Bulgaria was incorporated into Phare in 1990, Albania and Romania in 1991. Because of the civil war in Bosnia-Herzegovina and the political friction between the Former Yugoslavian Republic of Macedonia (FYROM) and Greece, these countries did not start participating in the Program until the beginning of 1996. Croatia and the Federal Republic of Yugoslavia (FRY) have not profited from Phare, first, because of their bilateral conflict, second, because of their involvement in the Bosnia-Herzegovina war, third, because of their policy towards their ethnic minorities and, finally, because of their lack of processes towards internal democratisation.

At this point we should mention the distinctive co-operation of the EU with Bosnia-Herzegovina. Following the Dayton agreement (12.11.1995) to terminate the war, the World Bank and the European Bank for Reconstruction and development (EBRD) worked out a program for the reconstruction and rebuilding of this country. The program arranged for a total free aid of \$5 billion for the period 1996-1999. The contribution of the EU was \$1 billion, administered through the Phare Programme ("Essential Aid"). It was a critical aid programme aimed at rendering humanitarian aid, as well as at reconstruction activities and the support of sectors such as transportation, education, housing, agriculture, energy, water, telecommunications etc.

On the other hand, the EU's initiative OBNOVA focused on the reconstruction of Bosnia-Herzegovina, Croatia, FRY and FYROM (Regulation 1628/96, 2240/97 and 851/98). The particular targets of this initiative were economic development, the rehabilitation of civil society and the co-operation among the Republic of the Former Yugoslavia within the sphere of the regional approach that the EU has adopted in the area of the Western Balkans. Very often EIB activities complement Phare Programme activities as well as those of the EBRD and the World Bank. Euratom may also approve loans for the security and improved functioning of existing nuclear power plants. Bulgaria, which operates unsafe nuclear power plants, has already received such support.

The Phare's Cross Border Co-operation Programme

From 1992 onwards the EU has financed several measures aimed at enhancing cross border co-operation, i.e. to improve border crossing.

Since 1994 the EU implemented a programme for cross border co-operation between countries in Central and Eastern Europe and member States of the Community in the framework of the Phare programme (Commission Regulation No 1628/94 of 4 July 1994).

General reasons for introducing this programme are:

- to reinforce co-operation and stimulate integration of the CEECs and the EU
- to contribute to the transformation process
- to stimulate economic activities in peripheral regions
- to support the European Agreements
- to contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and infrastructure

The CBC Programme is in the meantime an essential part of the pre-accession strategy. It refers to all Phare beneficiaries that have common border with a member state of the EU.

The primary objectives of CBC are:

- to help eligible European border regions overcome specific development problems stemming from their relative isolation within the national economy, whilst preserving the interests of the local population and respecting environmental concerns

- to encourage the creation and development of co-operation networks on both sides of the borders, as well as the strengthening of links between these networks and wider EU connections
- to overcome large disparities in standards of living and growth at the EU's external border
- to accelerate the transformation process in the CEECs and their approximation to the EU

The actions that can be financed under the CBC - Programme, could include:

- Alleviation of technical, administrative and institutional obstacles to the free flow of persons, products or services across borders.
- Improving, infrastructures in particular communication facilities and the provision of local water, gas and electricity supplies and providing benefits across border areas.
- Waste management, environmental management and pollution prevention dealing with problems exacerbated by the proximity to external borders.
- The promotion of tourism.
- Agricultural and rural development.
- Measures to promote co-operation in health, particularly the sharing of resources and facilities on a cross border basis.
- Measures in the fields of energy, telecommunications and transport, aimed at complementing the development of trans-European networks in accordance with the orientations adapted by the Commission.
- The development or establishment of facilities and resources to improve the flow of information and communications between border regions including support for cross-border radio, television, newspapers and other media.
- Promotion of business co-operation, enterprise development, financial co-operation and co-operation among institutions representing the business sector.
- Aid to investment and provision of supporting services and facilities in (particular for) technology transfer and marketing for small and medium- sized enterprises.
- Training and employment measures.

Similarities between CBC and INTERREG:

- Both initiatives share the common aims of fostering socio-economic integration.
- While Phare's CBC - Programme promotes interaction between EU border regions and the adjacent region in CE, INTERREG initiatives aim at a co-operative development across European Union external and internal borders.

For the period 1995-1999, a stronger coherence between the two programs has been achieved. Multi-annual programs have been introduced for the Phare cross-border co-operation programme, acting as a mirror for the INTERREG operation programmes. The dialogue between the relevant border regions has been intensified. A reinforced "bottom up" approach is now used involving local actors, and the programmes have become increasingly diversified. This approach includes more soft actions, for example, in the fields of tourism, human resources and culture.

The CBC Programme was granted ECU 150 m in 1994, ECU 169 m in 1995 and ECU 180m for the current year. The total for the period 1994-1999 is estimated at about ECU 900m. In the framework of CBC-Interreg- Programs 19 projects have been selected to support Greek-Bulgarian Cross Border Co-operation with a budget of total 138 MECUS. The most important projects are the Dupnitsa Kulata railway electrification, the Dupnitsa Kulata road, the Svilengrad Haskovo road, Gotse Delchev Drama road, and the Makaza border crossing.

Small Projects Fund Facility

The overall purpose for Small Project Funds (SPFs) is to support small scale "people to people" and soft projects involving local actors from the border regions eligible under the Phare CBC Programme,

in order to broaden the scope of the Programme, to encourage local involvement further, and to fund small-scale actions which may be preparatory to larger cross-border co-operation activities (e.g. exchanges and joint workshops leading to a joint feasibility plan for infrastructure projects).

The SPF will also encourage the capability of the local and regional activities to identify develop and implement projects in the future.

ECOS - Ouverture

Inter-regional co-operation has been an important and successful element of EU policies and programmes for a number of years. Article 10 of the European Regional Development Funds (ERDF) has provided a mechanism for the support of innovative actions for regional development, including external inter-regional co-operation involving partners from outside the EU. In this context, ECOS-Ouverture was launched in 1991 by DG XVI of the EC, and has since then, supported over 350 projects involving more than 1.250 local and regional authorities in EU, Phare, Tacis and MEDA beneficiary countries.

The main objectives of the Phare contribution to the ECOS-Ouverture Programme have been to:

- Strengthen the capacity of local and regional authorities to design regional development strategies and manage corresponding policies with a view to reinforcing the decentralisation process, and improving local good governance.
- Improve the working methods and capacity of local and regional actors to implement actions in the field for economic and social development by transferring know-how and developing common co-operation projects.
- Promote good practice examples to serve as models for dissemination and transfers in a wider local or regional context.
- Strengthen the pre-accession strategy by familiarising central and eastern European partners with European Union policies.

The Credo Programme for CEEC/NIS cooperation

The EU's cross border co-operation initiative has been extended to encompass co-operation between the CEECs and the New Independent States (NIS). The Credo program aims at supporting cooperation between 'east-east' border regions and to contribute to economic development in these border areas.

The overall objectives of the Credo programme are to

- promote social stability in the CEEC-CEEC and CEEC-NIS border regions,
- encourage cooperation among border communities, by tackling common problems and implementing projects which contribute to the economic development of the regions, and
- contribute to decentralisation in the CEECs by promoting local action, local responsibility and local accountability.

Eligible regions are land borders of CEECs which border on another CEEC and regions of CEECs which border on an NIS (Phare can only finance the CEEC side of the border). In the latter case, the relevant NIS border will be eligible for funding under the Tacis cross-border cooperation programme.

Other Programmes

The Phare Multi-Country Transport Programme (MCTP) has been in operation since 1992. It is an integral part of the European Union's initiatives to support the development of a safer, more efficient

transport system in central and eastern Europe (ten candidate states) and to stimulate regional co-operation in the area of transport policy.

Between 1992-1997 the Programme received funds of ca. 105 MECU with more than half of these funds being allotted to Border Crossing Modernisation Projects (56 MECU). Since 1999 however, this program has been integrated into a Transit Facilitation and Customs Modernisation Programme.

The above presentation makes clear that the Community has developed a variety of concepts and projects to promote cross border co-operation in Central and East Europe. As the Community's implementation studies of these programs manifest the progress in implementation in the '90s was, in most cases, not very successful (about the evaluation of the different EU Programs see Internet Address: europa.eu.int/comm/europeaid/evaluation/index.htm). Considerable delays arising from time-consuming and inflexible procedures, lacking management efficiency, fragmentation of responsibilities, the absence of appropriate strategic/pre-investment studies, inefficient public administration in the beneficiary countries are the main reasons for the poor performance of cross border initiatives. Additionally, the Balkan states, under pressure to cover their urgent needs, were more interested in nationally oriented programs rather than in programs with a regional dimension. In the Western Balkans this tendency has been boosted by tensions and conflicts between neighbouring states.

The New European Regional Strategy and Cross Border Initiatives

The Stability Pact and Its Cross Border Initiatives

During its EU Presidency, Germany submitted its proposals (on 9.4.1999) for a Stability Pact in Southeast Europe (for more details see Kotios 2001a and 2001b). The German plan acknowledged the importance of stability in Southeast Europe for the stability and security of all Europe. It also defined as its goals the avoidance of violent conflicts in this area in the future, the creation of proper conditions for democracy and a market economy, the establishment of regional co-operation and, finally, the accession of Balkan countries into the Euro-Atlantic structures. The Stability Pact was adopted at the International Conference of Cologne (10th June 1999), in which all the interested countries and organisations participated. The basic aim of this conference was to sign bilateral as well as multilateral contracts and intergovernmental agreements, and to ensure their consistent application, in order to overcome structural, political and economic deficiencies, and to reduce or eliminate the potential for conflict in this area.

The Stability Pact consists of eight sections. The first section states that the participating countries and organisations are bound to co-operate closely to safeguard peace and stability, and to promote the development of Southeast Europe.

The second section outlines the principles and rules of the Pact. The participating countries are bound to the principles and rules of the United Nations Charter, the Final Act of Helsinki, the Paris Charter, OSCE, etc, and agree to respect human rights and the principles of good neighbouring.

The Balkan countries participating in the Stability Pact agree to continue their democratic and economic reforms, to promote bilateral and regional co-operation among themselves, and to work towards their accessions to the Euro-Atlantic structures.

The third section refers to the targets of the Pact. The more particular aims of the Pact are directed towards the avoidance of tensions and crises in the Balkans, the establishment of democratic systems, the creation of market economies and regional economic co-operation, the fighting of crime and corruption, the safe return of refugees, etc.

The fourth section defines the mechanisms and the instruments of the Pact. In order to materialise the Pact's goals the participants agree to create a "Southeast Europe Regional Discussion Group", which

will supervise the course of implementation of the Pact and will be responsible for the promotion and attainment of its targets. The Stability Pact provides for a co-ordinator who will chair the "Regional Table". At the same time it establishes three specialised "working groups": (a) a "Working Table" for democratisation and human rights, (b) a "Working Table" for economic reconstruction, development and co-operation, and (c) a "Working Table" for security issues. For all the above groups the members will be those who participated in the Pact, as well as other interested parties who will serve as full members or observers.

The fifth section of the Pact defines the offices and terms of co-operation among the members. At this point the leading role of the EU is acknowledged, not only for the initiation of the Pact, but also for its implementation. This section also stresses the significance of the efforts and initiatives of the EU for the active support of the countries of the region and for the development of contractual relations. More specifically, it gives testimony to the Community's strategy for the development of new type of relations among the countries of the Western Balkans. Through the Pact the EU is offering the prospect of accession to the countries of the area on the basis of the Amsterdam Pact and the Copenhagen criteria.

The sixth section stresses the significance of regional co-operation for the stability of Southeast Europe, as well as the useful role of initiatives such as the Organisation for the Black Sea Economic Co-operation (BSEC), the Central European Initiative, the Southeast Europe Co-operation Initiative (SECI), etc.

The seventh section of the pact describes how international development assistance is rendered. The developed countries and the competent international organisations are bound to support the reconstruction, stabilisation, and integration of the region and the Pact makes an appeal to the international community to participate in this effort. The co-ordination and responsibility for the organising of donor conferences belongs to the EU and the World Bank.

Finally, the eighth section of the Pact defines the functions, the procedures and the role of the different "Working Tables". The main aims of "Working Table II" are the promotion of co-operation among the Balkan countries, as well as co-operation between them and third countries, the promotion of free trade areas and the development of cross border transportation; support for energy availability and conservation; assistance in the development of infrastructures and for the establishment of deregulation and of transparency, support for the private sector and for the sustainable rehabilitation of refugees, support for environmental issues and for participation in the co-ordination of international development assistance.

The Stability Pact is the first comprehensive regional approach by the international community for the Balkans and it is a product of EU initiatives. The Pact is a long-term programming framework for co-operation and it is not one more autonomous international institution. It aims at mobilising and co-ordinating existing agencies of the international community. In other words the Pact is not a new international organisation with its own structures and mechanisms of implementation. The application of measures to help the Balkan countries is the responsibility of the participating countries and organisations. The Pact only offers a special forum for encouragement and mobilising, a framework for dialogue and a channel for action. In addition, the Pact is an expression of the newly formed international concept for coherent and integrated global policies to support peace, freedom, stability, reconstruction and development in the Balkans.

There is certainly a big gap between the Pact's ambitions and very broad goals and the limited and vague means, which can be employed to achieve these goals and ambitions. The Pact's Declaration does not refer to specific quantitative targets, does not contain concrete actions and projects and does not record long-term commitments for financial assistance. Furthermore, it determines neither the recipient countries nor the national, regional and sector targets and allocations. Therefore, the Pact is not a unique approach, nor a coherent plan for the reconstruction of the area, but it is rather a political

program of hopes and desires, and a framework for potential and voluntary agreements and actions. It is up to the will of the participants to define its effectiveness through periodic, special conferences.

During the first year after its adoption, the Stability Pact has not managed to promote any significant portion of its ambitious plans. If we exclude certain agreements, such as the agreement among the countries of the area to move forward with certain internal reforms that would support local and foreign investments (Investment Compact Agreement), the initiative to fight corruption (Anti-Corruption Initiative), the agreement concerning the mass media (Media Carter) and the establishment of the Working Group on Trade Liberalisation and Facilitation, the results were rather limited. This delay could probably be attributed to the fact that the international community emphasised the solution of more important problems in post-war Kosovo. An important step, however, was taken towards the implementation of the proclamations of the Pact at the Donors Conference in Brussels on the 29th and 30th of March 2000. Forty-seven countries and 36 international organisations participated in this conference.

Three reports concerning the strategic approach to the development of the Balkans were produced at the conference: one by the World Bank ("The Road to Stability and Prosperity in South-eastern Europe. A Regional Strategy Paper"), one by the EIB on work to be done on infrastructures ("Basic infrastructure Investments in South-eastern Europe Regional Project review"), and one by the EBRD on the development of the private sector ("International Financial Institutions Regional Private Sector Initiatives in South-eastern Europe"). The financing of three packages was agreed upon by all the participants: a Quick Start Package, whose application is scheduled to begin in the first year (by 31.3.2001), a Near Term Package, to last for 2-3 years after the first package is completed, and a Medium Term Package, for the period after that.

The projects of the Quick Term Package, with a cost amounting to 1,7 billion Euro, and with pledges by the donors for 2,4 billion Euro, will cover a number of activities from all three "Working Tables" of the Pact. In addition, the conference defined the programs of the two other packages along with their financial needs, even though there remains a great need for detailed analyses and estimates for the Medium Term package. Also, it should be mentioned that the Programs of the Near Term package, and even more those of the Medium Package lacks important financial resources.

Initiatives and Programs Promoting Cross Border Co-operation among Enterprises

An extension and intensification of intra-regional trade in goods and services as well as investments in Southeast Europe needs a stable, transparent and foreseeable regional trade regime of principles and rules. Such a regime principally could be established if all countries of the region are members of GATT/WTO, which means that trade relations among the Balkan countries are regulated on the basis of GATT/WTO law. But three countries of the region are not full members of WTO (FRY, FYR of Macedonia, Bosnia-Herzegovina). Apart of it GATT/WTO membership does not ensure trade liberalisation among developing countries. Therefore the liberalisation of trade in SEE region and the development of intensified trade transactions among enterprises can be achieved in the context of regional trade arrangements on a bilateral or regional level. As mentioned above, some progress has been made recently in signing bilateral free trade agreements, but these agreements do not cover all SEE countries (or all sectors) and as a result they cause trade discrimination in the region.

Regional economic integration in SEE is one of the most important aims of the Stability Pact. The Trade Initiative of the Stability Pact focuses its efforts on the liberalisation and facilitation of trade through the reduction and elimination of tariffs and non tariff barriers to trade in SEE region. Intra-regional trade co-operation can contribute substantially to regional economic development, even though trade relations with European Union are a core priority for the region. Further aims of the Trade Initiative of the Stability Pact are the accession of all SEE countries to WTO and the signing of Stabilisation and Association Agreements (SAAs) with EU in order to promote trade and investment co-operation between EU and SEE region. The policies and programs which have been developed in

the framework of Stability Pact to support intra-regional trade and investment co-operation are discussed in the following two sections.

Initiatives and programs Promoting Trade Liberalisation and Trade Facilitation

For the implementation of the trade initiative of the Stability Pact a Working Group on Trade Liberalisation and Facilitation of the Working Table II was established in January 2000 under chairmanship of FYR of Macedonia. Members of the group are the countries of the SEE region and supporting countries (Hungary, Slovenia, Turkey, US) and international organisations (EC, IMF, UNECE, WTO and the World Bank). The activity of the group is related to trade policy questions as free trade agreements, non-tariff barriers, institutional reforms, trade relations, etc. Trade related projects are discussed by the group to facilitate the donors' decisions.

After defining the objectives and scope of the work of the Group and the adoption of the Work Plan for 2000 the Group conducted studies on free trade agreements and non-tariff barriers (NTBs) in the region. The objective of the first study was to identify the nature and scope of existing agreements and to make recommendations of how to harmonise them. The second study focused on collecting information about existing NTBs and on actions to reduce or eliminate them.

A further very important contribution of the Group is the Memorandum of Understanding on Trade Liberalisation and Facilitation signed by the countries of the region in Brussels, 27 June 2001. By establishing a framework of provisions aiming at facilitating trade among the seven transition countries of the region the Memorandum represents an important step in regional co-operation. The main elements of this Memorandum are:

- The realisation of a network of free trade agreements on trade in goods between the seven transition countries in compliance with WTO rules and in accordance with the process and commitments relevant to each country's individual relationship with the EU by the end of 2002.
- The agreements will provide for free trade in at least 90% of the countries' mutual trade and tariff reductions are to be implemented in the beginning, with a 6 year transition period.
- Quantitative restrictions on imports or exports and measures having equivalent effects will also be abolished.
- The candidates for accession to the EU will conclude, as a first priority, free trade agreements with those SEE countries with which the EU has concluded Stabilisation and Association Agreements.
- The simplification of customs procedures, especially at border crossings and harmonisation of legislation, documentation and procedures with those of the EU.
- The future liberalisation of trade in services, in accordance with GATS Article V.
- A standstill clause for non-tariff measures.
- The inclusion to the free trade agreements of an appropriate common set of preferential rules of origin, transparent and non-discriminatory practices on public procurement, state aid and state monopolies.

The signatory countries of this Memorandum request the Stability Pact Working Group on Trade Liberalisation and Facilitation to review progress in implementation. They have also called on the international community to support early accession to the WTO of the three countries, still non-members, and offer technical and financial assistance to allow these countries to meet the undertakings of the Memorandum.

The implementation of the Memorandum would lead to the creation of a Balkan free trade area and to the formation of co-operation and negotiations structures also promoting also political dialog and co-operation in the region. Trade liberalisation, stable and transparent trade regulations, non-discriminatory treatment of enterprises, harmonisation of standards, improved border crossing,

preferential rules of origin etc. can create all the necessary conditions for cross border trade and investment co-operation among Balkan enterprises.

In order to facilitate trade in SEE region a number of Quick Start projects have been introduced.

The World Bank has initiated the Trade and Transport Facilitation in Southeast Europe Project (TTFSE) to boost trade by promoting more efficient and less costly trade flows across the borders in SEE and provide European Union-compatible standards. The project aims at modernising the customs administrations and other control agencies in the seven Balkan transition countries, to improve border crossing facilities, to reduce smuggling and corruption at border crossings. The importance of this project is obvious. It could lead to lower transport and trade costs for local producers and consumers in SEE region. It promotes the co-operation of the participating countries and facilitates the sharing of information. Increased productivity on the part of the customs services will improve border crossings and reduce trade costs. The reduction or elimination of these costs and the improvement in trade flows will foster cross border trade transactions among enterprises in the SEE region.

Cross Border trade in SEE region is the essence of regional market integration. But limited availability of financial services for trade, lacking export credit insurance and high political risks illustrate the minimal volume of trade between most countries of SEE. Therefore the development of cross border trade can be fostered by measures like bank credits and bank guarantees, trade insurance and political risk guarantees. In this sense very important for SEE countries is the building of local institutional capacity in the area of credit assessment and trade procedures. The European Bank for Reconstruction and Development (EBRD) is promoting cross border trade and intra-regional commercial linkages in SEE by co-ordinating Regional Private Sector Initiatives included in the Quick Start Program. Table 4 Briefly summarises regional initiatives as well as the donor and International Financial Institutions (IFIs) funding commitments for Quick Start Projects.

Table 4. Donor and IFI Funding commitment for "Quick Start" Regional Private Sector Initiatives (Status: January 2001, in Mill. Euro)

Regional Initiatives	Lead Agency	IFI Funding		Donor Funding		Totals	
		Committed	Firm indication	Committed	Firm indication	Total IFI's	Total Donors
Trade facilitation Programs	EBRD	58	6	6.7	2.0	64	8.7
Trade Insurance Programs	WB	30	15		10	45	10.0
IFC SE Development	IFC	5.5		17.8	14.0	5.5	31.8
Small Equity Fund	EBRD	7.8	6.7	13.6	9	14.5	22.6
Micro-Enterprise Banks (1)	EBRD	3.3	9.4	29.8	5	12.7	34.8
Contractor Credit Support	USAID/EBRD			0.2	0.6		0.8
Bank Restructuring	EBRD			0.8			0.8
SME Finance Facility (2)	EU/EBRD	8	30	2.5	12	38	14.5
Political Risk Guarantee	MIGA			To be determined			
GRAND TOTAL		112.6	67.1	71.4	52.6	179.7	124

(1) Includes EURO 11 million committed in 2000 and EURO 5.5 million expected in 2001 from EBRD/US SME facility (from total facility of \$ 50 million over 5 years)

(2) Facility is for all accession countries: Reported figures are for existing and expected commitments in Romania and Bulgaria

Source: Special Co-ordinator of the Stability Pact for South Eastern Europe

Infrastructure in the sense of roads, railways, waterways, airports, energy and telecommunication can be considered as further key factors in facilitating cross border trade co-operation among Balkan enterprises and economic growth in the region. The situation of cross border infrastructures in SEE is insufficient (see Skayannis 2001). Because of the old political and economic division of the region and to some extent the autarky oriented development strategies in certain socialistic countries intra-regional trade was undeveloped and as a consequence the intra-regional infrastructures as well. The recent conflicts and wars, deterioration of incomes and lack of maintenance caused directly or

indirectly grave damages to such basic infrastructures. This is the reason why the biggest share of the Stability Pact "Quick Start Package" financial commitments refers to infrastructure projects like roads, railways, airports, border crossing facilities, bridges etc. Priority was given to the construction, reconstruction, completion or rehabilitation of pan-European transport corridors like Corridor VIII (East-West), Corridors IV, V and X (North-South). The "Quick Start Package" includes 34 infrastructure projects (including 9 studies referring mainly to energy investments and networks). According to the Report of the Special Co-ordinator on the Implementation of the Quick Start Package from May 2001, all the necessary funds have been secured (EURO 1.237 millions) and 15 out of 25 construction projects have started. These 15 projects represent 75% of the total commitment for the infrastructure. The reasons for the delays were to be found on the recipient side (e.g. national bureaucratic obstacles, missing legislation) and on the donors' side (e.g. burdensome procedures, loose monitoring of progress).

It is worth mentioning that cross border business activities are supported indirectly by initiatives of Working Table I and II. Especially projects promoting human rights and the rights of national minorities, local government and public administration, education and training, peace and political stability and also projects against corruption and organised crime are necessary conditions for the development of cross border trade transactions.

Policies Promoting Cross Border Investments

The extension and intensification of intra-regional trade in SEE through non-discriminatory trade liberalisation, trade facilitation and infrastructures can foster market integration and create a relatively important regional market. Market extension, trade creation, increasing returns and trade competition could lead to an increase in cross border investments and in foreign direct investments (FDIs) (see Slaveski and Nedanovski 2001). In order to promote cross border investments and FDIs the countries of the region have to create efficient internal conditions and structures. Stable macroeconomic conditions, acceleration of economic reforms through sound market oriented policies, good governance, effective public administration, anti-corruption laws and enforcement mechanisms, fair and transparent regulations and processes etc. are some of the most important prerequisites for the improvement of the investment climate in SEE countries. Additionally, to promote new investments in the region and thereby rehabilitate the economies of SEE countries substantial structural reforms and stable political conditions are needed in all SEE countries. Economic and political crises in one (or more) SEE country (countries) are also spread to the other countries and damage the investment climate in the whole region. For this reason policies and measures to attract investments and to support cross border investments have to be introduced on a regional level. To cover this deficit the Stability Pact partners have initiated the South East Europe Compact for Reform, Investment, Integrity and Growth ("Investment Compact"), adopted by the Working Table II in Skopje on 10-11 February 2000.

The Investment Compact emphasises the importance of foreign investments and investment co-operation for the development of SEE region and set out a range of commitments for policy reforms and common strategies and measures for investment promotion. The participants have also created an Investment Project Team to monitor their fulfilment. This Team is co-chaired by the OECD and the UK Foreign and Commonwealth Office. The Project Team consists of Country Economic Teams, as well as representatives of Stability Pact donors, international organisations, the private sector and non-governmental organisations.

The participants from SEE region commit themselves to:

- Promote a stable macroeconomic environment
- Create a positive environment for private sector development by institutional reforms in the fields of justice and law, administration and taxation
- Improve the climate for foreign investments
- Present a common strategy for investment promotion

- Adopt international law and standards etc.

Governments from outside the region working with international institutions (e.g. EBRD, IFC, EIB, FIAS, MIGA) commit themselves to mobilise private financing and mitigate risk as reforms in the SEE region go forward and conditions for investment improve. Consideration will be given to mechanisms for the provision of political risk insurance, of guarantees, the granting of loans or equity participation.

The implementation of the Investment Compact was included in the "Quick Start Package". The first two phases of the Compact's Roadmap and Process (Phase 1: assessment of current investment conditions and Phase 2: identification of policy priorities for action) were undertaken from the commencement of the Compact up to mid-2000. The implementation of reforms (Phase 3), the more difficult and time consuming phase of the Compact is now under way. According to the Report on Implementation of the Quick Start Package (May 2001), the major challenge is to strengthen and revive the Country Teams in SEE.

Policies and initiatives concerning market oriented reforms and improvement of business and investment climate are addressed mainly to the private sector of the economies of the SEE countries as well as to multinational enterprises. For this reason it is very important that public decisions makers shaping the above policies get advise by the representatives of the private sector. In the framework of the Stability Pact effort has been made to involve private sector in business and investment decision and to support co-operation among Balkan enterprises.

The Stability Pact Partners created in January 2000 the Business Advisory Council (BAC). The BAC is an independent advisory body, consisting of approximately 20 high-level business representatives from the region and from major donor countries. They give advise to the Stability Pact partners on investment and business related matters. They present also the view of the business world about investment climate and investment opportunities in SEE and propose concrete policies and measures to the governments of the region and to the involved international partners. The BAC is also a member of the Investment Compact's Project Team and an advisor to the secretariat of the Stability Pact.

In order to support private sector development and investments in SEE region the OECD in co-operation with the SEE countries and international organisations (UNDP, ILO) established a South East Europe Forum for Private Sector Development. The primary focus of this Forum is on five main areas: entrepreneurship and enterprise development, foreign direct investment, public sector accountability and transparency, corporate governance and financial sector reform. The Forum provides a tool for policy dialogue and policy implementation focusing on policies, strategies and specific actions which will be taken to support the development of the private sector and of the investments in the region. It also promotes exchange of experience and the dissemination of the best practices among participating countries and assists in the process of regional co-operation.

Similarly, the Foreign Investment Advisory Service (FIAS) provides advisory assistance to SEE countries concerning investment legislation and policies. Through a diagnostic review of the environment for FDIs, recommendations for basic policy and legal reforms FIAS has contributed to the substantial reform of investment legislation, including the adoption of "national treatment" for foreign investors, improved access to land and other factors of production. Recent work focuses on corporate tax, investment incentives, administrative barriers to investment and development of an investment promotion strategy and institutions. The demand of FIAS's advisory assistance from the SEE countries shows its important role in creating a favourable business and investment environment in the region and in promoting co-operation among enterprises.

All the above mentioned initiatives and projects have a positive impact on business and investment climate in the SEE countries and therefore contribute to the presence of foreign enterprises in these countries and also to the development of cross border investment co-operation.

The Stabilisation and Association Approach and Its Contribution to regional and Cross Border Co-operation in SEE

Following a proposal made by the Commission (26.5.1999), the EU adopted a new regional approach for the countries of Western Balkans, the so-called “Stabilisation and Association Process” (SAP). This approach aims at the protection of peace and stability, the fostering of economic development and the improvement of the conditions for the region’s accession into European structures. In other words, it is a new attempt to transcend previous individual and fragmented approaches by applying decisions and statements of already existing EU proposals which are aimed at an overall regional approach (e.g. the Regional Approach of the General Affairs Council of 26 February 1996, Conclusions of European Council Meetings in Vienna, December 1998). This new strategy recognises that whatever differences these countries may have among themselves, they also have common and interrelated problems that require a global regional approach.

The SAP is considered by EU officials to be their most important contribution to the attainment of the aims of the Stability Pact. For the first time it offers the five countries of the SEE region a prospect of EU integration, based on a progressive approach adapted to the situation of each country. The basic instruments of the SAP are:

- a) The Stabilisation and Association Agreements (SAAs). They presuppose the fulfilment of well-defined political and economic terms (Application of Conditionality, Annex III, to the Council of General Affairs’ Conclusions-Luxembourg, 29-30 April 1997). Included in these terms is the obligation of the FRY, Croatia and Bosnia-Herzegovina to apply the agreements of Dayton and Paris, as well as to contribute to the promotion of intra-regional co-operation. In order to be effective the SAAs must be tailor-made to the special situation of each partner country. Before the opening of negotiations there must be a report (feasibility study) prepared for each individual country concerning the fulfilment of political and economic terms. Finally, signing a SAA does not require that a country had previously signed a “first generation agreement” (i.e. a trade or/and economic co-operation agreement). To a large extent, these agreements are similar to “Europe Agreements”, although more emphasis is placed on the need for greater regional co-operation. In 2001 the EU signed SAAs with FYR of Macedonia and Croatia. These Agreements aim at the establishment of an association as well as of a free-trade area between the EU and the two SEE countries within a transitional period of a maximum of ten years. They also include provisions on extended regional co-operation between the countries of the region. A SEE country having signed a SAA with the EU is committed to sign a convention on regional co-operation with every other country having signed a similar agreement with the EU. This convention will include political dialogue, the establishment of a free trade area, mutual concessions concerning the movement of labor, establishment, supply of services, current payments and movements of capital, co-operation in the field of Justice and Home Affairs. Through the implementation of this provision an extensive liberalisation and an enforced economic and political co-operation promoting cross border co-operation among enterprises can be achieved in SEE region.

The political significance of the SAA is also very high as it confers the FYROM the status of potential candidate for EU membership. Regarding the other countries of the region (Albania, Bosnia and Herzegovina and FRY) they are also aiming at entering into negotiations on SAA.

- b) Trade Preferences and Financial Assistance. Not signing a SAA, however, does not deprive the countries of the area of the ability to enjoy, even to a lesser extent, other benefits of the Community’s preferential trade treatment through, for example, Autonomous Trade Preferences. As part of the SAP the Council of Ministers adopted the Council Regulation 2007/2000 then amended by Council Regulation 2563/2000, to improve the existing autonomous trade liberalisation for more than 90% of all their exports to EU. In the context of SAP the EU shall provide financial assistance to all countries of Western Balkans. According to Council Regulation (EC) 2666/2000, the financial reference for the implementation of this program (for the period 2000 to 2006 shall be EUR 4650 million. According to Article 2 of this Regulation, one of the

main purposes of the Community assistance is "...the development of closer relations among recipient countries, between them and the European Union and between them and countries which are candidates for accession to the European Union, in co-ordination with other instruments for cross-border, transnational and regional trans-boundary co-operation with non-member countries".

Concluding Remarks and Policy Recommendations

Through an intensification of regional and cross border economic co-operation the Balkan states could expect more intra-regional market integration, increasing returns and economic growth (see Totev 2001). The implied regional increase in trade and investments can enforce dispersion of ideas, know how and technology and greater understanding between people. Finally it can support political co-operation and contribute to political stabilisation in the region. Further expected effects of regional and cross border co-operation in SEE could be the promotion of spatial integration and revitalisation of remote areas as well as more employment and better social development in these areas.

It is argued that the prevailing fragmentation (in an economic and political sense) and conflict in the SEE region, as well as the existing ethnic rivalry and regional instability are major factors that impede investments, trade, structural changes, economic reforms and growth (see Petrakos 2001a and Jackson 2001). Further obstacles for lacking regional economic integration and cross border co-operation in SEE are insufficient or to some extent incompatible cross border infrastructure networks, different economic structures and development levels, the "balkanisation" of regional trade relations ("multiple regional and sectoral trade regimes") and trade barriers, insufficient trade supporting services (e.g. financing and insurance of foreign trade, custom services), political uncertainties and political risks concerning investment activities, currency risks, different institutional and administrative frameworks etc. (see Totev/Petrakos/Slaveski/ Gedeshi/Boyadjieva 2001).

In order to achieve the advantages of regional economic integration and cross border co-operation, the SEE region needs active relevant policies and initiatives. These policies and initiatives should aim at:

- Building connected and compatible cross border networks and linkages
- Promoting common projects in the field of energy, environment, telecommunication
- Liberalisation of external economy for trade in goods and services, capital movement, foreign investments and persons
- Creating facilities for the promotion of trade and investment (e.g. Border crossing, custom offices, Free Trade Areas, Free Investment Zones)
- Institutional proximity
- Closer co-operation between regional bodies and between private organisations
- Transfer of experience and know how
- Financial and technical assistance to the countries and the enterprises etc.

Because of their urgent needs, the costs of system transformation and the mentioned political problems, the SEE transition countries were not very reluctant and may be not able to provide the "public good" regional integration and cross border co-operation sufficiently. This is the reason why the European Union and some other donor countries, international institutions and organisations are called to contribute essentially to the enforcement of regional integration and cross border co-operation in this area of Europe.

The above analysis has indicated that regional initiatives and European policies in the '90s were not sufficient to promote effectively regional integration and cross border co-operation in SEE. On the contrary, after the War in Kosovo the European Union supported by other countries and relevant international institutions and organisations has developed a new comprehensive strategy to support regional and cross border co-operation in the SEE region. The main instruments of this new strategy are the Stability Pact for SEE and the Association and Stabilisation Process for the integration into

European structures of the Western Balkan countries. Both instruments include concrete policies and programs for market integration, cross border infrastructure and new regional institutions. Through a quick and effective implementation of the new policies and programs regional integration and cross border co-operation will be significantly boosted.

The process of regional integration and cross border co-operation could be accelerated and enforced through further policies and measures like:

- Contribution to a diplomatic solution of the remaining political problems in the region (e.g. in FYR of Macedonia, in Kosovo and in Bosnia-Herzegovina).
- Improvement of regional trade integration through the creation of "SEE Free Trade Area" (SEE-FTA) as a first best solution, or the accession of all SEE countries to CEFTA as a second best solution, instead of creating a complicated network of bilateral free trade agreements.
- Support of regional monetary integration to avoid competitive devaluations and free up long-term capital movements. Instead of having different exchange rate regimes (see Table 5), the SEE countries could either bind their currency exchange rates to the Euro through a "Currency Board", or in co-operation with EU they could agree to replace their national currencies by Euro ("Euroisation") (see Kotios 2001c).
- Enhancement of Stabilisation and Association Process by signing SAAs with all countries of the region and accession to WTO of the three non-member countries.
- Increase of financial assistance for cross border networks especially in the neglected fields of energy, water and telecommunications and for the creation of new cross border infrastructures (e.g. Free Trade Zones and Free Investment Areas in border regions).
- Harmonisation of national regimes in the fields of taxation, capital movement, customs, company and competition law, technical standards, state enterprises and state subsidies, movement of persons etc. It can be achieved smoothly through the progressive adoption of "acquis communautaire" in the framework of accession partnership with Bulgaria and Romania and in the framework of the SSAs with the countries of Western Balkans.

Table 5. Exchange Rate Regimes in SE Europe

Countries	<i>Exchange Rate regimes</i>			
	Currency Board Arrangement (1)	De facto peg arrangement under managed floating (against a single currency) (2)	Managed Floating with no preannounced path for exchange Rate (3)	Independently Floating (4)
Albania				X
Bulgaria	X			
Bosnia and Herzegovina	X			
Croatia			X	
FYR Macedonia		X		
Romania			X	

Source : IMF, Annual Report 2000, pp. 141-143

(1) Currency Board Arrangement (CBA): A monetary regime based on explicit legislative commitment to exchange domestic currency for a specific foreign currency at a fixed rate. Domestic currency can be issued only against foreign exchange. The monetary base is fully backed by foreign assets. No place for discretionary monetary policy.

(2) De facto peg arrangement under managed floating (against a single currency): The country pegs de facto (not formally) its currency at a fixed rate to a major currency, where the exchange rate fluctuates within narrow margin (e.g. of at most $\pm 1\%$) around a central rate. The monetary authority stands ready to maintain the parity through intervention. The degree of monetary policy discretion is limited, however greater relative to CBAs.

(3) Managed Floating with no preannounced path for exchange rate: The monetary authority influences the movements of the exchange rate through active intervention in the foreign exchange market without specifying a preannounce path for the exchange rate.

(4) Independently Floating: The exchange rate is market determined, with any intervention. The monetary policy is in principle independent of exchange rate policy.

The successful implementation and the effectiveness of the introduced and proposed measures for regional integration and cross border co-operation depend decisively on the attitude of the SEE

countries concerning these forms of promoting economic co-operation and development in SEE. All the countries of the region have to realise that their peaceful co-existence and economic prosperity can be provided by an extended regional political and economic co-operation. The main instruments to obtain this objective is market integration and cross border co-operation.

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