



Expert Comment

The EU and the Western Balkans: A region of opportunities, not only of risks

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The EU and the Western Balkans: A region of opportunities, not only of risks

Matteo Bonomi

Over recent years, the EU agenda and policy debate on the Western Balkans seem to have been in a conundrum. On one hand, the EU has declared its goal in the Western Balkans to be the spearheading of post-conflict transformation, which through economic and political reforms should lead these countries to become EU members. This has led to high expectations of what the EU and the prospects of membership should deliver in the region, in terms of democracy, institutions, and the rule of law. On the other hand, the EU seems to be more and more crisis-ridden, so that enlargement appears at risk. Nevertheless, the return of geopolitical thinking within EU capitals suggests that the EU should protect its fundamental interests in security and stability and therefore swiftly go ahead with the enlargement process if it does not want to lose the Western Balkans. Such needs have been pulling in opposite directions, making it extremely hard to find ways of properly balancing between democracy and stability without prioritising one aspect over the other. However, to solve these rather complex problems, the EU has often prioritised stability and risk prevention over its own mantra of democracy and the rule of law (BiEPAG, 2017; Bonomi, 2017).

Against this background, looking at the sobering results of economic transition in Western Balkan countries can help us develop a different kind of analysis, thus offering another way of dealing with this contradiction. It could be argued that the greatest obstacle to developing the region, in terms of democratisation and the rule of law, but also of stabilisation and of getting closer to EU membership, is rooted in a problem of political economy. The hitch is that the economic model proposed to the Western Balkans has not worked.

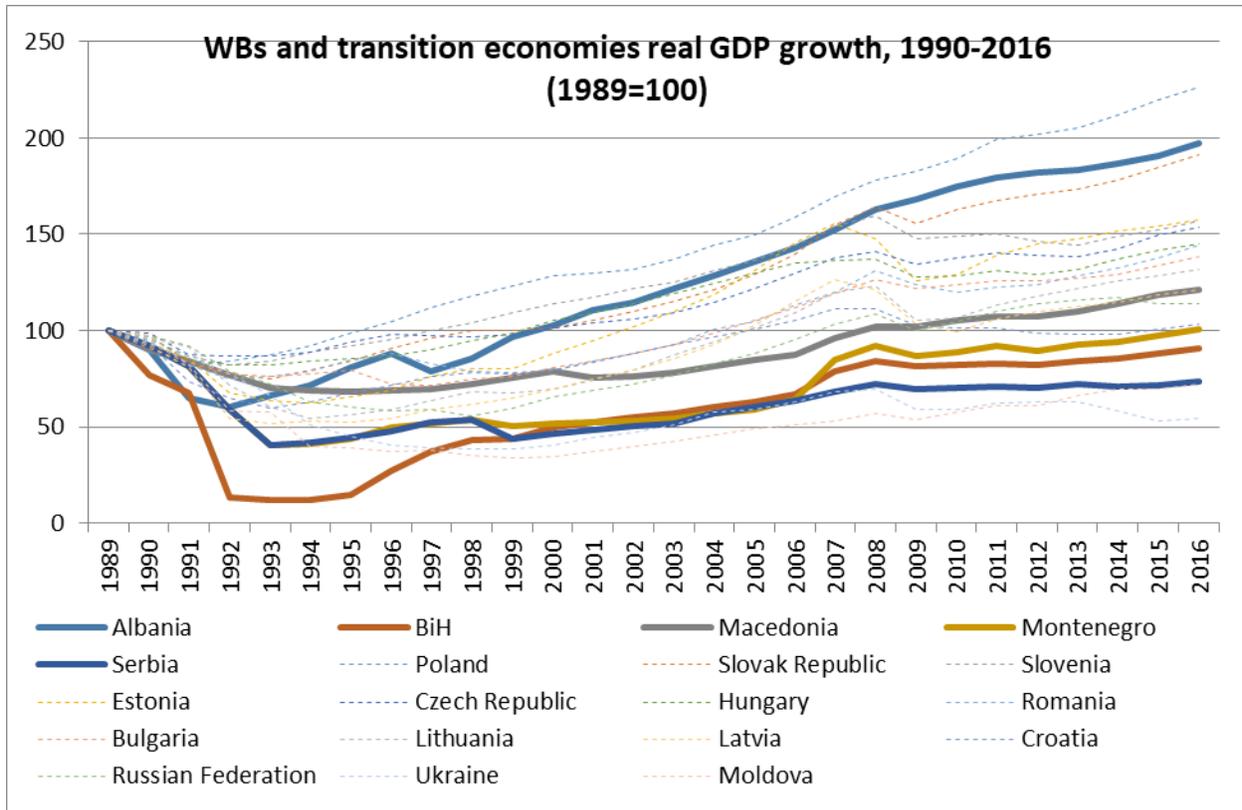
In what follows, some of the main reasons shall be highlighted of why the model has not been successful so far. We then turn to the Western Balkans' high level of integration with the EU and address the most relevant issues linked to the current strategy of enlargement. The analysis ought to help our understanding of whether the region currently represents a risk or an opportunity for the EU and its member states, and how EU policies can be improved in the future. The key message is twofold. On one hand, the EU should provide a realistic plan to tackle the lack of economic growth and social progress in the region if it wants to make substantial progress in other fields, such as consolidating democracy and the rule of law. On the other hand, advancing the EU-Western Balkans integration process could play an important role for the EU within ongoing efforts to improve its own resilience. This would help the Union to better define its relationship with an increasingly complex external environment.

Why has the model not delivered?

The economic model implemented in the Western Balkans, which we can refer to as the 'Washington consensus' model, has fallen short of the region's exigencies. The transition blueprint of rapid market liberalisation and privatisation, in combination with the progressive transposition of EU laws, which has at least been partially successful in Central Eastern Europe and has helped economic and institutional reforms to proceed hand in hand, has failed to deliver more concrete results in the Western Balkans (see Bonomi and Reljić, 2017). Moreover, some of the lessons that could have been learned from the experience of Central Eastern Europe, known from the so-called 'post-Washington' consensus formulated in the second half of the 1990s (see Kolodko and Nuti, 1997), were not taken into account, particularly the need to have a more active involvement from the government in specific economic policies, including an active industrial policy.

Nevertheless, whereas in Central Eastern Europe, rapid market opening, liberalisation, privatisation, and integration with the EU has favoured the arrival of foreign investors, the transfer of capital, know-how, and modern technologies, thereby also facilitating re-industrialisation and some economic convergence with the more developed parts of Europe, most Western Balkan countries have experienced a process of continuous deindustrialisation, large external account imbalances, high unemployment, falling living standards, rising inequality, and greater risk of poverty and social exclusion.

Suffice to say, Serbia and Bosnia and Herzegovina, despite almost twenty years of Europeanisation and tightening economic ties with the EU, are in the worst-off group of transition economies with respect to the recovery of both pre-transition GDP and income inequality levels (Milanovic, 2014). These two countries have still not reached their 1989 level of real GDP, standing respectively at 73% and 90% of their pre-transition levels, while Montenegro only matched its 1989 real GDP level in 2016.



Source: Data for 1989-2008 are from EBRD’s Transition Report: Transition in Crisis? GDP annual growth rates between 2009-2016 are from IMF’s online database. Figure by the present author.

The unsustainability of the growth model proposed to the Western Balkans has become particularly evident after the strong effects of the global financial and economic crisis in 2008-2009. The crisis has hit the countries in the region disproportionately hard, not least due to their already strong level of integration with the EU. As a result, not only has growth been nullified over the past ten years. These countries have also accumulated a huge trade deficit with the EU of €97 billion euros during the 2005-2016 period (European Commission, 2017), in parallel with increasing foreign debt. This means that a substantial portion of Western Balkans financial resources is transferred annually to core EU countries, primarily Germany and Italy as their main trading partners and also through the repayment of loans. At the same time, Western Balkan countries, unlike new EU members, do not qualify for EU structural funds, which would alleviate the impact of economic crises and foster growth. The support coming from the EU through IPA funds (Instrument for Pre-accession Assistance) ranges from merely around 40 million euros a year for Montenegro to 200 million euros for Serbia. This far from sufficient to balance the substantial monetary outflows from the region to the EU or to help narrow the enormous development gap between the Western Balkans and the EU.

Increasing integration, but declining support for the EU

Overall, after almost two decades of EU-Balkan economic integration, the region appears increasingly fragile and dependent on the EU. From a socio-economic perspective, the Balkan countries already appear part of the European club – but with many disadvantages, including no

access to EU structural funds and no voting rights. Within an almost completely liberalised trade regime, and thanks to the Stabilisation and Association Agreements signed with the EU, the Western Balkans already have 73% of their total goods trade with the EU (European Commission, 2017). Between 75-90% of their banking systems are foreign-owned (mainly by German, Italian, French, Austrian, and Greek banks). [1] Almost all Western Balkan countries have adopted a fixed exchange-rate regime, linking their currencies either formally or de facto to the euro, or are using the euro (as in Kosovo and Montenegro). However, close economic ties with the EU have not helped to consolidate economic modernisation or to support the Western Balkans' capacity to accelerate development. Despite its proximity to the EU, the region remains a long way from achieving stability and prosperity, and from firmly embarking on the road to successful European integration.

Therefore, it should come as no surprise that the 'EU model' is being questioned by a considerable portion of the populace. People are less and less convinced that this model is the universal remedy for all political and economic troubles. Living in transition has meant the onset of reduced human security for most of the population and unreliable prospects for the younger generation. In contrast, in the collective memory of the region, the half-century of Yugoslav socialism that lasted until the late 1980s is associated with a gradual improvement of living conditions, upward social mobility for broad swathes of the population, and the absence of violent conflicts.

Against this background, the often heard argument that the EU should better tailor its messages towards the wider public in the region and improve its communication strategy with respect to the enlargement process risks largely missing its target. When judging the eventual benefits of EU membership, people in the region are essentially driven by their evaluation of past experiences with EU integration and economic transition. With the obvious exception of Kosovo, it is not by chance that national attitudes towards EU membership perfectly match levels of pre-transition real GDP recovery, with the populations of Serbia and Bosnia and Herzegovina being the least positive (only 26% and 31% of the respective populations see EU membership as 'a good thing' for their country), followed by those from Montenegro (44%) and Macedonia (54%). In contrast, Albania, as the only country in the region having experienced constant improvement in its living standards, and having almost doubled its real GDP in less than thirty years, has an overwhelming 81% of public opinion with a positive attitude towards the benefits resulting from possible EU membership (data from Regional Cooperation Council, 2017).

Return of old narratives and state capture: A spill-over effect?

Looking at the Western Balkans from this angle also helps to cast a different light on the cyclical return of old narratives, inflammatory rhetoric, and regional tensions. Drawing from nationalist rhetoric – rather than being connected to some alleged cultural features of the region – has often been quite a rational choice for politicians who have little else to offer to their voters. Not unlike in the West, economic crises and lack of available solutions to concrete problems offer strong incentives to political actors to activate available ideational resources. In contrast to the EU, however, Western Balkan countries have been stuck in transition for thirty years and have had no real chances to thrive in prosperity in the post-Cold War era, while fresh memories and unresolved disputes from the 1990s have been abundant and an inexhaustible resource for mobilisation.

If we add that, during the last ten years of economic crisis, political and business elites have strengthened their hold on power by making systematic use of ethnic groupings within society to build clientelistic networks, which have provided informal security nets for large sections of the population within an extremely insecure socio-economic environment, we should conclude that Balkan politics has to be read in terms of the most classic political nexus of the provision of protection in exchange for obedience. Political choices undertaken by political elites and the wider public seem to have been majorly driven by the rational calculation of short-term benefits. Maximising material gains and strengthening social bonds among close circles have been two sides of the same coin. All this denotes a severe lack of trust, rather than a lack of rationality, as one of the biggest deficits of the region, systematically undermining the articulation of any longer-term strategy.

Missing elements

Considering everything mentioned above, it should be clear that the region lacks the necessary economic or political resources to break with current patterns. As recently calculated by Peter Sanfey and Jakov Milatovic (2018), under current conditions it could even take 200 years for the region to catch up with the EU average level of GDP per capita. While the EU has been an indispensable anchor of stability so far, a genuine transformation of the region requires much more engagement from the Union and its member states. After almost thirty years of de-investment and underinvestment, and given the limitations of respective national GDPs, national governments simply have no material means to meet their objectives to re-launch economic recovery and increase the competitiveness of their economies. At the same time, private investment coming from abroad (mainly from the EU) has targeted the region as a source of extremely cheap labour (at best), or as a final market for consumption (at worst) in the majority of cases. Politically, these countries seem condemned to repeat, this time as farce more than tragedy, the conflicts of the 1990s. While the re-emergence of open, i.e., armed, conflict is quite unlikely, the current situation nevertheless creates an environment for thriving informal networks and contrasting geopolitical interests. This should be of great concern for all EU member states, given the Western Balkans' geographical location and the high level of integration already achieved with the EU.

What would be needed on the part of the EU is a more flexible and differentiated approach vis-à-vis the Western Balkans, which could provide the missing link between present conditions and their future entry into the EU. Principally, a reformed EU enlargement policy should be based on three pillars:

Firstly, credible enlargement prospects should be provided to countries in the region, which have largely been missing in recent years, and which could instil trust in the integration process and remove the type of excuses used by Balkan political leaders when failing to deliver on Copenhagen and other EU accession criteria.

Secondly, sectoral integration with Western Balkan countries should be advanced in fields of mutual interest (such as migration, justice and home affairs, science and development, Erasmus programmes – something that already exists, but should be much more developed), which could rebalance the burdens and benefits of the enlargement process.

Thirdly, and most importantly, Western Balkan countries should be provided with a volume of resources proportional to the levels of integration with the EU that they have already achieved. The EU Commission and Council should consider ways of opening structural funds even before accession, or of providing similar amounts of funds through regional or similar projects (primarily targeting infrastructure, transport, energy, and environment protection), which could help enormously in tackling some of their developmental and institutional gaps.

Whereas there is clearly no silver bullet to ensure the swift advancement of the region, greater financial engagement from the EU and its member states is necessary. Building on ongoing policy frameworks, such as the new approach to economic governance and existing programmes for supporting competitiveness and long-term growth (see Bonomi, 2016), but providing a more appropriate level of resources, the EU should help to pull the region up from its current growth rate of 2-3% towards a fast-track for socio-economic convergence. This could be a real game changer with multiple positive effects for all other aspects of the EU's enlargement policy:

- It could prompt wider consensus regarding the EU among the population and thus strongly reinforce EU leverage on governments in the region. Socio-economic concerns have been, in fact, consistently at the forefront of peoples' concerns (Regional Cooperation Council, 2017). In this regard, Albanian progress in rule-of-law and judicial reforms is a good example of how the Commission's initiatives can find positive 'political will' when EU support is strong among the people.
- Faster economic growth and development also seem necessary in order to energise and pluralise Western Balkan societies, which today seem largely under the control of a few business and political elites. In fact, even the best institutional designs, as Marko Kmezić (2017) convincingly shows, cannot provide assurance that judicial and rule-of-law reforms are successful in the absence of bottom up pressure coming from wider society. Only stronger and more independent societies, where different interests exist in competition, are able to raise pressure for and demand implementation of basic rights to the judicial and other public authorities.
- Moreover, while it is not necessary that middle-class people support liberal democracy in principle, the presence of richer societies still represents a fundamental precondition for the consolidation of democratic regimes in the Western Balkans. In other words, the EU should demonstrate in the Balkans (not unlike in some member states) that the liberal agenda attached to its conditionality is not an agent of unfettered globalisation, but something that aims to help address the multiple insecurities pervading Western Balkan societies and which are currently fuelling authoritarian tendencies.
- Lastly, stronger economic growth based on regional and connectivity projects would not only make the peoples of the region closer, facilitating face-to-face and business interactions, but would also increase the potential gains of regional cooperation (World Bank, 2017). Successful reconciliation cannot be based only on focusing on the past, but needs a common perspective on a shared future.

Given the small size of the Balkan countries (merely 3.5% of EU's population) and their even smaller GDP, measures in this direction would have a limited overall impact on the EU budget, but they could go a long way towards restoring the credibility of EU policies in the region. Moreover, it would not only be an investment in stability and security in Europe, but it would also be economically beneficial for both the Balkans and the entire EU. Connectivity projects would strengthen the ring of EU countries around the Western Balkans, while any increase in Western

Balkan GDP would be shared with core EU countries through increasing trade. Whereas we are not talking here about huge numbers, the Western Balkans today already absorbs 1.6% of EU exports (European Commission, 2018a) and represents, with a total trade volume of 49,543 billion euros for all its countries combined, the 17th largest external trade partner for the Union (European Commission, 2018b). It is clear that any increase in the region's living standards would positively contribute to the wealth of the Union.

Is the new EU strategy sufficient?

Against this background, the new strategy for 'A credible enlargement perspective for and enhanced EU engagement with the Western Balkans', adopted by the European Commission on 6 February 2018, represents a step in the right direction (European Commission, 2018c). Building on the positive experience of the intergovernmental Berlin Process and its Connectivity Agenda, the new EU strategy shows maximum effort from the European Commission. There are four issues in the Strategy that ought to be singled out.

Firstly, there is a change in the rhetoric, primarily the acknowledgement of the level of integration already achieved between the EU and the Western Balkans and the recognition that there is no realistic strategic alternative for the EU and the Western Balkans but to further advance their economic, security, and political interdependence.

Secondly, through the six flagship initiatives, the strategy foresees how to advance sectoral integration in key policy areas including the rule of law, security and migration, economic development, connectivity, and the digital agenda.

Thirdly, it provides an indicative guideline on how to address funding needs in the region. It foresees a progressive increase of EU funds (attached with greater conditionality) that provides for a gradual transition from IPA to structural funds. Working with reallocations of funds within the ongoing EU multiannual financial framework and foreseeing an anticipation of the distribution of EU structural funds within the next financial framework, ideally, at the end of the accession negotiations process, candidate countries could already be able to receive a measure of IPA funds which should exactly match the structural funds they would be able to absorb on the day of accession.

Fourthly, the strategy calls the Union and its member states to start preparing internally for the next enlargement, thus connecting the enlargement agenda with the wider process of reform within the Union.

Overall, the strategy contains a credible approach, offering strong motives to both the enlargement countries and the EU member states. However, at the end, it will depend on both the EU member states and the Western Balkans as to what use they will make of the strategy, and to what degree it will act as the base of their future engagement.

In this regard, the message coming from EU member states, which gathered with their Western Balkan partners at the Sofia Summit on 17 May, gives a rather mixed picture. On the positive side, it is encouraging that EU and Western Balkan leaders finally met again after fifty years. The key priorities that were singled out in Sofia were broadly in line with the Commission's strategy and its flagship initiatives. Moreover, there has been substantial progress in the dialogue between Macedonia and Greece, which seemed to finally find agreement on a shared resolution to the

name dispute on 12 June. Nevertheless, it would be incorrect to represent the Summit as a full endorsement of the Commission's strategy.

Despite the best intentions of the Bulgarian presidency, EU leaders did not bring any concrete promises regarding accession or the next steps in the accession process to Western Balkan partners. Regardless of the Commission's Strategy pointing to 2025 as the best-case scenario for some countries' accession to the EU (if they prove ready), only a generic reference to a "European perspective" for the Western Balkans emerged from the Summit, with Germany in particular making it very clear that the Chancellor does not believe in announcing any concrete date. Moreover, any reference to financial engagement beyond the current EU Multiannual Financial Framework was also carefully avoided.

The worst aspect of the Summit, however, is that it has mainly confirmed old disagreements within the European bloc. In particular, the French President Emmanuel Macron once again stressed how the EU has grown weaker over the last fifteen years, partly due to enlargements, and that the EU should thus continue deepening before growing again. All this clearly puts into question the credibility of the EU enlargement strategy and it is detrimental to the political leverage of the Union. Moreover, the EU member states' decision, at the EU Summit at the end of June, of only partially following European Commission's recommendations to open accession negotiations with Macedonia and Albania, opting for additional conditions to be verified next year, has confirmed all these ambiguities.

Prospects: Taking advantage of the opportunities

No political enterprise seemed to embed Francis Fukuyama's thesis of the end of history better than the new form of integration achieved by European countries through the creation of the European Union in 1991; and no concrete policies represent more the spirit of that time than the enlargement policy refined at the Copenhagen European Council in June 1993. With the end of the Cold War, all ideological conflicts appeared resolved, the market economy and liberal democracy were the clear winners and were the only deal in town. Enlargement was proclaimed as the most successful EU policy, driving a peaceful reunification of Europe under the promise of shared prosperity and common values. The Union seemed open, in principle, to far-reaching expansion, while enlargement policy appeared the most effective instrument to spread EU influence and values across the continent without clear geographical boundaries.

Obviously, history hasn't come to an end, and almost thirty years later the picture appears completely turned on its head. The Union itself is, today, deeply shaken regarding both its economic model and liberal values. Centrifugal enthusiasm for globalisation has turned into centripetal pressures towards Europe, putting at stake the existence of the European integration project. Anxious majorities today fear, to use Ivan Krastev's words, that "conspiracy between cosmopolitan-minded elites and tribal-minded immigrants" is taking over their way of life, and democracy risks being transformed "from an instrument of inclusion into one of exclusion, delegitimizing non-majoritarian institutions by casting them as obstacles to the will of the people" (2017; 2018).

Against this background, it is legitimate to ask why the EU and its member states should focus so much attention and employ additional efforts to integrate the Western Balkans? Compared to the past, the risks traditionally associated with the region have greatly diminished. Considering the

numerous important structural issues that still appear unresolved within the EU, ten years after the outbreak of the economic crisis, three years after the migration crisis, and in the wake of Brexit, shouldn't the European Council and Commission think more about how to find ways to fortify internally, as demanded by French President Macron and others? And how could the EU still rely on its enlargement policy, after passing from a time of representing it as its most successful policy to now seeing it much discredited?

There is no straightforward answer to these questions, but looking at the Western Balkans from the perspective of the multiple crises currently shaking Europe, the region's integration into the EU is still much more of an opportunity than a risk. Despite the very different policy fields involved in current EU member state negotiations to construct a more resilient Union, what really seems to be at stake within this wider bargaining process is being able to prove the EU's capacity for providing for both the protection of its citizens, in the context of a form of globalisation often perceived as unfettered, and for maintaining European societies as decisively open, thus reaffirming the basic values on which the Union is founded. Advancing the process of EU integration of the Western Balkans could be the right step in exactly this direction. It would contribute to a better redefinition of the EU's relations within an increasingly complex global environment, in two fundamental ways.

Firstly, the successful integration of the Western Balkans would represent an important step forward in the process of the territorialisation of the EU. This is an aspect that was largely overlooked during the early days of enlargement enthusiasm, but which is fundamental for the construction of the EU as a political space in which national sovereignties do not get dissolved within a wider global environment but are pooled at an intermediary level, retaining the capacity to monopolise control of a given territory at the continental level (Balibar, 2004; Galli, 2001). In this regard, a simple glance at the map of Europe shows that the Western Balkan region is not the EU's south-eastern courtyard but is rather, being surrounded by EU and NATO member states, its' overlooked soft belly. Contrary to both liberal utopias of a Europe without borders and right-wing dystopias (or retrotopias, to use Zygmunt Bauman's expression) of a European fortress, European liberalism can survive only if embedded in a concrete political space with precise borders defining a common economic and security space, which is distinguishable from a wider global environment. In this regard, the Western Balkans, which are located in between the most politically, economically, and – in security terms – fragile EU member states and are already formally and informally deeply integrated and connected with the entire Union, simply cannot be realistically excluded.

In other words, it would be a mistake to conceptualise current enlargement towards the Balkans within the old debate of 'deepening versus widening', as some who are nostalgic for a Carolingian Europe seem to be doing. The current debate about creating a 'core Europe' appears not only politically unrealistic, given that even older EU members neither share a common vision nor seem ready to give up substantial additional sovereignty, but even seems potentially disruptive for the cohesion of the EU-27. What is at stake today is rather consolidating what the Union has already achieved so far, including what was achieved through previous rounds of enlargement. This should be done along very pragmatic lines of finding ways of providing, through common policies, added value in core European areas such as economic, social, migration, and security policy dimensions (see New Pact for Europe, 2017); the inclusion of the Western Balkans can provide added value in all these fields.

But there is also a second aspect, wherein pushing forward the enlargement process with the Western Balkans could make a contribution to better defining the EU's relationship with its external environment. The EU's vicissitudes with Western Balkan countries strongly signal the urgent need for the Union to have a more flexible approach, not only regarding its internal domain, which has been the focus of ongoing discussions, but also for wider EU external action. If the current shift within the EU enlargement policy toward the Balkans, from an uncritical reliance on market automatism towards a much more open-handed approach composed of sectoral integration and the unlocking of adequate financial resources, proves politically successful and economically sustainable (if not even profitable), it could create confidence for relaunching an exhausted Neighbourhood Policy, opening new ways to reflect upon what its underlying philosophy, 'everything but institutions', could actually represent.

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Endnotes

[1] Foreign ownership is defined as banks with assets of foreign ownership over 50%. Source: EBRD Banking Survey available at ebrd.com.