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Research Article

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The New Environment of EU Enlargement: The Impact of Economic Crisis on the Western Balkans and their EU Accession Prospects

Ritsa Panagiotou*

This paper will explore the impact of the economic crisis on the Western Balkan countries, and how the new, unfavorable international environment is affecting their EU accession prospects. The analysis will be presented in three sections: the first part will examine the effect of the "first wave" of the global economic crisis on the economies of the region, specifically the impact on the region's macroeconomic indicators, foreign direct investment flows, financial sectors, etc. Part two will analyse the repercussions of the "second wave" of the crisis, namely the Greek sovereign debt crisis, which rapidly spilled over into the entire Eurozone. Part three will build on the issues examined in parts one and two and will discuss the repercussions of both waves of the crisis on the region's enlargement process and prospects. The paper will also propose that although the EU's role in Southeast Europe remains crucial (not least as a provider of economic assistance) its hitherto undisputable symbolic role as an "anchor" of stability and as a goal to be aspired to may be losing its appeal for some of these countries.[1]

Keywords: EU Enlargement, Global Economic Crisis, Western Balkans

Introduction

The process of the European Union's enlargement towards the Western Balkans may be facing its most difficult challenge since its launch in Zagreb in 2000. The prospect of Balkan enlargement has been hard-hit by the deterioration of the European economy - and particularly the Greek sovereign debt crisis - with serious ramifications for both partners in the negotiation process. The negative repercussions of the economic crisis on the Western Balkans are evi-

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[1] An earlier version of this text was published as a Working Paper by the Robert Schuman Centre for Advanced Studies at the European University Institute. See: Panagiotou, Ritsa. 2012. The Impact of the Economic Crisis on the Western Balkans and their EU Accession Prospects. EUI Working Paper RSCAS 2012/64. San Domenico di Fiesole: EUI. Sections of this article draw on the author's article Panagiotou, Ritsa. 2012. "The Greek Crisis as a Crisis of EU Enlargement: How Will the Western Balkans be Affected?" *Southeast European and Black Sea Studies* 13(1), 89-104.

dent on many levels, including the impact on the economies *per se*, their prospects for growth, their capacity for reform, their social, political and institutional structures, and their ability to fulfill the accession criteria. All these factors, coupled with a growing “enlargement fatigue”, which set in after the extraordinary rounds of enlargement during the period 2004-2007, have created a particularly unfavorable environment within which enlargement is being pursued.

This paper will explore the impact of the economic crisis on the Western Balkan countries, and how the new, unfavorable international environment is affecting their accession prospects. The analysis will be presented in three sections: the first part will examine the effect of the “first wave” of the global economic crisis on the economies of the region, specifically the impact on the region’s macroeconomic indicators, foreign direct investment flows, financial sectors, etc. This first wave reversed much of the progress these countries had achieved over the past few years, and thus made them even more vulnerable to the upcoming shocks. Part two will analyse the repercussions of the “second wave” of the crisis, namely the Greek sovereign debt crisis, which rapidly spilled over into the entire Eurozone. As the paper argues, the high interdependence of most Western Balkan countries with Greece has made the region exceptionally vulnerable to the shock waves emanating from the Greek crisis. Moreover, due to the intense “Euro-isation” of the Western Balkan economies, these countries are also deeply affected by the profound crisis underway in the Eurozone, which is partly due to contagion from Greece. Part three will build on the issues examined in Parts one and two and will discuss the repercussions of both waves of the crisis on the region’s enlargement process and prospects. It will be argued that in addition to contributing to the deterioration of economic conditions in these countries, both dimensions of the crisis (Eurozone and Greek crisis) have created a new dynamic that has left a deep and lasting negative impact on the Western Balkans’ EU accession prospects. Finally, it will be proposed that although enlargement remains the EU’s *official* policy towards the Western Balkans, there is no doubt that the fallout from the ongoing crises has dampened enthusiasm for this process at both the policy-making and the grassroots levels. Crucially, enthusiasm for EU accession has diminished significantly from the Western Balkan side as well: the drawn-out and increasingly demanding process has fuelled these countries’ frustration and disenchantment, as the prospect of accession seems more and more remote.

1. The first wave: the global financial crisis

The economic crisis hit the Balkan region just as it was consolidating the progress it had made after emerging from years of war, political instability and painful economic reform programmes. For most countries in the region, the period 2003-2007 was one of the strongest in more than a decade, with annual real GDP growth averaging about 6 percent, while the region also received large inflows of FDI in 2003-2007.[2] The economic slowdown in EU countries - the main recipients of Balkan exports - and the decreased influx of foreign direct investment triggered the first symptoms of the crisis in the region by the

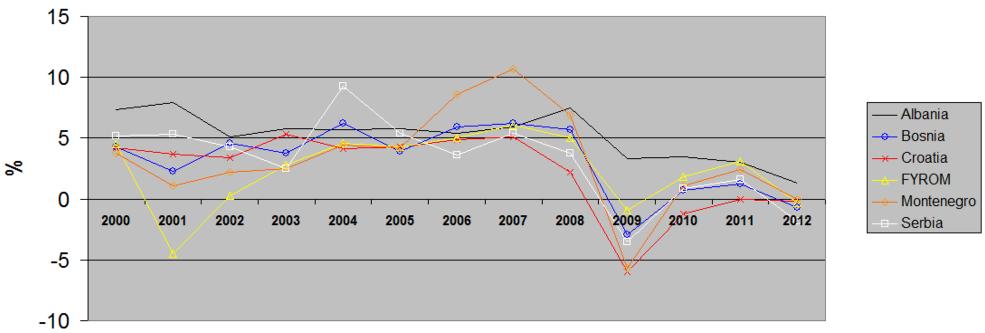
[2] Institute for International Finance. 2009. Capital flows to emerging market economies. (accessed: 17 March 2014).

last quarter of 2008. By mid-2009 the effects on the financial sector were being felt more strongly, particularly with a slowdown in foreign bank lending activities.[3]

1.1. Macroeconomic deterioration

The first years of the crisis were characterised by falling GDP, rising unemployment rates, declining rates of investment, falling industrial output and growing current account deficits. As can be seen in Figure 1, the Western Balkan economies contracted significantly in 2009, resulting in negative GDP growth rates for all the countries in the region; Albania was the least impacted by the crisis due to the low volume of Albanian exports and comparatively low level of integration into the international economy.[4] The strong growth levels of the previous years had been based on robust domestic demand fuelled by excessive credit growth in household consumption and mortgage services.[5] The sharp slowdown indicated *inter alia* that consumer demand was radically adjusting downward, with credit availability frozen and debt repayments becoming more commonplace.[6] Unemployment, which was already very high in the region - more than twice the West European average - rose sharply in 2009 and even further in 2010, as the impact of the crisis deepened and widened (Figure 2). Significantly, in most countries the unemployment rate for those under 30 years old was almost 50 percent.[7]

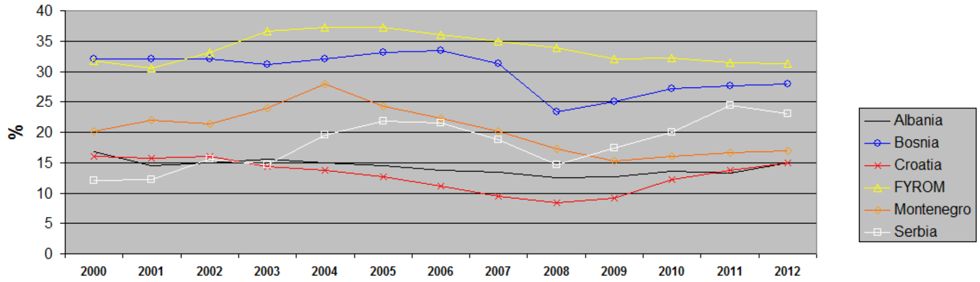
Figure 1: Western Balkans, GDP growth rates



Source: IMF. 2013. *World Economic Outlook.*

[3] Bastian, Jens. 2008. 'Cry wolf' no more: external anchors and internal dynamics in the Western Balkans. *Journal of Southeast European and Black Sea Studies* 8(4), 325-44.
[4] Germenji, Etleva. 2010. *The global crisis and its propagation to Albania*, in *South Eastern Europe after the Crisis: a New Dawn or back to business as usual?,* edited by Bartlett, William and Vassilis Monastiriotis. London: London School of Economics and Political Science, 53-59.
[5] Slay, Ben. 2010. *The macroeconomic and social impact of the global financial crisis on South East Europe,* in *South Eastern Europe after the Crisis: a New Dawn or back to business as usual?,* edited by Bartlett, William and Vassilis Monastiriotis. London: London School of Economics and Political Science, 19-34.
[6] Bastian, Jens. 2009. Falling Behind Again? Southeast Europe and the Global Crisis, *ELIAMEP Thesis*, Athens. (accessed: 17 March 2014).
[7] IMF. *World Economic Outlook*. April 2013. (accessed: 17 March 2014).

Figure 2: Western Balkans, Unemployment Rates



Source: IMF. 2013. *World Economic Outlook.*

Table 1: GDP per capita in 2008, 2010 ($US)

Country	2008	2010		Country	2008	2010
Albania	4,086.6	3,714.6		Bulgaria	6,854.9	6,359.4
Bosnia	4,767.9	4,254.8		Romania	9,496.9	7,667.2
Croatia	15,694.1	13,775.9		Hungary	15,352.9	12,845.4
FYROM	4,827.8	4,457.5		Poland	13,890.2	12,285.6
Montenegro	7,099.9	6.383.3		Slovak Republic	17,552.8	16,049.8
Serbia	6,485.4	5,141.7		Slovenia	27,266.5	23,281.5

Source: IMF. 2013. *World Economic Outlook.*

As the region's traditional export markets contracted, it was increasingly difficult to keep the state budgets in balance.[8] The characteristically high current account deficits all over the region significantly increased the countries' economic vulnerability, necessitating a fiscal tightening which together with the poor external economic outlook hit Serbia, Croatia, FYROM and Bosnia-Herzegovina particularly hard. The current account deficits as a percentage of GDP in 2009 ranged from 30.1 percent in Montenegro to 5.2 percent in Croatia.[9]

1.2. Decline in remittances

Another important impact of the crisis was the decline in remittances. Migrant workers' transfers in the Balkans constitute a major economic force: in the years before the crisis Albania, Bosnia-Herzegovina, Montenegro and Serbia were among the top twenty countries in the world in terms of remittance inflows as a percentage of GDP. In 2008, remittances as a share of GDP had reached 17.2 percent in Bosnia, 16.5 percent in Kosovo, 14 percent in Serbia

[8] Nuti, Mario D. 2009. *The Impact of the Global Crisis on Transition Economies*. Paper at the UNU WIDER Conference: Reflections on Transition: Twenty Years after the Fall of the Berlin Wall, Helsinki, 18-19 September 2009. (accessed: 17 March 2014).

[9] International Monetary Fund (IMF). 2013. *World Economic Outlook*. (accessed: 17 March 2014).

and 12 percent in Albania.[10] In 2010, Albania's stock of emigrants numbered 1.4 million (45.4 percent of the population), whose countries of destination have been Greece, Italy, FYROM, Germany, UK, France and the US. Bosnia-Herzegovina's stock of emigrants was 1.4 million (38.9 percent of the population) heading mostly to Croatia, Germany, Austria, Slovenia, Sweden, Italy and Switzerland. Most remittance flows to FYROM come from Germany and Italy.

Table 2: Western Balkan Remittances (US$ mn)

	2004	2005	2006	2007	2008	2009	2010	2011	% of GDP in 2010
Albania	1,161	1,290	1,359	1,468	1,495	1,317	1,156	1,221	10.9
Bosnia	2,072	2,043	2,157	2,700	2,735	2,167	1,906	2,021	12.9
Croatia	665	711	859	1,194	1,292	1,271	1,287	1,236	2.1
FYROM	213	227	267	345	407	381	388	435	3.9
Montenegro	-	-	-	196	298	302	301	334	7.5
Serbia	-	2,650	2,754	3,064	2,710	3,936	3,351	3,719	10.4

Source: World Bank. 2012. *Migration and Remittances Factbook.*

The economic crisis, however, which led to significant layoffs elsewhere in Europe, adversely affected the migrant workers' continued ability to transfer important amounts to their home countries. Many of these labourers were employed in sectors hit by the recession in their host countries, particularly in car manufacturing, construction and household work. A decline in remittances from relatives working abroad has affected families in the countries of origin and their income expectations and also impacted on countries' foreign currency holdings, medium-term budgetary planning and the financing of high current account deficits. As can be seen in Table 2, Albania and Bosnia-Herzegovina were the most affected by the decline in remittances after 2008.

1.3. Spillover from neighbouring countries in crisis

As small, open economies - more than one fifth of economic output and employment is based on exports - the Western Balkan countries were especially vulnerable to the effects of the world crisis, especially the fall in global growth and trade. The euro area countries are the main trading partners for the region, accounting for about half of all exports on average - slightly more in the case of Albania and Bosnia-Herzegovina, and slightly less for Serbia, which has relatively strong trade links with Russia and other emerging European economies. Within the euro area, Italy is generally the most important export market for the region, especially for Albania, while Greece is the most important export market for Montenegro. Trade linkages with the rest of the euro area are mostly dominated by Germany.

Since the EU member states constitute the most important trade partners for these countries, the deteriorating conditions in the EU - leading *inter alia* to falling consumer demand - had a particularly detrimental effect on exports to

[10] World Bank. 2012. *Migration and Remittances Factbook*. Washington: World Bank.

traditional markets and cross border trade relations.[11] For example, due to reduced foreign demand, FYROM's metallurgical industries were operating on 50 percent of their capacities for a great part of 2009, leading to a large fall in production as well as massive layoffs. Croatia, whose tourism industry is a major source of income and is mostly powered by citizens of EU countries, also lost important revenue as the economic downturn led to a dramatic fall in tourism.

Due to its dependence on steel and metal exports, the region was also hit hard by the global slump in manufacturing and commodity prices in the world market. The price of metals fell by almost two-thirds between 2008 and 2009, contributing further to the slowdown in the region's economies. Thus, Serbia, who relies massively on exports of food and raw materials such as copper and iron (which make up 40 percent of total exports) suffered not only from the fall in demand of these products but also because of the dramatic fall in the price of copper in 2008.[12] US Steel, one of Serbia's leading exporters, was one of many companies to close a large plant in 2009. Similarly, in FYROM, Silmak - a significant producer of ferro-nickel - cut production and lay off workers due to the drastic fall in ferro-nickel's price on the world markets.

1.4. Declining foreign direct investment

With relatively low labour costs and easy access to European markets, the region had started attracting significant foreign direct investment (FDI), especially after 2003. The countries of the euro area - especially Austria, Italy and Greece - were particularly active, accounting for about 70 percent of the total stock of FDI in the region. The sharp decline in foreign direct investment after 2008 - caused mainly by the economic downturn in the investing countries - had a seriously detrimental effect on the national economies in the region.[13] Overall FDI flows to the region decreased by 34 percent between 2008 and 2009, with total flows declining from US$12.6 billion to US$8.3 billion (Table 3). There were many situations whereby major investment projects in the region had been approved before the full impact of the crisis was felt, and then red-lighted and shelved. As far as individual countries are concerned, the greatest loss of FDI between 2008 and 2009 was experienced by Bosnia (75 percent), while FDI in FYROM fell by 65 percent, in Croatia by 46 percent and in Serbia by 33 percent.[14]

[11] Sanfey, Peter and Simone Zeh. 2010. *Trade potential and long-run growth in SEE*, in *South Eastern Europe after the Crisis: a New Dawn or back to business as usual?,* edited by Bartlett, William and Vassilis Monastiriotis. London: London School of Economics and Political Science, 35-43.

[12] Panagiotou, Ritsa. 2010. The Effect of the Global Economic Crisis on Southeast Europe. *Journal of Balkan and Near East Studies* 12(2), 187-94.

[13] Kekic, Laza. The Global Economic Crisis and FDI Flows to Emerging Markets. *Columbia FDI Perspectives* 15. (accessed: 17 March 2014).

[14] United Nations Conference on Trade and Development. *World Investment Report 2012*. (accessed: 17 March 2014).

Table 3: Foreign Direct Investment Flows in the Western Balkans (US$ mn)

	1995-2004 (annual average)	2005-2007 (annual average)	2008	2009	2010	2011
Albania	130	415	974	996	1,051	1,031
Bosnia	186	908	1,002	251	230	435
Croatia	1,013	3,430	6,180	3,355	394	1,494
FYROM	152	407	586	201	211	422
Montenegro	19	686	960	1,527	760	558
Serbia	411	3,091	2,955	1,959	1,329	2,709
Total	1,911	8,937	12,657	8,289	3,975	6,649

Source: United Nations Conference on Trade and Development. 2012. *World Investment Report.*

The situation deteriorated even further in 2010. As can be seen in Table 3, Croatia received only US$ 394 million of FDI in 2010, compared to US$ 3.3 billion in 2009 (which was already down from US$ 6.2 billion in 2008). For the first time, Croatia fell behind Albania, Serbia and Montenegro in the levels of foreign direct investment it received, marking a departure from its position as one of the most popular recipients of foreign funding in previous years. Reductions in investment from EU countries played a crucial role in the sharp contraction of FDI in Croatia. Specifically, Austria and the Netherlands - historically two of the largest investors in Croatia - both divested in 2010, recording negative inflows of US$ 150 million and US$ 500 million. FDI also fell dramatically in Bosnia, Montenegro and Serbia. Only FYROM and Albania achieved an increase in FDI between 2009 and 2010; this can be attributed to some privatisations within the strategic sectors and increased investments in the energy, finance and telecommunications industries. Overall, between 2008 and 2010, FDI in the region fell from US$12.6 billion to less than US$ 4 billion.

1.5. Financial sector implications

The rapid privatisation of the banking sector in the Balkan countries after 2000 resulted in considerable market shares being controlled by European interests.[15] Over the past decade, European banks and non-bank financial institutions (insurance companies) developed a strong presence in the Balkan region. According to the European Bank for Reconstruction and Development (EBRD), in 2007 European banks (mainly Austrian, French, Italian, Dutch, German and Greek) owned 94 percent of the banking system assets in Albania, 82 percent in Bulgaria, 86 percent in FYROM, 79 percent in Montenegro, 87 percent in Romania and 75 percent in Serbia.

[15] Bastian, Jens. 2003. Banking on Southeast Europe: financial sector reform amidst regional volatility. *Journal of Southeast European and Black Sea Studies* 3(1), 81-107.

Since the Balkan countries were very dependent on foreign currency lending, the credit squeeze made it increasingly difficult for domestic banks and local companies to refinance their foreign debt holdings, leading to decreasing capital flows. As western financial institutions downsized their operations or put their investments on hold, the economies of Southeast Europe were being frozen out of credit markets and were being side-tracked in their effort to attract foreign currency loans.[16] The crisis also affected the stock markets in the region: the Zagreb Stock Exchange index experienced an annual decrease of 67 percent in 2009, while the Belgrade Stock Exchange index lost 75 percent. Due to a substantial fall in the share prices in the region most privatisation processes in both countries were suspended.[17]

The crisis had exposed most countries to destabilising financial gaps on the external accounts, leading to a significant increase in the activities of a number of international financial institutions in the region, most notably the IMF.[18] In May 2009 Serbia signed a multi-year programme with the IMF which provided it with $US 3.8 billion. In July 2012 the Bosnian authorities agreed to a 2-year $US 500 million IMF standby loan. A 2-year precautionary IMF arrangement of €476 million was approved in January 2011 for FYROM, and was partly used (€ 220 million) to finance the 2011 budget.[19] Other institutions active in the region - the EBRD, European Investment Bank (EIB) and World Bank - also stepped in with their support.[20] The three institutions provided over $US 33 billion in support for banks and the transition economies (including the Western Balkans) in 2009 and 2010.

In conclusion, the first wave of the crisis destabilised the economies of the Western Balkans and reversed a significant amount of the progress achieved during the previous five years. Although the impact of the crisis was felt first and foremost on an economic level, it rapidly spilled over into social and political structures throughout the region, contributing to the deterioration of the transition process and creating new hurdles on the road to EU convergence, which will be analysed further below.

2. The second wave: contagion from the Greek (and Eurozone) crises

Before the impact of the Greek crisis was felt, the Western Balkan economies had already been weakened by exposure to the full brunt of the global economic crisis during the period 2008-2011, as discussed above. By the end of 2011, some level of stabilisation had been achieved and there were slight signs of

[16] International Monetary Fund. 2009. Global Economic Crisis. To Help Countries face Crisis, IMF Revamps its lending. (accessed: 17 March 2014).
[17] Uvalić, Milica. 2009. *The Impact of the Global Financial Crisis for Eastern Europe*. Paper at the Eighth International Conference on Challenges of Europe, University of Split, 21-23 May 2009.
[18] The number of IMF programmes in operation in the region had declined from 12 during the period 1994-97 to 3 in 2007; by 2008, only Albania still had a lending programme, which ended by the end of the year.
[19] European Bank for Reconstruction and Development. 2011. *Transition Report: Crisis and Transition: The People's Perspective*. London: European Bank for Reconstruction and Development, 126-28. (accessed: 17 March 2014).
[20] Cviic, Christopher and Peter Sanfey. 2010. *In Search of the Balkan Recovery: the Political and Economic Re-emergence of South-Eastern Europe.* London: Hurst and Company, 195.

recovery in the region; this proved, however, to be the calm before the storm, as the full impact of the Greek debt crisis imploded, compounding the fallout from the first wave.

Greece today is in the throes of an unprecedented crisis that has profoundly impacted its economic, political and social structures: the country is experiencing an unprecedented economic meltdown, as well as the disintegration of its infrastructure, the degeneration of its political system and the unraveling of its social fabric. After five consecutive years of recession, Greece's GDP has dropped by over 20 percent, while official unemployment stands at 27.1 percent (and for under 30 year olds, 57 percent).[21] The rise of extremism - symbolised by the election of the neo-fascist party Golden Dawn to Parliament in June 2012 - is another symptom of the deterioration of social structures and illustrates the depth of social and political unrest. The austerity packages voted by the Greek parliament over the past years represent the most aggressive fiscal and social adjustment in a democratic country in times of peace in post-war Europe.

Crucially, the implications of this crisis go far beyond the country's borders: they spill over into Greece's Eurozone partners as well as its Balkan neighbours. As far as the Western Balkan countries are concerned, the crisis in Greece is far more than merely a sub-set of the European economic crisis: due to a strong interdependence with Greece, the negative repercussions of the Greek crisis on the Western Balkans are evident on many levels, including the impact on the economies *per se*, their prospects for growth, their capacity for reform, their social, political and institutional structures, and ultimately their ability to fulfill the EU accession criteria. Moreover, a Greek exit from the Eurozone could trigger a domino effect of instability and insecurity not only in the euro-area, but would undoubtedly also send shock waves throughout its neighbouring region. It is indicative that the 2010 EBRD *Transition Report* highlighted the main short-term challenge for the region as being the survival of "possible contagion effects from economic weaknesses in the Eurozone, especially in neighbouring Greece."[22] In fact, it is difficult to overestimate the seriousness of the impact of the Greek crisis on the Western Balkan countries, as it transcends issues that are purely financial or economic or relating to EU membership, but has far-reaching social and geopolitical implications concerning the stability of the region as well. In terms of fallout from the crisis, the worst is not over, both for Greece and its Western Balkan neighbours.

The most likely channels of contagion from Greece include trade, banking, remittances and FDI flows. Due to the interdependence between Greece and the countries of the region, the Greek crisis has produced a vicious circle whereby the economic decline of Greece exacerbates the decline of the economies of Southeast Europe which feeds back into Greece through *inter alia* a fall in demand for imports from Greece and a fall in the return on Greek investments. Moreover, as Greece is also very involved in Bulgaria and Romania

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[21] ELSTAT, Greek Statistical Service, February 2013.

[22] European Bank for Reconstruction and Development. 2010. *Transition Report: Recovery and Reform*. London: European Bank for Reconstruction and Development.

(particularly the banking sectors), the negative impact of the Greek crisis on these countries will undoubtedly spill over into the Western Balkan economies.

2.1. Impact on trade and investment

Greece's strong role as a trade and investment partner in the region since the mid-1990s had been driven by a combination of favourable factors, including geographical proximity, a significant knowledge of regional and country-specific idiosyncrasies, an understanding of historical developments and familiarity with cultural particularities, as well as a greater understanding of the risks involved in investing in the region. Moreover, it would appear that Greece - despite its European orientation and its membership in the European Union - maintained a solid "Balkan identity" and a commitment to participating in developments in the region. Also, in the earlier days of the transition process, this part of the world was to a certain degree neglected by big multinationals who, at that time, concentrated their efforts on the Visegrad countries and the former Soviet states, thus leaving a window of opportunity for Greek traders and investors. Numerous major Greek companies started expanding their activities throughout the Balkan market from the late 1990s onwards; many companies proceeded by entering a single country and using it as a launching pad, thus creating networks of establishments operating throughout the Balkan region.

For Bosnia-Herzegovina and Croatia, the trade, investment and financial links with Greece are negligible, and the risk of any spillover effects for these two countries is very low. Trade relations with Greece are most important for Albania, Montenegro and FYROM, whose exports to Greece account for around 12 percent of the total. As can be seen in Table 4 below, there was a sharp decline in exports to Greece between 2008 and 2009, as the economic crisis in Greece caused a further reduction in demand for goods from these countries.

Table 4: Western Balkan Exports to Greece (€ mn)

Country	2008	2009	% of total exports, 2008
Albania	90.5	72.7	11.6
Bosnia	11.6	8.0	0.4
Croatia	23.6	42.6	0.3
FYROM	355.9	213.1	12.4
Montenegro	65.5	37.6	12.3
Serbia	151.3	102.9	2.2

Source: ELSTAT, Greek Statistical Service.

By the time the crisis struck Greece, almost 4,000 Greek companies had invested in the region, helping create about 200,000 jobs regionally. Albania and FYROM are the most vulnerable to negative spillover through reduced FDI flows, as Greece ranks first in investments in these countries: in 2008, Greek FDI accounted for over 30 percent of total FDI stock in Albania, 20 percent in

FYROM and 15 percent in Serbia (Table 5). Greek investments were made in a variety of sectors, including infrastructure, services, banking, telecoms, food and beverage, heavy industries and pharmaceuticals.

Table 5: Western Balkans Inward FDI stocks, 2008

Country	Inward FDI stock, (US$ mn)	FDI stock, % of GDP	FDI stock, % Greek origin	Greek FDI, (US$ mn)	Greek FDI, % of GDP	Greek, FDI, rank
Albania	3,625	33.5	30.0	906	8.4	1
Bulgaria	42,525	107.5	8.3	3,530	8.9	2
FYROM	3,739	48.8	20.0	561	7.3	1
Romania	72,608	42.9	6.5	4,720	2.8	6
Serbia	19,080	45.8	15.0	2,862	6.9	2
Total	141,577	43.8	8.9	12,578	3.9	

Source: Economist Intelligence Unit. 2012.

A considerable decline in Greek FDI flows to the region was evident even before the full impact of the crisis was felt: for example, Greek investment in Serbia for the two-year period 2008-2009 amounted to some €46 million, well below the total of €336 million for 2007 alone, while in Bulgaria it fell from €545 million in 2007 to €105 in 2009. In FYROM, Greek investment fell from €15 million euro in 2010, to €2 million in 2011. Overall, by 2010, Greek companies had disinvested almost €1.3 billion from the region.[23]

2.2. Impact on remittances

Another crucial spillover effect from the crisis in Greece relates to the inevitable decline in remittances, as it became increasingly difficult for migrant workers to stay employed in Greece and many were forced to repatriate. Their home countries, in turn, were usually unable to absorb them into the workforce, thus leading to a further rise in unemployment. A decline in remittances also had a negative effect on the countries' foreign currency holdings, medium-term budgetary planning and the financing of their current account deficit. In terms of the potential impact of the Greek crisis on remittances, Albania was the most exposed. At the start of the crisis some 600,000 Albanians lived and worked in Greece: in 2009 workers' remittances originating from Greece amounted to at least US$ 900 million (about 8 percent of GDP), contributing to domestic economic growth and providing livelihood for many families.[24] The construction sector, in which many Albanians are employed, has culled almost half its workforce, from around 400,000 in 2008 to just 240,000 in 2011 and even further the following year. Since migrants can lose their legal status if they are jobless for long periods, many are forced to accept work for lower pay or without social security benefits. The number of migrant residence permits issued has fallen by 20 percent annually since the crisis began. Bulgaria is also affected by a

[23] Bitzenis, Aristidis and Vasileios Vlachos. 2011. *Outward FDI from Greece and its policy context*, Columbia FDI Profiles. (accessed: 17 March 2014).

[24] World Bank. 2011. *Migration and Remittances Factbook*, 2011. Washington: World Bank.

significant decline in remittances from Greece: whereas the annual average over the last five years was € 400 million, in 2009 these remittances fell by 11 percent.

2.3. Contagion through the financial sector

Perhaps the most critical channel of contagion is through the Greek bank subsidiaries operating in the region. Greek banks have been particularly active and have invested heavily in the Balkans since the late 1990s, buying local banks and expanding their balance sheets, particularly in high-growth areas like consumer and mortgage lending. Seven major Greek banks - including the National Bank of Greece, EFG Eurobank, Piraeus and Alpha Bank - have established a network of around 20 subsidiaries in the region, with around 1,900 branches and employing approximately 23,500 people. By 2008, Greek banks had accumulated a significant market share in the financial sector of the region, accounting for around 30 percent of total banking assets in Bulgaria (where four out of the top 10 banks are Greek) and FYROM, 25 percent in Albania, 15 percent in Serbia (where three out of 10 banks are Greek) and 17 percent in Romania. These banks' assets in the region are worth some €70 billion.

Subsidiaries are to a significant extent funded with loans from Athens rather than local deposits. Even if Greek banks did not withdraw from the region, they would try to grow the local deposit base faster than loans, and would be likely to refrain from making fresh loans for a while.[25] Thus, there is a risk of Greek banks limiting their credit activity and reducing their exposure in the region as a result of funding and liquidity pressures on the Greek parent banks. Significantly, Greek banks that benefited from a €28 billion government bailout package in 2009 were encouraged - via a verbal agreement between the Greek Finance Ministry, the Bank of Greece and the participating institutions - to use the money to support lending at home, not at their subsidiaries in the Balkans. Thus, subsidiary branches of Alpha Bank, National Bank of Greece or Eurobank in Bulgaria, Serbia, Albania, FYROM and Romania did not get a share of the bailout package.

After 2009, widening spreads on Greek sovereign debt led to increased funding costs for Greek banks; faced with such a liquidity squeeze, Greek banks started withdrawing their funds from their operations in the Balkans. Consequently, Greek banking sector claims declined by 25 percent in Romania and Bulgaria, and by 18 percent in Serbia in the two years to December 2011.[26] This liquidity retreat has not only disrupted the financial sectors in the region, but has also had a large impact on the local economies, given that all of these countries have bank-based financial systems where much of the borrowing activity is made through banks rather than equities or corporate bonds.[27]

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[25] Macdonald, Neil / Hope, Kerin and Chris Bryant. 2010. Balkan banks wary of Greek retreat, *Financial Times*, March 18. (accessed: 17 March 2014).
[26] *Economist Intelligence Unit*. 2012. 14 June.
[27] Burgess, Robert and Kevin Körner. 2012. *Western Balkans: Bumps on the Road to EU Accession*, Frankfurt am Main: Deutsche Bank. (accessed: 17 March 2014).

Table 6: Western Balkans, Economic Indicators 2011, 2012

Country	Albania		B-H		Croatia	
Year	2011	2012	2011	2012	2011	2012
GDP % change	3.0	1.3	1.2	-0.7	0.0	-0.2
Unemployment (%)	13.3	15.0	27.6	28.0	13.7	15.0
Consumer price inflation (%)	3.9	3.5	4.0	2.5	3.2	2.4
External Debt (as % of GDP)	58.9	61.7	34.5	39.1	47.5	52.7
Current account Balance (as % of GDP)	-13.2	-13.2	-8.3	-7.8	0.8	0.4
Country	FYROM		Montenegro		Serbia	
Year	2011	2012	2011	2012	2011	2012
GDP % change	3.0	-0.3	2.4	0.0	1.6	-0.8
Unemployment (%)	31.4	31.3	16.7	16.9	24.4	23.1
Consumer price inflation (%)	4.4	2.0	3.1	2.0	11.2	4.3
External Debt (as % of GDP)	25.1	26.8	43.3	46.7	40.6	46.6
Current account Balance (as % of GDP)	-2.7	-5.1	-19.4	-19.7	-9.1	-8.6

Source: IMF. 2013. *World Economic Outlook.*

The latest figures from the IMF *World Economic Outlook* (April 2013) illustrate the depth of the impact of the Greek crisis on the Western Balkan economies (Table 6). Although the previous year's Report had allowed for some cautious optimism - as it had predicted a further upturn of GDP growth for the region in 2012, compounding the marginal growth reported for 2011 - in fact the figures deteriorated. Thus, as the full impact of the Greek crisis hit the Western Balkan economies, the IMF figures show deterioration in almost all key indicators, including GDP growth, unemployment, external debt and current account balances.

From the above analysis it is clear that due to the very strong Greek involvement in the Western Balkan, the spillover from this second wave of the crisis into the economies of the region had even more serious negative repercussions than the first wave. The Greek crisis not only compounded the damage inflicted from the first wave of the crisis - creating an adverse effect on trade, FDI, remittances, and the banking sector of the economies of the region - it moved far beyond the strict economic sphere and shook the very foundations of regional relations. It appears that the repercussions of the political and social systemic disintegration in Greece are not likely to dissipate for some time, and will adversely affect the accession prospects of the countries, as will be discussed below.

3. The Impact of the European and Greek crises on the Western Balkan EU prospects

Having discussed the impact of the two waves of the crisis on the Western Balkan economies, it is now possible to proceed with an evaluation of *how* the damage that has been inflicted will affect their EU accession prospects. The Eurozone and Greek crises are still unfolding, and the outcome is far from clear. What is clear, however, is the fact that both dimensions of the crisis inevitably have a deep and lasting impact on the Western Balkan countries' EU accession prospects. Crucially, on many interlinked and interdependent levels, the Eurozone and Greek crises are modifying the conditions in which the process of EU enlargement is taking place. The European crisis in general - and the Greek crisis in particular - have created new, negative realities and conditions under which the accession process is being pursued.

3.1. Contagion through the financial sector

It is a fact that in the years leading to the crisis, the Western Balkan countries had achieved significant progress on their transition path in terms of growth, macroeconomic stability, banking and FDI inflows. All these positive factors made it easier to pursue economic, political and structural reforms and make progress in achieving EU convergence criteria.[28] However, as was discussed above, the extremely high interdependence that characterizes the Western Balkans' relations with the countries of Europe (and particularly Greece) means that the euro-crisis - and particularly the meltdown of the Greek economy - has had extremely detrimental repercussions on the economies of the region, in all the areas described above. As the EBRD's *2012 Transition Report* states, "the region's exposure to the euro area has turned from a benefit into a disadvantage […] The outlook for the region continues to be crucially driven by developments in the Eurozone crisis."[29]

The deteriorating economic conditions are making the increasingly demanding accession criteria and conditions in the Stabilisation and Association Process harder to achieve. The achievement of European approximation targets has slowed down and important structural changes - that are a *sine qua non* for accession - are being postponed, stalled, or even reversed.[30] Thus, the Western Balkan economies have been caught in a vicious circle, whereby the crisis causes deteriorating economic conditions, deteriorating economic conditions mean less reform, and less reform means falling behind in the convergence process. These concerns are also expressed in the Commission's 2012 Progress Reports, which cite evidence of hitherto favourable policies and results from the pre-

[28] Inotai, Andras. 2007. *The European Union and Southeastern Europe: Troubled Waters Ahead?*. Brussels: Peter Lang, 47-56.
[29] European Bank for Reconstruction and Development. 2012. *Transition Report: Integration across Borders*. London: European Bank for Reconstruction and Development. (accessed: 17 March 2014).
[30] European Bank for Reconstruction and Development, *Crisis and Transition*.

crisis period being reversed. Thus, the deteriorating macroeconomic environment, the setback in economic progress and the slowdown in growth will affect the Western Balkan countries' EU accession prospects, as they will find it increasingly difficult to implement the necessary structural reforms that are still pending in order for the accession process to progress.
The economic fallout of the crisis impacts the Western Balkans' accession prospects in other ways as well, namely by making reforms in the political and judicial environment more difficult to implement. The European Commission's 2013 Enlargement Strategy states that corruption and organized crime are the biggest obstacles on the Western Balkan countries path to EU membership [...] Good governance, the rule of law, administrative capacity, unemployment, economic reform and social inclusion remain major challenges in most countries.[31] Reforms in these crucial areas have been sidetracked, as it seems that the current difficult economic conditions make these necessary reforms and changes even more difficult to implement.[32]

3.2. Moving the goalposts: intensification of "enlargement fatigue"

Even before the outbreak of the crisis, the term "enlargement fatigue" had become a familiar and much-used expression to describe the "malaise" within the EU, which set in after the unprecedented "Big Bang" rounds of enlargement during the period 2004-2007.[33] Following the failed referenda on the EU Constitution in France and the Netherlands in 2005, and the decision to open negotiations for accession with Turkey in October 2005, more and more legitimate questions were being raised as to whether the EU institutions would be able to continue to function efficiently under conditions of such rapid expansion.

This enlargement fatigue has been exacerbated by the economic crisis, due to which many EU member states prefer to give priority to their own problems. Faced with an unprecedented economic slowdown, rising unemployment, the sovereign debt crisis, bailouts for several Eurozone countries, and a widespread sense of insecurity throughout the Union, the EU is currently focussed on domestic political and economic issues. Further enlargement is not only moving down as a priority on the agenda, it is also being pursued on a different basis: more and more, the question of the EU's "integration capacity" is being discussed as an accession criterion. The "historical imperative" to reunify Europe has ceased to be the main driving factor of enlargement, and the enlargement process has become more complex and demanding. The *acquis* has grown from 31 to 35 Chapters, while regional cooperation and cooperation with the ICTY are considered integral conditions for advancement towards EU membership. Moreover, the tightened accession negotiations also include a clause that defines the accession negotiations as an "open-ended process whose outcome cannot be guaranteed beforehand."[34]

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[31] European Commission. 2012. *Enlargement Strategy and Main Challenges 2012-2013*. Brussels: European Commission. (accessed: 17 March 2014).
[32] Sergi, Bruno and Qerim Qerimi. 2008. *The political economy of Southeast Europe from 1990 to the present*. New York and London: Continuum, 112-20.
[33] Kavrakova Assya, 2009. *Comparative Report: the Unfinished Business of the Fifth Enlargement Countries*. Sofia: Open Society Institute Sofia / European Policies Initiative. (accessed: 17 March 2014).
[34] European Commission. 2005. Negotiating Framework for Croatia. (accessed: 17 March 2014).

The weariness within the EU concerning further enlargement is not only evident on a policy-making level: it is indicative that the Eurobarometer 76 (published in December 2011) showed that only 36 percent of the surveyed population of the EU-27 supported the idea of further enlargement (down from 47 percent in May 2009, before the full brunt of the crisis was felt throughout Europe). The numbers vary from country to country: the newer members (from the 2004 and 2007 enlargements) were more in favour of further enlargement (with Poland leading with a 69 percent approval rate, followed by Lithuania with 60 percent), while in the older members such as Germany, France, and Belgium supporting rates were mostly between 30-35 percent. Austria and France were the most opposed, with 30 and 29 percent of the population supporting further enlargement.

It is clear that on both levels - policymakers and population - there is a trend towards increased skepticism, caution, introversion and fear of the implications of further expansion during this critical period. Enlargement is nowhere near the top of the EU agenda, and in the current context of increased protectionist mentalities, fear of further contagion, international instability and the loss of sense of solidarity that used to be taken for granted, it is difficult to imagine it moving there anytime soon. The shock of the Greek crisis and the subsequent contagion to other South European states has made most EU member states even more hesitant to embrace more potentially "dysfunctional", unreliable states. Therefore, the euro crisis may not have "killed" enlargement - as Croatia's accession in July 2013 proves - but "it is relegating the region to the outermost circle in a multi-speed Europe - the periphery of the periphery."[35]

3.3. Increasing "waiting room fatigue"

Crucially, enthusiasm and support for EU integration has declined on the Balkan side as well. Analysts have warned that the increasingly complicated and drawn-out enlargement process points to a contrast between the EU's professed plan to accept the Western Balkans and its actual implementation. The countries of the Western Balkans are trying to join the EU at a time when notions such as "absorption capacity" and "enlargement fatigue" are dominant concepts; moreover, as the process gets more and more difficult there is a distinct impression within the Western Balkans that the EU is "moving the goalposts" in order to gain time and delay enlargement as long as possible. This is where "enlargement fatigue" within the EU meets "evaluation fatigue" in the Balkans: the increasingly negative economic environment in the EU, coupled with the drawing out of the accession process, has resulted in the erosion of popular support for EU accession in the Western Balkans, as the population of these countries is finding it more difficult to maintain enthusiasm for the convergence process.

EU accession is still supported, but not so fervently. A survey conducted by Gallup Balkan Monitor in November 2010 revealed a largely pessimistic population with little trust of domestic institutions and falling enthusiasm for the

[35] Bechev, Dimitar. 2012. *The Periphery of the Periphery: The Western Balkans and the euro Crisis*. London: European Council on Foreign Relation. (accessed: 17 March 2014).

EU, especially when compared to the previous year.[36] Although the majority of citizens of the region still saw the EU as the only long-term option, enthusiasm for joining the EU was generally on the decline, mostly due to what the population perceived as a lack of concrete commitment on behalf of the EU. However, the Western Balkan region is not a monolithic group with uniform views of Europe, and opinions vary greatly between the countries, ranging from enthusiasm to skepticism to downright negativity. Specifically, in response to the question of whether EU accession was a "good thing", responses ranged from the highest scores of 87 percent in Kosovo and 81 percent and Albania, to the lowest of 44 percent in Serbia and 25 percent in Croatia. Crucially, even in the more "enthusiastic" candidates, support had fallen compared to previous years: for example, in Albania, belief in the benefits of the EU fell by eight percentage points in 2010 compared to the previous year, while FYROM's support for EU accession fell from 76 percent in 2006 to 60 percent in 2010. Overall, with the exception of Bosnia, support and enthusiasm for EU accession has been steadily declining since 2006.[37]

However, the results of the Gallup Balkan Monitor regarding voting intentions "in the event of an EU accession referendum" highlighted a very interesting reality: despite the declining enthusiasm regarding the benefits of joining the EU, the majority in all Balkan states - except Croatia - said that they would vote "yes" in such a referendum. The positive responses ranged from 93 percent in Albania to 63 percent in Serbia; in Croatia the proportion of those who would vote "no" in an EU accession referendum remained higher than those who would vote "yes" (43 versus 38 percent). These results illustrate the dominance of realism over idealism: even waning enthusiasm and disillusionment were not sufficient motivations to reverse the positive intentions vis-à-vis an accession referendum. The EU may have lost its magic, but it has not lost its importance in the region. The fact that when the referendum took place in Croatia in January 2012, the "yes" vote actually got 66 percent, supports the proposition that when it came down to the stark reality of joining the EU or not, realism carried the decision. Even so, the fact that there was only a 43 percent turnout to ratify Croatia's accession agreement is very indicative of the general apathy and disenchantment.

Crucially, this lack of enthusiasm on a grass roots level could also translate into a lack of commitment to continue pursuing the necessary reforms regarding the political, economic and *acquis* criteria in the Western Balkans. In many cases, political elites of the region pay lip service to EU membership, conditionality and reforms but in reality they are concerned with "safeguarding their position domestically and with business as usual, which means rent seeking and clientelism rather than genuine reform effort."[38]

[36] Gallup Balkan Monitor. 2010. Perceptions of the EU in the Western Balkans. (accessed: 17 March 2014).
[37] Manchin, Robert. 2011. *Balkan Public Opinion and EU Accession* in *The Western Balkans and the EU: the 'Hour of Europe'*, edited by Rupnik, Jacques. Paris: Institute for Security Studies, 163-68.
[38] Bechev, Dimitar. *Enlargement in Times of Eurocrisis*. Paper at ELIAMEP 9th European Seminar 2012, Global Europe in a Changing World: How to Avoid Irrelevance, Poros 21-24 June 2012.

The EU may still be considered the only game in town for the Western Balkans but it seems that the prevailing sentiment is Eurorealism, not Europhilia.[39] EU is the necessary option, not a source of inspiration or a stimulus for deep change and reform. This disillusionment concerning the EU and what membership actually can deliver is inextricably linked to the breakdown of the "convergence narrative", which will be discussed below. Consequently, the loss of enthusiasm on behalf of the Western Balkans is also fuelled by the uncertainty regarding the characteristics of the Union these countries are trying to join. Will it be multi-leveled, multi-speed, less democratic, less tolerant of failure, with diminishing solidarity between member states, and with the Western Balkan states firmly entrenched in the "periphery of the periphery?"[40]

3.4. End of "convergence narrative": in need of a success story

Another crucial repercussion of the crisis as far as the Western Balkan countries are concerned is the erosion of the "convergence narrative". Over the past decades, membership in the EU has been perceived as a *one way* path to stability and prosperity. The EU's Mediterranean enlargement was until recently considered an outright success, and the post-authoritarian Spain, Greece and Portugal were the models of successful transitions: these countries had used EU membership as a means to consolidate democracy, achieve economic prosperity, and secure their place in the progressive European family. The EU experience was expected to do the same for the newer members from Central and Eastern Europe. The credibility of this narrative has been dealt a serious blow, as the current crisis - especially the condition of the economies of Greece, Spain and Portugal - has challenged some strongly held assumptions on the nature of Europeanisation and the transformative power of the EU.[41] The crisis has also raised the question of whether in its current state, and under the current conditions, the EU is still an engine for convergence between core Europe and its peripheries.

Although all of South Europe is in deep crisis, as far as the Western Balkans are concerned it is Greece's predicament that has a dramatic impact on the candidate countries' perception of the "convergence narrative". Greece was one of the region's "success stories": a quintessentially Balkan country that had made the transition from underdevelopment and marginality to prosperity and stability, under the aegis of the European Union. A bridge between the Balkans and Europe, Greece was the only Balkan country that was also a member of both the EU and NATO. Greece's downfall illustrates, in the most painful way possible, that EU membership is not a one-way, irreversible guarantee of stability and prosperity.

Moreover, the Greek crisis and the deepening political chaos are sending worrying signals to a region still struggling to establish western-style democracies. Fundamental questions are being raised regarding deep structural reforms and institutional change: if Greece, a member of the EU since 1981, has not been

[39] Bechev, *Enlargement*.
[40] Bechev, *The Periphery*.
[41] Anastasakis, Othon. 2012. *From fatigue to insignificance: Eurozone crisis and enlargement*. ELIAMEP's 9th European Seminar 2012, *Global Europe in a Changing World: How to Avoid Irrelevance*, Poros 21-24 June 2012.

able to successfully tackle problems like corruption, tax evasion, clientelism, vested interests, etc., what does this mean for the Western Balkans? Even more crucially, if intolerant, extremist and neo-fascist tendencies are showing signs of growth in Greece, a country with hitherto well-established democratic credentials, what could be the implications for a region known for its explosive history on these fronts? In light of the demise of the Greek "success story", the region is warily looking to Croatia for another success story to show that despite the current difficulties, the integration model still works and can lead to a sustainable increase in economic, political and social standards.

3.5. Last train to Brussels?

Javier Solana, EU's High Representative on Foreign Policy until 2009, stated in 2008 that "the train for Brussels is ready to leave". Since then, the first and only station has been Zagreb, and the crisis over the past years has raised concerns that the train might be stopped to prevent it from derailing later if boarded by risky countries. In this context, the Greek crisis has created other - non-quantifiable but very potent - repercussions, namely the further discrediting of the Balkan region. Greece, the first Balkan country to join the EU (in 1981) has been exposed as a country that not only ran ruinous and reckless fiscal policies for many years, but deceived its partners with false data in order to join the Eurozone in 2002. Even as the crisis is unfolding, and Greece is under IMF supervision, the country has apparently achieved very little in terms of real structural reforms, including dealing with tax evasion, corruption and lack of government transparency. The Greek predicament is being used by enlargement skeptics to propagate the perception of the entire Balkan region as an unreliable area of corruption and instability, where very little real convergence with EU criteria has been actually achieved. The Greek crisis has exacerbated what was already an apprehensive environment in Brussels towards the Balkan region, which had been further fuelled by the unsatisfactory experience of the last enlargement that brought Romania and Bulgaria into the EU.[42] Since corruption, organised crime and judicial inefficiency remain serious problems in Bulgaria and Romania, there is a strong perception that in the 2007 enlargement the EU did not apply the accession criteria correctly; moreover, once a member, a country has little incentive to change.

The negative perceptions of the region due to the experiences with Bulgaria, Romania, and Greece, serve to compound the very real problems of corruption and organised crime in most of the candidate countries, which were discussed earlier. The road towards integration into the EU will definitely be longer if fragile and unreformed institutional structures, a weak rule of law, and largely corruption-based economies and organised crime flourish.

Table 7 presents the Corruption Perception Index for the Western Balkans for selected years, as calculated by Transparency International (out of a total of 183 countries worldwide). The Table shows that Croatia was the best placed in 2012 (although it experienced a significant decline compared to 2011) while Albania was ranked the lowest of all the Western Balkan countries. It is also interesting to compare the Corruption Perception Index of the Western Balkan

[42] Kavrakova, *Comparative Report*.

countries to those of other EU countries, members that joined in 2004, in 2007, or even Greece. It is worth pointing out that many countries experienced a drop in their ranks between 2009 and 2012, a fact that supports the premise - discussed above - that pursuing and implementing the necessary measures against corruption and in favour of transparency is more difficult during times of economic crisis.

Table 7: Corruption Perception Index

	Rank					Rank			
W. Balkans	2004	2009	2011	2012	Other EU	2004	2009	2011	2012
Albania	108	95	95	113	Slovenia	31	27	35	37
B-H	82	99	91	72	Poland	67	49	41	41
Croatia	67	66	37	62	Slovakia	57	56	59	62
FYROM	97	71	69	69	Romania	87	71	75	66
Montenegro	-	69	66	75	Bulgaria	54	71	86	75
Serbia	97	83	86	80	Greece	49	71	80	94

Source: Transparency International. 2012. *Corruption Perception Index.*

Thus, al,though fighting corruption and organised crime in the Western Balkan countries is a prerequisite for EU accession, the already challenging task of eradicating organised crime networks, establishing the rule of law, creating an independent judiciary, and ensuring transparency, is being made all the more difficult by the unfavourable economic environment. This, in turn, exacerbates the already negative perceptions within the EU concerning the ability of the Western Balkan countries to adapt to EU standards.

3.6. Friends in high places (no more)

Finally, the Greek crisis may affect the Western Balkans' accession prospects on another level as well. For many years, Greece was the Western Balkans "enlargement ambassador" to the EU; since 2003 Greece had made enlargement towards the Balkans a cornerstone of its foreign policy and had promoted it actively within the EU institutions. Probably the most remarkable achievement of its 2003 Presidency was the Western Balkans Summit held in Thessaloniki in June 2003, which gave the countries of the region a clear perspective for membership in the EU. Its "Agenda 2014" aimed at achieving accession of all Western Balkan countries to the EU by 2014, as part of a plan to promote peace, security and democracy in the region.

Now, hugely indebted, discredited and facing years of austerity, Greece's days as a regional champion are well and truly over. Greece no longer has the clout, the prestige or the capacity to play the role of the "champion" of Balkan enlargement, or to be a bridge between Brussels and the Balkans. This void leaves the candidate countries without an enthusiastic ally in less-than enthusiastic Brussels, adding yet another negative dimension to the enlargement picture. Significantly, the list of Greece's priorities for its upcoming EU Council Presidency in January 2014 does not include enlargement policy, despite a previous commitment by Athens under the joint programme of the so-called Trio of Presidencies - currently made up of Ireland, Lithuania and Greece -

which had defined enlargement as an "area of strategic importance".[43] Evangelos Venizelos, the Greek Foreign Minister and deputy Prime Minister, described the economic priorities of the Greek Presidency as an attempt to "develop another narrative" for Europeans, who are living through an unprecedented economic crisis. While Greece is at the centre of the crisis, Venizelos stressed that other countries are experiencing it as well, through a general recessional European environment. Venizelos stated that a main priority of the Greek Presidency was to promote the "European political south."[44] Considering that only a year ago Greece barely managed to avoid bankruptcy and a catastrophic exit from the Eurozone, it is currently struggling to redefine its role within the EU and to regain a modicum of respect within EU institutions; in this context, its priorities have definitely shifted away from promoting the European prospects of its Balkan neighbours. Crucially, in an unprecedented initiative that illustrates how damaged Greece's reputation has become, in September 2013 two German MPs called for Greece's resignation from the upcoming EU Presidency, arguing that the six-month Presidency will cost about 100 million euros and may precipitate the need for another assistance package.

Moreover, it is a fact that in addition to extreme economic difficulties, Greece is facing serious political and social problems that are also severely hampering its prestige and consequently its ability to play a more constructive role in the region. Specifically, the increasingly provocative and aggressive behavior of the neo-fascist party Golden Dawn and the state's inability to react decisively to it raise questions concerning the country's capability to provide leadership and vision during its Presidency of the EU Council. Characteristically, on 18 September 2013, in response to the murder of an anti-fascist activist by a member of Golden Dawn, the head of the Socialist Group in the European Parliament, Hans Svoboda, declared that if the Greek government and the Prime Minister, Antonis Samaras, "do not stop the hateful behavior of Golden Dawn and other fascist groups, this will be an unacceptable EU presidency and will not bring any progress in Europe or Greece."[45]

Conclusion

There is no doubt that the timeline of the EU's Western Balkan enlargement is unfolding under extremely unfavourable conditions. As far as the EU is concerned, accession of the Western Balkan countries continues to be its official regional policy. EU officials have repeatedly stated that they remain committed to the integration of the Western Balkans into the bloc, dismissing fears of "enlargement fatigue" in the wake of the Greek financial crisis. Official rhetoric is still supportive of the Western Balkan accession prospects and consistent about the constructive role the EU must play in the region. The desire to maintain the EU's role as an anchor of stability in the region was reiterated by the

[43] The priorities of the Greek Presidency, as outlined by the Greek Foreign Affairs Ministry, are divided into four chapters: growth, jobs and cohesion; further integration of EU and Eurozone; migrations, borders and mobility; and maritime policies.
[44] *EurActiv*. 2013. Greece drops enlargement from its EU presidency priorities. 23 August. (accessed: 17 March 2014).
[45] *E-kathimerini*. 2013. Coalition drafts strategy to combat GD after leftist's murder. 19 September. (accessed: 17 March 2014).

EU's foreign policy chief Catherine Ashton during a visit to the region in April 2013: "I travel to the Western Balkans to reinforce the EU's commitment to the European perspective for the countries in the region [...] I would encourage the leaders in the region to continue the reform process and promote good neighbourly relations."[46]
In practice, however, and under growing pressure as a result of the Eurozone and Greek crises, Europeans seem to be increasingly divided about what to do with the Balkans, and have adopted a "wait-and-see" policy.[47] Some policymakers increasingly view the prospect of enlargement into the Balkans with alarm, with potentially destabilising political, social and economic repercussions. Other policymakers, however, see postponing the accession of the Western Balkans indefinitely as an even greater risk that could undermine the fragile progress that has been made in the region.[48] They posit that the promise of EU integration has not only been the catalyst for reforms, but also the political glue that has held the Balkans together this past decade.[49]

However, as was discussed above, the current crisis has challenged some strongly held convictions concerning the nature of Europeanisation and the transformative power of the EU. The shocking impact of the crisis on the entire Southern flank of the EU has also raised the question of whether in its current state, and under the current conditions, the EU is still an engine for convergence between core Europe and its peripheries. Divided between the fear of a hasty enlargement and the fear of a slow one, the EU has been losing influence across the Balkans, as the region's leaders and population start to doubt the sincerity of the EU's commitment - and the need to pursue EU-mandated reforms. If the enlargement process is to be kept on track, the European Union must reclaim its "soft power" in the region, and build on its position of creating incentives for reform and progress, rather than risk sowing disillusionment and the possibility of regression.[50]

These are difficult times for Western Balkan politics. The economic crisis in Greece and other EU member states has deeply affected the already weak economies of the region and deepened the mood of uncertainty. Despite the danger of delaying enlargement indefinitely, the fact remains that with the survival of the Eurozone at stake it is difficult to interest EU leaders in the Balkans at the moment. At the same time, maintaining the *credibility* of the enlargement process is crucial both for its success and for the sustainability of the convergence process; in this new international environment, however, this credibility has become increasingly hard to uphold. In any case, the reality of

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[46] *Balkan Insight*. 2013. Ashton Tours Balkans Ahead of EU Progress Report. 15 April. (accessed: 17 March 2014).

[47] Grabbe, Heather / Knaus, Gerald and Daniel Korski. 2010. *Beyond wait-and-see: the way forward for EU Balkan policy*. London: European Council on Foreign Relations. (accessed: 17 March 2014).

[48] Arandarenko, Mihail. 2009. *Social Interests and the Global Crisis*, Paper at the Friedrich Ebert Stiftung Conference, 20 Years Towards the Market Economy, Belgrade 28-29 September.

[49] Uvalić, Milica. 2008. *EU Policies towards Southeast Europe: from Stabilisation towards Integration*, in *Mediterranean Europe,* edited by Petricioli, Marta. Brussels: PIE Peter Lang, 291-96; Surroi, Veton. 2011. *The unfinished state(s) in the Balkans and the EU: the next wave* in *The Western Balkans and the EU: the 'Hour of Europe'*, edited by Rupnik, Jacques. Paris: Institute for Security Studies, 114-18.

[50] Jano, Dorian. 2010. *The Europeanisation of Western Balkans: a fuzzy set qualitative comparative analysis of the new potential EU member states*. VDM Verlag Dr Mueller, 44-45.

the entire Western Balkan region being simultaneously in economic recession and in limbo concerning its future European prospects raises the stakes of stability in the region to dangerously high levels.

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