

CSIS-EKEM POLICY REPORT

Re-linking the Western Balkans: The Transportation Dimension

ABOUT THE PROJECT

The CSIS-EKEM project is designed to provide concrete and focused policy recommendations for a consequential U.S.-Greek policy approach toward the Western Balkan countries. With this goal in view, CSIS and EKEM established a joint Task Force in November 2009, consisting of two Working Groups – one based in Washington, D.C. and the other in Athens.

**Center for Strategic and
International Studies (CSIS)**

1800 K Street, NW
Washington DC 20006
Phone: 202.887.0200

**Hellenic Centre for European
Studies (EKEM)**

4, Xenofontos Street.
Syntagma, 105 57 Athens, Greece
Phone: +30-210-32-15-549

Policy Report One

Re-linking the Western Balkans:
The Transportation Dimension

February 2010

It is difficult to pursue sustained economic development without highly efficient transport networks. Reliable transportation in an integrated network will generate wealth alongside considerable social and political benefits. This is particularly true in the Western Balkans, a region that is currently undergoing a long process of transition and reform in view of eventual accession to the European Union (EU). Without a modern transportation system, the region will continue to fall behind its EU neighbors in its economic achievements and in its integration prospects.

The Western Balkans consist of those states that emerged from the defunct communist Yugoslavia, including Bosnia-Herzegovina, Croatia, the former Yugoslav Republic of Macedonia (FYROM), Montenegro, Serbia, and Kosovo, together with Albania but without Slovenia, which entered the EU in 2004. (Kosovo declared independence from Serbia in February 2008. To this date it has been recognized by 65 states, including the U.S. Five EU member states, including Greece, have not recognized Kosovo's independence.) The former Yugoslav republics benefited from a reasonably high level of economic interconnectedness, which was severed by the events of the 1990s, while Albania during the Cold War pursued an independent and isolationist policy, which precluded any substantial trade links with its Balkan neighbors.

The Western Balkan countries face significant challenges in building an effective transportation infrastructure. They need to restore and expand the transport links that tied them together before the devastation of the Yugoslav wars. Albania, on the other hand, needs to develop routes with its neighbors, in the aftermath of the communist regime's isolationist policies. At the same time, the entire region needs to focus on the modernization of transport networks. The Cold War years, coupled with the process of Yugoslavia's dissolution, bequeathed an antiquated transport network that requires a lot of work to reach EU standards. Lastly, the envisaged transport network will need to incorporate a variety of safety, sustainability, and environmental requirements and integrate itself with the wider EU transportation routes. Thus, the development of an integrated transport network is a project that requires careful planning, ample financing, and continuous monitoring in order to be brought to fruition.

(continued on pg 2)

The importance of transport integration has not been lost on the EU: following the end of the Yugoslav wars, the EU introduced the 1999 Stability Pact for South Eastern Europe, signed between the countries of the region and international actors. The Pact focused on promoting democratization, enhancing security but also on providing necessary funds to begin infrastructure restoration, stimulating trade and economic growth. As per World Bank recommendations, a number of bilateral free-trade agreements between the Balkan countries were signed, followed by the enlargement of the Central European Free Trade Agreement (CEFTA) to cover the Western Balkans. By 2008, the Stability Pact for South Eastern Europe was replaced by the Sarajevo-based Regional Cooperation Council (RCC), a regionally run organization.

At the same time, promotion of transport integration has been taking place through individual organizations, such as the South East Europe Transport Observatory (SEETO), which aims to enhance cooperation within the Western Balkans, facilitate investment, attract the attention of International Financial Institutions, and improve harmonization and monitoring of progress made. The prospect of EU accession has also had significant impact on the transportation sector, as EU candidate and potential candidate countries need to not only incorporate the total body of EU law (the *acquis*) into their legislative systems, but also to align their transport safety and environmental practices to current EU standards. Lastly, Brussels, from its side, is working towards the integration of the Western Balkans' transport network to the Pan-European scheme of ten transport "Corridors" that traverse the entire continent.



Achieving the interconnectedness of air, road, rail and maritime transport routes is the long-term goal that would lead to sustainable economic growth for the region.

The development of a region-wide transportation system provides an important opportunity. In comparing current trade levels in the Western Balkans with those before Yugoslavia's dissolution, there exists significant room for improvement. The aviation sector, in particular, is but a shadow of its former self: in the early 1990s, JAT, the Yugoslav airline, was alone carrying 5 million passengers annually, while in 2005 the combined air traffic in the Western Balkans fell below 3 million passengers, a particularly low number considering that the Vienna airport alone averages 15 million passengers a year.

The close proximity of these states to important trade routes linking the Mediterranean, European, and Asian regions, in combination with the fact that transportation sectors are dominated by economies of scale, indicates that serious investments are likely to produce significant long-term economic gains. Consequently, the Western Balkans presents both a unique opportunity and a substantial challenge for infrastructure development.

The Challenge: A Transportation Vision for the Western Balkans

Although the Western Balkan countries are commonly grouped together, this does not imply a high degree of homogeneity. Even during Yugoslavia's existence, the constituent republics were economically differentiated, a result of both centralized planning and diverse historical processes. Yugoslavia's central planning mechanisms led to the gradual development of an elaborate transport network connecting the republics with Belgrade, the federal capital. However, the republics themselves were connected with one another through a much more rudimentary network. Only 6 percent of total trade was intra-regional, mostly in the form of barter exchanges.

At the same time, the Yugoslav state paid less attention to the network's modernization, resulting in trade routes that were inadequate and antiquated. The dissolution of Yugoslavia and the Yugoslav single market destroyed these rudimentary links and accentuated economic differences while also bringing various ethnic rivalries to the forefront. The long-standing process of federal funding and capital transfer toward the poorer republics was discontinued, resulting in fledgling states that were economically heterogeneous and, in terms of transportation, more isolated than ever before.

Albania pursued a highly centralized, isolationist strategy, which neglected all transportation links with its neighbors and instead pursued closer trade relations with Communist China. When communist rule collapsed in 1991, Tirana shifted its attention toward the neighborhood. However, the Balkans had become a vastly different region as the violent dissolution of Yugoslavia deeply affected the entire peninsula and left a heavy toll on existing transportation routes.

The Yugoslav wars not only severed intra-republic ties, but also forced newly-independent states to stand on their own feet and look for assistance from the West rather than work with one another. The construction of transport routes that connected national capitals to Central and Western Europe took precedence over ones connecting cities within the Western Balkans, even though the latter were more important, less expensive, and more profitable. In this context, the international community, mobilized by acts of mass violence, focused on specific countries such as Bosnia-Herzegovina and Kosovo, and only became interested in the restoration of regional ties in the early 2000s.

It was evident that the first step toward an operational Balkan transport network would necessitate the reversal of damage caused throughout the 1990s. This became a dual goal. First, it meant the restoration of destroyed transportation links within each state and among different regions of each country. Second, it involved the fostering of regional cooperation and the reduction of inter-ethnic animosity in order to develop a functioning transportation network.

An additional problem that needs to be addressed is the modernization of existing transport links. Transportation in the Western Balkans is frequently hamstrung by poorly constructed or missing roads and railroad networks. Antiquated networks, which have not been brought up-to-date since their construction several decades ago, constitute an obstacle to any attempts at transport integration. Network modernization is urgently needed to ensure that safety and security mechanisms are firmly in place and that sustainable growth can be achieved without further environmental degradation.

An analysis of the Western Balkan transportation networks must also focus on the network's connection with the rest of Europe, Africa (Egypt and the Red Sea) and Asia (Caucasus and the Caspian Sea). The development of interconnectedness between the Western Balkans and major commercial centers in the aforementioned regions is important as it would provide significant growth incentives.

At the same time, such interconnectedness would aid the Western Balkan transport sector in becoming more competitive in today's environment: the regional transport network must compete with the Eastern Balkans (Bulgaria and Romania, EU member-states since 2007), and the Eastern Mediterranean transport routes (Turkey, Greece and Italy) as Southeastern Europe's main link to the Mediterranean and the Middle East.

In all three aspects (construction/restoration, modernization, and broader linkage), constant international involvement should remain a common underlying theme, for it is only with the capital, support and technological know-how of the West that such a transport network can be created and maintained. Needless to say, political stability and predictability are among the key catalysts for the creation of a profitable and inviting investment climate.

In sum, the overall target in terms of transportation infrastructure is the development of a modernized, functional transportation network which, with the aid of the international community, will seamlessly connect the Western Balkan countries within their own region, as well as with neighboring regions, and which will build the capacity to satisfy future trade demands. Such a network will thereby provide an incentive for economic development and enhance the region's political stability and security.

The Opportunity: The Benefits of Transport Integration
The creation of an integrated transportation network will foster closer trade links among the Western Balkan countries, encourage easier movement of goods, people and capital, and fortify political ties among the region's capitals through closer inter-governmental collaboration. The integration of transport networks is good for business. It would foster, at the outset, export-led growth. A 2003 World Bank study found that the region operated at 77 percent of its trade volume potential. According to 2006 data, the region's exports cover only a quarter of the imports, resulting in high trade balance deficits. Integrated transportation would also attract a greater amount of Foreign Direct Investment (FDI), as market size would increase and service quality would improve. In the Western Balkans, FDI as a percentage of Gross Domestic Product (GDP) remains at around 5 percent; in 2005, the sum invested in Romania was greater than total FDI in Albania, Bosnia-Herzegovina, Croatia, FYROM, and Serbia-Montenegro. At the same time, transport integration would ensure long-run economic growth by attracting private sector interest, reducing trade deficits, and increasing FDI flows. All this would spur economic growth and create employment opportunities.

Transport integration can contribute to political and security cooperation as it will necessitate inter-governmental coordination and implementation of relevant agreements while serving as a mechanism for locking-in reforms. It will also require a high degree of cross-border collaboration that could undercut organized crime, corruption, and illegal immigration through the integration of border management. One needs to keep in mind that Bosnia-Herzegovina is still trying to come to terms with the complex legacy of Dayton, Montenegro achieved independence from its State Union with Serbia only in 2006, the Croatia-Slovenia border disputes have yet to be finalized, while the question of Kosovo's international position still looms large. Lending support to the "democratic peace" theory, former EU Commissioner for External Relations Chris Patten declared that "free societies tend not to fight one another or to be bad neighbors" a conviction which continues to affect EU priorities. The integration of Western Balkan transport networks, in combination with accession to the EU and NATO, may not lead to the eradication of all conflict, but it could ensure that the countries of the region will not degenerate into fragile or even failed states.

Policy Recommendations

In order to be effective, policy options need to be prioritized and sequenced. Funding capabilities and funding sources for various initiatives need to be specified for different transportation and infrastructure projects. To succeed the region needs to have hard-headed calculations of economic benefits and returns associated with the various options it seeks. This policy report, while focusing on different transportation sectors, specifies that achieving the interconnectedness of air, road, rail and maritime transport routes is the long-term goal that would lead to sustainable economic growth for the region.

It is vital to improve border transit by scaling down wait times for frontier crossings, eliminating corrupt practices, and standardizing and streamlining procedures. The use of electronic submission of customs declarations should be broadened. Specialized agencies responsible for monitoring, registering and providing sound statistical data on cross-border transit times should be created in all Western Balkans countries. Improved inter-agency, inter-ministerial, and inter-governmental coordination is necessary for modernizing border-crossing procedures. Such improvements will enhance commerce between countries and boost regional economic development. Making lawful border transit easier (and keeping tariffs down) also reduces the scope for smuggling and criminal

networks to provide alternative sources of imports. Bringing down barriers to legitimate trade should be accompanied by the most modern techniques for preventing illicit transit trade. And lower trade barriers and paperwork obstacles reduce the opportunity for the corruption of border personnel.

Short-Term and Low-Cost Actions

1. The EU member states should initiate a joint program to improve technical collaboration with the Western Balkans in order to achieve the diffusion of knowledge and expertise and prioritize the most important transportation projects. For instance, the funding of projects complementary to Corridor X (such as the AII, Corridors IV and IX) should be redirected to priority projects.
2. As stressed in the European Commission report on "Guidelines for Integrated Border Management (IBM) in the Western Balkans," coordination in transport-related issues among different agencies within each country needs to be fostered.
3. National or regional road maintenance schemes should be introduced to prevent degradation and identify sections that are in need of repair.
4. The signing and acceleration of a Common Network Statement implementation should be pursued amongst the Western Balkan states.

Medium-Term and Medium-Cost Actions

1. In the road transport sector, priority should be placed on the conclusion of Corridor X, as the shortest Western Balkan route to Central and Western Europe. Regarding rail transport, the emphasis should be on renovation, fleet renewal, and improvements in the existing network.
2. The Trade and Transport Facilitation in Southeast Europe (TTFSE) program should expand its scope of action. The South East Europe Transport Observatory (SEETO) should also be expanded to deal with coordination between the various organizations, countries, and IFIs that are prominent in the region's transport sector.
3. The EU Marco Polo program needs to be expanded: currently, the only Western Balkans country eligible to

participate is Croatia. Efforts should be made to include the wider region into this financing framework.

4. All Central Europe Free Trade Agreement (CEFTA) participant countries should adopt the EU Most Favored Nation (MFN) tariff and CEFTA itself needs to be properly implemented by all participant states.
5. Regional organizations that focus heavily on issues of maritime transport, such as the Adriatic-Ionian Initiative (AII) or the Adriatic Euroregion (AE) can be expanded to include other members. For example, Greece should become an AE member and Spain, Malta, and Turkey could be included in the AII.
6. A regional safety and environmental framework should be introduced, to which any transport-related activity would be encouraged to comply, in close collaboration with NGOs, regional and international organizations (such as the RCC and the EU).
7. The challenge of safety should be tackled through the introduction of appropriate legislation, safety mechanisms, and region-wide measurement mechanisms to identify points in need of aid.

Long-Term and High-Cost Actions

1. The existing complex network of bilateral and multilateral agreements needs to be further simplified into an all-encompassing framework. Included in this, a single management of all Western Balkans border-crossing points should eventually be established, under CEFTA's auspices, in order to minimize differences in border formalities.
2. Stricter environmental monitoring mechanisms should be developed with the appropriate Ministries of the Western Balkans countries, in close collaboration with environmental NGOs, and regional and international organizations (such as the RCC and the EU).
3. In the airline sector, Western Balkan governments should be encouraged to adopt and comply with the relevant EU acquis. The alignment of air transport frameworks (institutional, legal and regulatory) to the EU acquis can be phased-in according to each country's level of progress. State-owned airline enterprises are in need of restructuring, consolidation and privatization. Country cooperation should take place in regional airport development; this could become a formal SEETO goal in order to ensure country compliance. Meanwhile, the EU should accelerate

progress towards achieving the long-term goal of creating the Functional Airspace Block for South East Europe (SEE-FAB), and the formal extension of the Single European Sky regime to the region. The EU also needs to set short and medium-term goals in order to improve Western Balkan coordination in the fields of air transport cooperation, systems and management (ATC, ATS, and AM).

4. The electrification of the entire rail network is required in order to tackle the problem of bottlenecks.

About the CSIS-EKEM Project

The CSIS-EKEM project is designed to provide concrete and focused policy recommendations for a consequential U.S.-Greek policy approach toward the Western Balkan countries. With this goal in view, CSIS and EKEM established a joint Task Force in November 2009, consisting of two Working Groups – one based in Washington, D.C. and the other in Athens. The Task Force assembles policy experts in both countries who will help formulate policy recommendations based on seven topic areas listed below.

To develop the recommendations during the course of 2010, CSIS and EKEM will publish several concise interim Policy Reports dealing with a series of topic areas, and organize an international conference in Washington, D.C. in May 2010 hosting Greek and U.S. government officials and policy experts. Several other dissemination activities will also be pursued. The initiative will culminate in the publication of the U.S.-Greece Final Policy Report, which will include background material for all the topics and recommendations covered during the course of the project. The report will be circulated to government officials, congressional and parliamentary members, policy experts, and other interested parties in Washington, Athens, Brussels, and the Western Balkan capitals.

The CSIS-EKEM Western Balkan initiative is based on two central assumptions. First, that greater cooperation, harmonization, and integration in South East Europe in all its dimensions, from transportation and trade to energy and security, is important for the entire region, including current EU members states Greece, Slovenia, Hungary, Bulgaria, and Romania. Such a process can make a significant contribution to gradually integrating all the Western Balkan countries into the European Union and NATO.

Inaction, neglect, and insufficient attention by international institutions and key political players could contribute to new problems or even conflicts in the most unstable parts of the region in the years ahead.

Second, both CSIS and EKEM are convinced that a closer partnership between Greece and the U.S. can move forward the regional integration process. Both Athens and Washington have a stake and an impetus in securing the entire region for the Euro-Atlantic community. For Greece, stabilizing the Western Balkan neighborhood will enhance its own national security and increase opportunities for business investment and economic development. For the U.S., consolidating the region's young democracies and enhancing inter-state cooperation would provide a strategic dividend after two decades of substantial American political, economic, and military investment in stabilizing the South East European region.

A bilateral effort toward the Western Balkans by the U.S. and Greece over the coming years can provide added value for regional development. While Washington benefits from its global stature and respect throughout South East Europe, Athens possesses regional expertise, extensive multilateral contacts, and a long-term commitment to regional integration. Together, the two states can make a durable contribution while developing their own bilateral connections.

However, such an initiative cannot be premised on the availability of unlimited resources, but must take account of the financial restrictions in a Europe that is only slowly emerging from the economic recession. As a result, the recommendations will be divided into three sections: a) short-range and low cost options; b) mid-range and mid-cost options that may require more sustained effort and resources; and c) longer-range and high-cost options that will need more substantial time and resources. The recommendations will revolve around the following seven topic areas:

1. EU and NATO Enlargement: transition and reform; EU Stabilization and Association Process (SAP); NATO Membership Action Plans (MAPs); conditionality; state building; impact of enlargement processes; security sector reform; police reform; visa liberalization; enlargement fatigue; geopolitical gravitation of the EU and prospects for the Western Balkans; visa-free travel in the Schengen area; the EU's FRONTEX; and the U.S.-initiated Southeast Europe Brigade (SEEBRIG).

2. Regional Politics: political transition; democratization; nationalism and populism; state weakness; Kosovo's status; ethnic and religious minority issues (Bosnia, Kosovo, Serbia-Presevo Valley, FYROM); the former Yugoslav Republic of Macedonia "name dispute"; transitional justice; legacies of conflict; reconciliation (political consensus building, social and religious reconciliation, economic collaboration); role of international actors.
3. Unconventional Threats: organized crime; cross-border smuggling and trafficking; official corruption; international terrorism; regional cooperation; role of international organizations.
4. Human Security: ecological protection and environmental security; natural and humanitarian disasters; health security and responses to H1N1 flu, HIV-AIDS; social problems; integration of immigrants; regional cooperation; role of international organizations.
5. Energy Questions: energy security, energy policy and infrastructure.
6. Regional Networks and Infrastructure: constructing infrastructure; European and regional transport corridors; sea transport routes; transport policy and economic integration; new technologies; R&D, communications; linkages with Trans-European and East Mediterranean transport networks; regional cooperation; role of international organizations.
7. FDI and Economic Development: priority areas for Western entrepreneurs; business environment and stimulation of investment; responses to global financial crisis and the impact on Greece; privatization and market liberalization; political risk, social impact assessment; regional cooperation; role of international organizations.

ABOUT CSIS AND EKEM

The Hellenic Center for European Studies (EKEM) is an independent research center established in 1988 under the institutional supervision of the Hellenic Ministry of Foreign Affairs. Its main objective includes research on European matters, issues linked to the participation and achievements of Greece in the European Union, as well as general issues that affect Greek foreign policy. EKEM offers scientific support to the formulation and implementation of a comprehensive and cohesive Hellenic policy toward issues related to the EU. EKEM aims to contribute to the promotion of public awareness on European issues by organizing various initiatives (seminars, conferences, public discussions etc.) throughout the country.

A collaborative bilateral initiative by the two key policy institutes in both countries aims to promote the process of the Western Balkans' Euro-Atlantic integration through the establishment of a U.S.-Greece Task Force. Thus, in October 2009, EKEM and CSIS jointly initiated the U.S.-GREECE TASK FORCE: TRANSFORMING THE BALKANS - Security, Political Stability, and Economic Development. The project, which runs through September 2010, is co-chaired by Theodore Coulombis (Professor Emeritus, University of Athens), and Janusz Bugajski (Lavrentiades Chair, New European Democracy Program, CSIS).