

# Preface

The six Western Balkan countries, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, all aspire to be members of the European Union. Albania and North Macedonia are already candidate countries while Montenegro and Serbia have opened negotiations for EU membership. Kosovo and Bosnia and Herzegovina are at earlier stages of the process and must wait for a green light to start negotiations for membership.

Although the six countries are at different stages of fulfilling their aspiration for EU membership, they have already been influenced significantly by EU policies and programmes designed for them. These policies and programmes have aimed at supporting economic, political and social development; speeding up the reform process facilitating transition from centrally planned economies to democratic market economies; and enhancing the rule of law and governance in these countries.

There is, therefore, a strong interest in the development of the European Union and its policies, particularly related to the Western Balkans, in the society as well as among policy makers and the academia in these countries. This book intends to provide students and staff on such courses as European Integration or Economics of the European Union with an up-to-date analysis of the European Union and its wide range of policies and programmes. Additionally, the book can enhance the knowledge of local decision-makers about the opportunities and challenges arising from the European Union.

One of the editors of this book holds the Jean Monet Chair of European Integration at the University of Prishtina and the book is one of the outcomes of activities of this Chair. Although several books about the European Union are available in Kosovo and other countries in the region, there is none exploring the implications of developments in the EU for the Western Balkans. We address this situation by offering the reader in-depth analysis of ten different aspects of policy making in the European Union and how these policies affect the Western Balkan countries and their policies.

Each chapter is written by a colleague from a different university in the region or in the EU. These colleagues are experienced researchers

in their field and some also have practical and hands-on experience of policy making in the European integration process.

### **Structure of the Book**

Chapter 1 takes an overview of the relationship between the EU and the Western Balkans. It discusses the range of policies aimed at supporting the Western Balkans in improving their policy making process and moving them closer to the standards and regulations in the EU. The Chapter explores EU policies and programmes designed to develop a free trade zone in the Western Balkans and encourage countries to reduce barriers to trade between them and, at the same time, to reconcile their historical differences and problems.

Chapter 2 aims to develop an understanding of the architecture of the institutions of the European Union and its policy-making processes. This is particularly relevant for the Western Balkans countries that aspire to be new members of the EU. It surveys the most important EU institutions: the European Parliament, the European Council, the European Commission, the Court of Justice of the European Union, the European Central Bank and the Court of Auditors. The chapter discusses the functions and compositions of these institutions and their potential interactions with the Western Balkans.

Chapter 3 reviews the international trade policy of the EU and the pattern of both external and internal trade of the Union. The EU is correctly described as the largest and the most successful regional economic integration in the world. The benefits of different types of economic integration, from a free trade area to customs union and eventually a single market, are explained theoretically, laying the foundation for understanding the trade policy of the EU. The chapter then analyses the pattern of trade between the member states and trade with countries outside the Union over a long period. The most important feature of the analysis is the massive increase in trade resulting from successive steps in the development of the single European market. The chapter ends with a review of EU trade with the countries of the Western Balkans, demonstrating how the EU has become the largest trade partner of these countries in terms of both exports and imports.

Chapter 4 analyses the development of the EU Budget and the process of budget preparation. European integration requires the allocation of financial resources for public finances at the EU level. These are implemented through multi-annual financial frameworks and annual

budgets, the tools through which money is collected and allocated for EU policies, programmes and activities. The system of public finances at the EU level as known today is a result of numerous changes and adjustments that have occurred over the past sixty years. The Chapter outlines the evolution of the budgetary system over the decades; examines the methodological issues associated with financial flows between the EU budget and individual EU member state; and, finally, provides an overview of the recently agreed EU budget characteristics for the 2021–2027 period.

Chapter 5 analyses the EU financial assistance for the Western Balkans from the late 1990s to the current period. After the initial range of actions to support the progress of reforms in these countries, the EU embarked on the main support actions in the form of three Instruments of Pre-Accession (IPAS): IPA I, 2007–2013; IPA II, 2014–2020; and IPA III, 2021–2027. The Chapter discusses the support programmes before 2007 followed by a detailed analysis of the objectives, programmes and lessons of the three IPAS. While the discussion covers all six Western Balkan countries, the support for the Republic of Kosovo is given special attention.

Chapter 6 reviews EU programmes of education and research in Europe and in Western Balkan countries. It presents the EU multiannual programmes of work, which are the basis for financing of the EU programmes over seven-year periods, the EU policy on education and research as well as the education and research programmes. Most importantly, is an exploration of the significance of the European Education Area and European Research Area and the two most comprehensive programmes, Erasmus+ and Horizon Europe. The Chapter then reviews the EU education and research policies in the Western Balkans, particularly those in Kosovo.

Chapter 7 evaluates the role of foreign direct investment (FDI) on the transformation process in Central and East European countries and the Western Balkan countries. FDI played an important role in the development of a market system in CEE transition economies and their integration in the international economic system. In some such as the Visegrad group (Poland, Hungary, the Czech Republic and the Slovak Republic) the role of FDI was fundamental. However, FDI, particularly in strategic industries and major infrastructural sectors, has resulted in a kind of ‘dependent capitalism,’ i.e., ‘dependency’ on a small number of oligopolistic foreign multinationals whose actions and policies might

not be in the long-term interest of their host countries. The challenge now facing the Western Balkan countries is knowing what kind of FDI they should be encouraging to enter their countries.

Chapter 8 discusses the EU fiscal policy and its implications for the Western Balkan countries. It illustrates how increasingly the independent fiscal policies of sovereign member states interacts with a single EU-wide monetary policy conducted by the European Central Bank. In some ways, the independent fiscal policy enables countries to develop policies aimed at mitigating the impact of a unified monetary that may not impact all members in the same way. The Stability and Growth Pact of 1997 established the need for fiscal sustainability across Europe and rules for the excessive fiscal deficit to ensure that fiscal sustainability is not threatened. The Chapter also discusses the implications of the EU fiscal policy for countries of the Western Balkans who need to meet the EU deficit and debt thresholds before joining the EU, thus highlighting the challenges facing these countries given their current unsatisfactory levels of deficit and debt.

Chapter 9 reviews the evolution of the European Monetary System, the single currency and the EU monetary policy, demonstrating how economic integration ultimately requires a single currency and a unified monetary policy led by an independent European Central Bank. The Bank's general objective is smoothing economic fluctuations to ensure price stability together with financial stability. The Chapter explains in detail the objectives and tools of monetary policy and how the Central Bank conducts its monetary policy. The concept of 'optimum currency area' and its costs and benefits, particularly the problem of desynchronised business cycles are highlighted. Finally, the Chapter discusses the relevance of EU monetary policy for the Western Balkan countries with different exchange rate regimes.

Chapter 10 considers the role of values, education, participatory governance and solidarity in the future of the European Union. Underpinning the discussion the principle that the EU is a value-based society and not a union for purely economic benefit for the member states. Education, particularly citizen education and life-long learning, is the vehicle for further development of this value-based society. Participation in governance at all levels is the mechanism by which the citizens develop their sense of belonging to the value-driven Union, with increasing number of people considering themselves Europeans. Finally, as the waves of the current Covid-19 pandemic spread through the European

states with devastating consequences, the importance of unity and solidarity in meeting this challenge became obvious to all. The approval of the €750 billion Recovery and Resilience Facility to support member states' efforts to recover from the shock of the pandemic highlights the importance of solidarity for the future of the European Union.

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