

# **Policy Analysis**

## **BALKAN TRIANGLE**

*European Perspective as Pythagoras' Theorem*

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# BALKAN TRIANGLE

## *European Perspective as Pythagoras' Theorem*

### **Introduction**

It has been a year since the official accession of Croatia to the European Union, an event which was appropriately depicted as *historical*. That is not a sufficient time period to be able to conduct any comprehensive analyses of the implications of Croatia's EU accession, either on Croatia or the neighbouring countries. However, in the combination with one hundred years of Balkan solitude through the two world wars, it is a sufficient time period to be able to narrow down the wider picture of the region examined in several previous analyses to the triangle connecting Zagreb – Belgrade – Sarajevo (see the map below). At the territory of this triangle, there are approximately fifteen million people of different ethnic and religious backgrounds who have been deeply divided throughout the history over the issue of past and who can hardly agree on the contents of a history textbook, but who are nonetheless very similar and economically and culturally mutually interdependent. Observing this triangle as a geometric shape, the lines Zagreb – Sarajevo and Sarajevo – Belgrade are catheti, while the line Belgrade – Zagreb represents a hypotenuse of this triangle. If for a moment we convert the relations between the states into a geometric form, by using the Pythagoras' Theorem we could conclude, of course symbolically, sums of (squares) of relations of Sarajevo with other two capitals is equal to the (square) of the relation between ZAGREB and BELGRADE, as its hypotenuse. This geometry lesson and its perhaps forced application on the regional relations leads to a unique conclusion which very much fits the reality: Zagreb and Belgrade always held and still hold the key to regional relations, particularly at the territory that is the subject of this analysis.

### **Why triangle?**

Because, if observed on a map, it is a right-angled triangle with the right angle located in Sarajevo. Because, in the recent past, it was a truly bloody triangle whose sum of the squares of catheti and hypotenuse resulted in hundreds of thousands of deaths, migration of millions of people and unseen destruction.

Why this triangle when there are similar and specific triangles everywhere in the Balkans? Belgrade-Pristina-Tirana or Skopje-Athens-Sofia or even the Weimar triangle<sup>1</sup> ... When examining the geo-strategic map of Europe and the world, one can certainly find many such triangles. The answer to this question is as complex as the description of the relations among Balkan neighbours. Over the past twenty years, not to go further back in time, almost every political and economic situation in Serbia and Croatia affected Bosnia and Herzegovina, wherefrom it affected other parts of the region. Also, there is no "crisis" in BiH that was not felt in Serbia and Croatia. It is difficult to find similar triangles with catheti and hypotenuse so intertwined as is the case in this triangle. Before the Dayton, Serbia and Croatia had held the key to war and peace in BiH and currently, in the spirit and letter of the Dayton Agreement, they are the guarantors of the peace and stability and objects of desire and identification of numerous Serbs and Croats in BiH and their patriotic refuge and national symbols. This analysis is also an effort to try to show how this longing of many Serbs and Croats for Belgrade and Zagreb in some new context does not necessarily have to be a curse for Bosnia and Herzegovina. Although optimism has

<sup>1</sup> The *Weimar triangle* refers to a strategic cooperation between France, Germany and Poland with the objective of development of cooperation in all areas. It is not institutionalised and operates on a level of formal meetings of leaders of these three countries. The first meeting of foreign ministers was held in the German city of Weimar in 1991. In 2011, leaders of the three countries signed an agreement in Brussels to put together a unit of 1,700 soldiers (Weimar Combat Group), which has been ready for deployment for peacekeeping in crisis zones all over the world since 2013.

not been appreciated lately, one of the objectives of this analysis is to try to shed some light on some possibilities and perspectives which perhaps might make our triangle "golden". Certainly, one must not disregard its destructive potential that we are reminded of by, if nothing else, recent past and numerous dilemmas and temptations we are currently facing. In the text below, we will try to first analyse bilateral relations between each of these countries and then place them in the "triangle" of a common European perspective and everything good it might generate. We will try to outline vast opportunities for regional cooperation offered by the EU through its funds and projects. Surely, this opportunity should not be taken for granted and it can be easily missed with unforeseeable consequences, if the countries in our triangle and outside, primarily the EU, fail to recognize and use the possibility of having a new regional paradigm to truly strengthen Europeanism in the Balkans. For that reason, instead of concluding remarks, we presented potential dangers which, if not timely recognised and eliminated, could endanger this significant historical opportunity to link this famous Balkan triangle with the new positive energy that came from the West – with the membership of Croatia in the EU. These threats are actually our call for a stronger and more meaningful engagement of the EU, so that our triangle would not become the Bermuda Triangle. There are some visible indications of such engagement, which means that our optimism could be well-founded. In the end, if we put practical models of regional cooperation into a theoretical framework, we could recognise three types of regions: a) very insecure, b) partially insecure and c) prosperous. Very insecure are those regions with deeply divided states in a state of permanent conflict, which is based on negation of all similarities and accentuation of differences (ethnic, national, religious) and states which, as such, have a sole ambition to conquer or dominate each other (Middle East, part of the Caucasus ...). The regions falling into the second type are safe thanks to the balance of military power of the key states in these regions. However, they are not prosperous as regions as they remain focused on mutual ideological and other hatred, sabre rattling and constant threats to stability. However, due to the balance of powers or influence of a foreign factor, there is no conflict in these regions (India – Pakistan, two Koreas, China – Japan – Taiwan, Iran – GCC countries, etc.). The third type of regions consists of the states that rely on each other, share the same cultural values, economic interests and respect all differences as an advantage. Different languages or even different historical perspective are not perceived as obstacles (Scandinavia, Weimar Triangle, ASEAN and Commonwealth). These are the regions of prosperity based on mutual interests and without denial of the interests of other parties. It is important to say that this definition is not an axiom and that today's most prosperous regions used to be sites of conflicts and fear. If applying this modest definition, the countries of our



triangle in the last ninety years transformed through the first two types of regions and they are bravely creating preconditions to evolve into the third type.

### ***Relations between Serbia and Croatia ...***

Technically speaking, taking into account the number of signed agreements and particularly the number of unresolved open issues, it could be said that the relations between Serbia and Croatia are stagnating. There are unresolved issues of missing persons<sup>2</sup>, demarcation of the state border, social rights and other issues. On 2 July 1999, Croatia instituted proceedings before the International Court of Justice (ICJ) against the then Federal Republic of Yugoslavia for violations of the Convention on the Prevention and Punishment of the Crime of Genocide. A year later, Serbia filed a lawsuit against Croatia before the same court for genocide over Serb population in Croatia.<sup>3</sup> Despite the expectations, these “utterly idiotic mutual accusations, benefiting only the handsomely paid London lawyers”<sup>4</sup> have not led to the cooling of relations between Belgrade and Zagreb. Quite to the contrary, there were more high level visits between the two countries in the period from January to June 2013 than in the period of five previous years. These visits resulted in the establishment of a commission which is to deal with open issues and which, according to the information available, has already had several “ice-breaking” meetings. Relations between the two countries, particularly after the last elections in Serbia and Croatia’s accession to the EU, have been characterised by political openness, slight increase of trade cooperation, growth of investments and very dynamic regional diplomacy. Political correctness, preceded by two decades of war of words, is also visible in the fact that Croatia’s recognition of Kosovo and significant economic presence<sup>5</sup> did not prevent simultaneous improvement of relations with Serbia in all segments – from mutual visits to the stable volume of foreign trade.<sup>6</sup> There are 280 Croatian companies working in Serbia and so far they have invested 661 million EUR. At the same time, Serbian investments in Croatia are only 40 million EUR which, according to experts, is a result of administrative barriers which Croatia had prior to joining the EU. It is now expected that this ratio would change considering that the EU membership will force Croatia to adapt its business environment to the European standards of openness. Trade and investment links between Zagreb and Belgrade were further strengthened through the acquisition of *Mercator* by the Croatian company *Agrokor*, by which this Croatian giant indirectly took over more than 300 stores with 4,764 employees in Serbia and market share of 36%.<sup>7</sup> Something like that cannot be done with a hidden agenda and above all without political consent of both sides. Serbia currently needs Croatia from the perspective of **economy**, considering that Croatia is the European Union market and EU countries have been Serbia’s largest foreign trade partners over the past several years and the largest investors in Serbia<sup>8</sup>. In addition, Serbia, despite its economy showing some signs of a slight recovery

2 According to the ICRC data and EU Progress Report for Serbia (2013), 2246 persons that went missing during the Serbo-Croatian conflict have not been identified yet.

3 In addition to filing of written arguments, two hearings were held in the Hague: the preliminary hearings in 2008 which pertained to the jurisdiction of the ICJ and hearing on the substance of the case in 2014. After 15 years of proceedings, the ICJ is to deliver the judgement: <http://www.icjciij.org/docket/index.php?p1=3&p2=3&case=118&PHPSESSID=1b26ed7874e931cebeac63deba0f6ecf>.

4 <http://www.economist.com/blogs/easternapproaches/2014/03/international-court-justice>.

5 According to the data of Croatian Chamber of Economy (CCE), there are 120 Croatian companies that have business in Kosovo, out of that number, 40 companies have their daughter companies and branches, while others have representation offices. The CCE opened its office in Kosovo in 2000, when only two Croatian companies were present at the market. Export to Kosovo increased in 2013 compared to 2012 and it amounted to 434 million HK – source Croatian Bureau of Statistics ([http://www.dzs.hr/Hrv\\_Eng/publication/2013/04-02-01\\_10\\_2013.htm](http://www.dzs.hr/Hrv_Eng/publication/2013/04-02-01_10_2013.htm)).

6 The total foreign trade in 2013 between Serbia and Croatia was USD 859.8 million, which is 6.1% less compared to 2012. Exports from Serbia to Croatia in the same period amounted to USD 423.7 million, which is 5.1% more compared to December 2012. Imports from Croatia decreased by 15% compared to the same period in 2012 and amounted to 436.1 million USD. The foreign trade deficit of Serbia is 12.4 million USD. The total foreign trade between Serbia and Croatia in May 2014 was 204.5 million USD and it increased by 10.9% compared to the same period in 2013. Exports to Croatia in the same period amounted to 105.4 million USD, which is 15.8% more compared to March 2013. Imports from Croatia increased by 6.1% compared to the same period 2013 and amounted to 99.1 million USD. Serbia’s foreign trade surplus was 6.3 million USD.

7 <http://www.poslovnih.hr/hrvatska/agrokoru-zelenu-svjetlo-za-preuzimanje-mercatora-u-srbiji-259956>.

8 *Bilten javnih finansija Republike Srbije*, March 2014. (<http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-115-eng.pdf>).

in 2014, faced catastrophic macroeconomic indicators for the past several years: the Gross Domestic Product in the period 2008-2010 stagnated or declined, while the public debt in the same period grew from 29.2% to 61.4% of its GDP.<sup>9</sup> These indicators show that it is an imperative to ensure openness and attract foreign investments. Croatian investments in Serbia have thus far proved to be very stable. They are attractive because Serbia is the largest market in the Western Balkans integrated in CEFTA and it signed a free trade agreement with Russia, which provides Croatian companies with a good opportunity to export their goods to third markets. Serbia also needs Croatia **politically**, considering that it opened EU accession negotiations and it is aware that Croatia could be its supporter or it can make obstacles by raising all unresolved issues, from missing persons to trade arrangements, as very important during the negotiations. On the other side, Croatia also needs Serbia **economically**. One of the key recommendations of the European Commission to Croatia, a year after its accession, is to support export-oriented companies. If we take into account *Agrokor's* expansion to the East and the fact that Serbia, after one year of negotiations, agreed to tax Croatian cigarettes at the rate of 15% instead of 57% (due to Croatia accessing the EU and leaving CEFTA)<sup>10</sup>, it is certain that the statistical data for Croatian investments and foreign trade in the forthcoming years will be much more positive. Croatia also needs Serbia **politically**, considering that the secure environment is one of the most important national interests of Croatia and it is Serbia that has a potential to either preserve or undermine it. If we observe things on the line of the hypotenuse of our triangle in this way, there are strong possibilities for a strategic interest-based rapprochement, with the European Union as a common denominator and acknowledgement that the progress is possible only in a prosperous environment. This rapprochement would be a great opportunity for Croatia and Serbia and for the entire region, particularly for Bosnia and Herzegovina as the "Balkan patient". Whether this is recognised in Brussels will be seen in the near future on the basis of the EU's readiness to assist this rapprochement in a concrete manner and thereby prevent that the potential victory of the radical right in the elections in Croatia or radicalisation of Serbia due to the feeling of rejection by the EU disturb these dynamics. Should something like that happen, Bosnia and Herzegovina would, being more fragile than ever, feel that negative energy in the worst way possible.

### **... on the trilateral Zagreb – Sarajevo – Belgrade**

Analysis of the relations of Bosnia and Herzegovina with Serbia and Croatia respectively also leads to encouraging conclusions, with the same fact that the open issues will remain open and their resolution will not be helped by the membership of Croatia in the European Union. All those we talked to on this subject in the course of preparation of this analysis were of the opinion that these issues have to be given some time, just as Croatia and Slovenia were given time to resolve the dispute over the sea border line. Demarcation of the state border has not been completed with either Croatia or Serbia. Property related issues have not been entirely settled. What Serbia and Croatia are not to each other in foreign trade<sup>11</sup>, BiH is to both – it is one of the top five foreign trade partners<sup>12</sup>. On the other side, Serbia and Croatia are, after the Netherlands and Austria, the largest foreign investors in BiH. Investments from Croatia in the period from 1993 to 2013 in BiH were 612 million EUR. In terms of Croatian investments, Bosnia and Herzegovina takes the third place, after the Netherlands and Serbia. Majority of investments were in the trade, food industry and chemical production sectors.<sup>13</sup> The largest individual investment in BiH comes from Serbia and it pertains to the purchase of *Telekom Srpske* by *Telekom Srbije* in 2007. This was an investment of 646 million EUR (65% of shares). *Naftna industrija Srbije* (NIS), owned by the

9 Statistical Office of the Republic of Serbia ([www.stat.gov.rs](http://www.stat.gov.rs)).

10 „Štefan Fuele izborio povlastice hrvatskim izvoznicima – TDR uplaćuje u proračun Srbije 57 milijuna eura godišnje“, <http://www.poslovnih.hr/hrvatska/stefan-fuele-izborio-povlastice-hrvatskim-izvoznicima-254667>.

11 Croatia and Serbia are still ...

12 [http://komorabih.ba/wp-content/uploads/2013/05/cefta\\_eu\\_\\_3\\_2014.pdf](http://komorabih.ba/wp-content/uploads/2013/05/cefta_eu__3_2014.pdf).

13 Companies *T-Hrvatski Telekom* (39.1%) and *Hrvatska pošta* (5.2%) are co-owners of *HT Eronet*. *INA-MOL* bought 67% of shares of Sarajevo based *Energopetrol* for 220 million KM, *Agrokor* (*Konsum d.d.*) invested in trade sector – purchase and opening of supermarkets and purchase of the company *Sarajevski kiseljak* by *Jamnica*.

Russian Gazprom, is present in BiH under two brands: NIS Petrol and Gazprom which took over the petrol stations of the Austrian OMV. NIS invested in BiH approximately 90 million EUR. The Hemofarm a.d. group invested in Hemofarm d.o.o. Banja Luka. *Komercijalna banka a.d.* opened its branches in BiH. However, this trend changed in the first quarter of 2013 and neither Croatia nor Serbia was among the top ten investors, according to the available data of the BiH Central Bank. According to the experts, the reason for such situation lies in Croatia's preparation for the EU accession and difficult economic situation in Serbia and in the end, in full completion of investments in strategic sectors.<sup>14</sup> This situation could change considering that BiH and Serbia, together with the Italian investors, will probably invest in a strategic project *Srednja Drina* worth 1.3 billion EUR, which includes construction of three hydroelectric power plants on the Drina River<sup>15</sup>, whereby the economic interests of the two countries would be further intertwined. On the other side, Bosnia and Herzegovina and Croatia are further linked in the energy sector by the common project TAP/IAP<sup>16</sup>. Formal and legal requirements for this project have been fulfilled and feasibility study is currently being conducted. They are to a certain degree getting closer on a political level as well. Serbia and BiH have so far signed over 70 bilateral agreements and the newly appointed Prime Minister of Serbia, Aleksandar Vucic, chose Sarajevo for its first foreign visit. The first meeting of the two governments is under preparation and it has not been held so far only because Serbia had snap elections and then both countries were hit by catastrophic floods, which to a large degree affected Croatia as well. On the third side, in Zagreb, the Government of the Republic of Croatia advocated for a new EU approach toward BiH, in an attempt to assist BiH to proceed with the European integration process which has stalled for years. The First Deputy Prime Minister, Vesna Pusic, thus advocated that BiH should be given a specially tailored methodology for EU accession, which would differ from the usual one, because the starting point is the assumption that BiH is a specific case. Majority of EU members criticised this request characterising it as an attempt to push BiH to the EU through the back door.<sup>17</sup> Such an attempt of the Croatian Government, regardless of the EU political mainstream, only confirms the thesis that the catheti and hypotenuse of our triangle are equally important to Croatia in terms of security. This strategic Croatian intervention to push unstable BiH into a safer environment of membership negotiations does not correspond to the pressure exerted by Croatia in the technical aspect of the so called adaptation of the Stabilisation and Association Agreement (SAA), where, according to the perception of Zagreb and Brussels, BiH does not act in accordance with the Interim Agreement (IA), i.e. it does not allow the adaptation of the SAA which would enable Croatia to

14 According to the BiH Central Bank preliminary data for the first nine months of 2013, According to the BiH Central Bank preliminary data in the Balance of payment (net incurrence of liabilities with estimated reinvested earnings), total amount of FDI in the period January - September 2013 was 252 million EUR (493 million BAM), which is higher for 9.8% than in the same period 2012. The biggest investor countries in the first nine months of 2013 were: Russian Federation (97 million EUR), Great Britain (69 million EUR), Cyprus (20 million EUR), Austria (15.5 million EUR), Germany (9 million EUR), Luxembourg (8.7 million EUR), Slovenia (8.4 million EUR), Serbia (8.4 million EUR), the Netherlands (7.1 million EUR) and Turkey (5.9 million EUR). We emphasise that the 2013 data are preliminary and that the official data of the BiH Central Bank on direct foreign investments are expected in September 2014 (source: FIP and BiH Central Bank).

15 The new EU regulation and objectives set by the European Commission allow state subsidies and use of special EU funds in order to increase the use of renewable energy (water, wind and sun). According to this regulation, EU member states are allowed to invest in production of clean energy outside the Union, provided that it is consumed directly at the EU market, with the objective to reach the strategic objective – 20% of its total energy consumption coming from renewable sources.

16 Trans Adriatic Pipeline (TAP) is a part of the Trans Asia Pipeline or the Southern Gas Corridor, as referred to by the European Commission, which transfers gas to Europe from Central Asia. The TAP transfers gas from Azerbaijan through Georgia, Turkey, Greece, Albania and Italy. So called Ionian Adriatic Pipelines (IAP), a branch of the TAP would take gas in Albania and transmit it via Montenegro, BiH and Croatia further towards Central and West Europe.

17 <http://www.oslobodjenje.ba/vijesti/bih/clanica-evropskog-parlamenta-doris-pack-za-oslobodjenje-ni-govora-o-trecem-entitetu>  
<http://www.24sata.hr/politika/pack-ne-slajem-se-s-pusic-za-bih-ne-trebaju-posebni-uvjeti-361242>

continue using the preferential treatment in trade, even after leaving CEFTA and joining the EU.<sup>18</sup>

Without discussing the merits of the case or which side is right, this misunderstanding could be a serious stumbling block in the future cooperation between Croatia/EU and BiH. As much as it is Croatia's strategic interest to have safe and peaceful BiH, it is as much its interest to keep the preferential trade regime for export of its goods. If an agreement is not reached soon, BiH could come under strenuous pressure by the EU, in combination with full suspension of the trade arrangements agreed by the IA/SAA. Is BiH ready to pay that price in order to protect domestic producers from the fierce competition from Croatia? As it seems now, it is<sup>19</sup>, although there is a possibility to increase BiH quotas for export of sugar, wine and consumer fish to the EU as a logical solution, which would then be an adequate compensation for BiH to accommodate the request of the European Commission and Croatia. However, European Commission is against this. Negotiations are ongoing and we can hope they will be completed successfully.

### **European "Soft Power" for Balkan Trinity**

If it wants to join the European Union, the Balkans has to pursue the European doctrine of regionalism and macro-regionalism, which pertains mainly to prosperous regions. Zagreb and Belgrade have demonstrated their commitment, while in this story Sarajevo is a "moment of inertia"<sup>20</sup> and is difficult to move. On the map of the European (macro)regionalism, on which the Balkan Triangle is strategically and essentially well positioned<sup>21</sup>, it is necessary in this context to emphasise the Danube Strategy<sup>22</sup>, Adriatic-Ionian Strategy<sup>23</sup>, Agenda 2020 of the Regional Cooperation Council and the latest initiative of the European Commission to ensure support for economic management, competitiveness and economic growth on the Western Balkans<sup>24</sup>. Three of these strategies are initiated by the European Commission, while the RCC is the part of a wider effort as a continuation of the Stability Pact for South Eastern Europe. However, all four strategies although intertwined (see Table 1) have clear sector objectives for

18 „European Commission, through the technical adaptation, wants to change the principles of the SAA/IA in order to retain the so called "traditional trade" that had existed between Bosnia and Herzegovina and the Republic of Croatia prior to its EU accession. From the perspective of Bosnia and Herzegovina, this approach represents a substantial change of the agreed trade regime between BiH and the European Union and it cannot under any circumstances be considered as just a technical adjustment. Keeping the trade conditions that had existed prior to the Republic of Croatia joining the European Union, which is advocated by the European Commission, should be a process which is in the interest of both parties, as is stipulated by the SAA/IA in the event of enlargement of the European Union. The SAA/IA, which Bosnia and Herzegovina signed with all 27 EU member states, does not contain provisions that stipulate the obligation to retain traditional trade flows in the event of enlargement. Bosnia and Herzegovina emphasises that it has, from the very beginning of the process of trade liberalisation in South-Eastern Europe conducted under the auspices of the European Union, promoted free trade regime and in good faith opened its market to the producers from the region with the intent to strengthen regional trade and cooperation. Considering that CEFTA 2006 and SAA/IA are two separate international legal documents, leaving of CEFTA 2006 by any of its members by itself implies waiving of all benefits agreed and approved with this agreement. According to the SAA/IA, Bosnia and Herzegovina gradually, over a short interim period of five years, entirely liberalised its market for products of EU origin. The exception to this is only 250 tariff lines (less than 3% of the total number) for which BiH in the course of negotiations with the European Commission proved sensitivity and agreed to keep full customs duties. Customs protection for this very small number of products (only about 15) will remain in force until BiH's accession to the EU, which was accepted by the European Commission and EU member states by signing the SAA/IA. Bosnia and Herzegovina remains committed to the concept of trade liberalisation and does not question the need or its readiness to make the technical adjustment of the SAA/IA in all aspects necessary so that it could be applicable on its new member. Bosnia and Herzegovina also offered to the European Commission a mutual increase of quotas for fish, wine and sugar in the amount of the average quantities of exports from BiH to the Republic of Croatia, i.e. of the average quantities of imports to BiH from the Republic of Croatia." (excerpt from the joint "non-paper" of the MOFTER and MFA of BiH sent to the EU member states in November 2013).

19 In a recent response to the European Commission, the BiH Minister of Foreign Trade and Economic Relations, Boris Tucic, implied that as a possibility.

20 Moment of inertia in physics is a measure for inertia for so called angular acceleration (the larger the moment of inertia, the more difficult it is to start and stop movement).

21 Two out of three European macro-regions (Danube, Adriatic-Ionian and Baltic) are located at the territory of the "Balkan golden triangle" (*author's commentary*).

22 The Danube Strategy was proposed by the European Commission in December 2008 and member states approved it on 13 April 2011.

23 The EU Council, in its decision of 13/14 December 2012, requested the European Commission to come up with the new strategy for Adriatic-Ionian Region by the end of 2014. The European Commission adopted the Action Plan for Implementation of the EU Adriatic-Ionian Strategy in June 2014.

24 It is modelled after the Compact for Growth for the EU established by the member states to overcome the crisis. It was first mentioned in the Enlargement Strategy 2013 and officially presented at the conference in London in the EBRD Head Quarters (see more at [http://europa.eu/rapid/press-release\\_SPEECH-14-156\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-156_en.htm)).

the Western Balkans to reach an adequate European level in the long term in the fields of employment and social protection, security, environment, innovation and education and infrastructure, through the financial support and inexpensive credit lines. If they succeed in their intent, they will most certainly assist weakened economies and pro-European governments. European integration of Serbia and Croatia could be a strong influence to motivate BiH. Subsequently, we could, in the next ten or so years, count on significant effects of sector synergy in the triangle. Catheti and hypotenuse of our triangle are geographically positioned in a way that each of its parts is in a possibility to use sectoral benefits of the EU funds. This is already happening to a certain degree and there are some results visible in concrete sectors, but it is still too early to call them successful.

**Entrepreneurship, renewable energy, science and innovations.** An advantage of Croatia's membership in the EU is the possibility to use European structural and cohesion funds, which will certainly have some indirect effect on BiH and Serbia. All three countries participate in the Western Balkans Investment Framework (WBIF) with the approved financial resources in the amount of 110 million EUR. Out of that amount, projects in Croatia are allocated 12.38 million EUR. These are not necessarily cross-border projects, but they are designed to ensure progress at the sectoral level. The WBIF will provide a grant of 20 million EUR to co-finance the refurbishment of the JANAF (Adriatic pipeline) and production of a regional study for the biomass heating system (list of projects is contained in the Tables 2 and 3). In addition, Croatia as the EU member state can use funds from the EIP (EU Innovation and Entrepreneurship Programme), which has resources in the amount of 1 billion EUR for the development of innovations and entrepreneurship. Serbia and BiH have access to the Western Balkans Enterprise Development and Innovation Facility (WBEDIF) worth 145 million EUR. It is encouraging that the Western Balkan countries finally recognised that barriers in the field of education and innovation represent serious mental barriers which threaten to become a problem of the entire generation. EU Lisbon Agenda foresees that the annual allocations for innovations and research would be 3% of GDP. All countries in our triangle invest far less for this purpose. A common strategy for the development of science and innovation in the Western Balkans indicates that the Balkan countries can generate a continuous growth of GDP by 6%, if they raise their investments in research to 3% of their GDP, as all studies showed that innovative companies grow and develop faster. This is nothing else but an attempt to raise the Balkans to the level of objectives under the EU 2020 Strategy, which puts the emphasis on science and innovations.<sup>25</sup> All three countries have access to the significant EU programme for competitiveness and innovation in small and medium enterprises (COSME 2014-2020) which has 2.5 billion EUR for very concrete support for small and medium enterprises through low-interest loans in order to be more competitive on foreign markets, but also for support to the states to develop the legal framework favourable for entrepreneurship.<sup>26</sup>

**Security.** Security is a very relevant determinant of future relations and, just as the economy, it can be a means to make this triangle "golden". Croatia is a member of NATO and BiH aspires to become a NATO member, while Serbia undertook certain reforms in line with the NATO standards, but without the official declaration in terms of its membership. Anyhow, all three states either as members, candidates or potential candidates are the part of the EU security architecture focused on the fight against all types of organised crime and corruption, illegal migration, human trafficking, drugs and border control. For this very reason, BiH, Croatia and Serbia are members of all existing regional security initiatives and organisations.<sup>27</sup>The Regional Cooperation Council (RCC) initiated the establishment of the cooperation

25 "Western Balkans Regional R&D Strategy for Innovation" was signed in October 2013 in Zagreb by the ministers of science and education of Croatia, BiH, Serbia, Macedonia, Montenegro and Kosovo (for more see: <http://www.worldbank.org/content/dam/Worldbank/document/eca/WBRIS%20Overview%2010-21-13%20web.pdf>).

26 BiH was invited to join the COSME and the procedure is ongoing. The projects can be submitted after the BiH Council of Ministers adopts a decision to pay the so called "entry ticket" in the amount of approximately 200,000 EUR annually.

27 MARRI (The Migration, Asylum, Refugees Regional Initiative), EUROPOL (EU Law Enforcement Agency), CEPOL (European Police College), Secretariat of Police Cooperation Convention for Southeast Europe (PCC-SEE Secretariat), Southeast Europe Police Chiefs Association (SEPCA), Southeast European Law Enforcement Centre (SELEC) and Southeast European Prosecutors Advisory Group (SEEPAG).

of chiefs of military intelligence structures and institutions dealing with national security. Consequently, by extending the security platform for cooperation in all areas, some old bilateral barriers are eliminated.

**Employment.** Regional Cooperation Council in its strategy for the period to 2020 allocated 73% of the budget for decreasing the unemployment in the region. The unemployment rate in Croatia is 21%, in Serbia 24.1% and in BiH 27.5%, calculated in accordance with the ILO methodology. It could be said that the average unemployment rate in the triangle is approximately 23%. All three states have to initiate the process of a comprehensive reform of labour legislation and income taxation. Croatia has this obligation in accordance with the principles of the EU Compact for Growth, while for BiH and Serbia, this will be one of the conditions for EU accession. The final result will be the similar or nearly identical labour legislation in the countries of the triangle, which will certainly contribute to the synergy between investments and employment. It will be a great challenge, because these countries are expected to cancel the significant part of social benefits. Bosnia and Herzegovina spends 4% of its GDP on social benefits and the request from Brussels is to reduce this amount to 2%. Unity in crisis in the field of social protection, which can be expected in these three countries due to the large number of expected layoffs and professional retraining needs, also imposes the need for a common response and healthy economic competition. European Union is ready to provide assistance and the first goods news is the establishment of the Enterprise Expansion Fund (ENEF)<sup>28</sup> for the Western Balkans in which the EU intends to invest 60 million EUR.

**Infrastructure.** It will not be long before we know what it means to share a thousand kilometres long border with the EU. Last year, European Parliament approved 29.3 billion EUR for the most important transport, energy and telecommunication connections in the EU for the period 2014-2020. The largest portion of these funds will be invested in the transport sector (23.2 billion EUR). Bosnia and Herzegovina and Croatia jointly nominated the Adriatic-Ionian Highway – its branch Mostar – Siroki Brijeg – Grude and several bridges on the Sava River. One of the priorities is the improvement of road infrastructure on border crossings with the EU, which will enable activation of about a dozen projects that have been on hold. In addition, the EBDR will, through the WBIF, finance the feasibility study for the Adriatic-Ionian Pipeline on the line Albania – Montenegro – Croatia in the amount of 3.5 million EUR and the feasibility study and environment impact assessment for the part of this pipeline that will go through BiH (Zagvozd – Posusje – Travnik or Mostar – Ploce).

### ***Unity in (Mis)Fortune***

Judging by the sector assessments and statistical indicators, it is difficult to come to any conclusion other than the one that Serbia, Bosnia and Herzegovina and Croatia, even if they wanted to, cannot avoid mutual interest-based connections in all spheres. It was the natural disaster that according to the preliminary data only in Serbia and BiH caused the damages of approximately 4 billion EUR, which showed that all sides in this magical Balkan triangle have to rely on each other. The floods erased physical borders and, for a moment, the mental ones. It was the Croatian helicopters that came first to save citizens in endangered areas in BiH and Croatian special forces that helped the evacuation of citizens in Obrenovac in Serbia. Animal corpses were burnt in Serbian incinerators and the three countries joined forces for mosquito spraying along the rivers of Danube and Sava. We could, of course, continue giving the examples of mutual reliance, but we believe that in this text we have enough examples. Instead, we will, in the closing remarks, focus on latent threats which could endanger this enormous opportunity – to have the spirit of European collectiveness move to the Balkans – with incomprehensible consequences.

Our geometric model presented at the beginning has a truly large potential for closer relations at its hypotenuse (Zagreb – Belgrade), which would undoubtedly be beneficial for BiH, which has no strength to overcome its inertia internally and with self-initiative. Strategic encouragement is necessary and it seems that currently both Serbia and Croatia have a common interest to have peaceful and stable Bosnia

<sup>28</sup> ENEF is a part of the *Western Balkans Enterprise Development and Innovative Facility* (EDIF) and the initial contributors for this fund are German KfW, EBRD, Italian Government, European Fund for Investments ...

and Herzegovina and they will be gladly supported by the EU in that. Economic interests, which are obvious in this case, cannot be the only possible base of closer relations. However, if they have certain ideological support (Balkan Europeanism), then they can become a strong generator of changes. As much as we are aware of the possibilities for new closer relations showed by this analysis, we are also well aware of the threats to this process. It occurs before our eyes as a current reality which will not endure without a clear ideological structure to make it complete and give it the meaning. Is that the new idea of Balkan Europeanism<sup>29</sup> which implies a higher level of supranational political consciousness and articulation? For this very reason, in our concluding remarks we will, from an objective point of view, indicate the possible threats to this very significant opportunity, as follows:

1. Right-xenophobic Euroscepticism in the EU itself can, in a very discouraging manner, affect the weak pro-European forces in BiH and Serbia which are still facing the strong ideologies of division along ethnic and religious lines. Open refusal or even prevention of further enlargement would destroy the possibility of the Balkan Europeanism almost at its inception.
2. Possible strengthening of the right-xenophobic political forces in Serbia and Croatia and its reflection in BiH can impose the old forms of hatred. The European Union has to include in its enlargement strategy a mechanism to separate "people's will expressed in elections" from xenophobic threat which is elected out of fear. Examples can be found in the near history in the EU itself. The European Union strongly reacted to the election of Joerg Heider in Austria. However, the tolerance threshold lowered with time and when the first crisis happened new populist and right-oriented forces appeared, such as Marine le Pen, Geert Wilders or the Golden Dawn in Greece. Fascist revival in the Balkans would be ten times worse, as much as the states and societies in which it appears are weaker.
3. By using the numerous models of "soft power", the European Union is on a good path to undermine the attractiveness of dangerous political projects in BiH, Serbia and Croatia which are anti-European in their essence. However, this "soft power" should not be based on mere bureaucratic requirements and "measurable criteria", but it has to recognise a wider context which will clearly define not only what is in the interest of those countries, but also what is in the interest of the EU in those countries and on that area.
4. A historical chance for this Balkan triangle to become a strong force of change in the Balkans can be wasted forever if the EU and its international partners fail to see on time that the funds and EU perspective are not enough per se to substantially marginalise the political projects in Serbia and Croatia, and in the BiH as well, which observe this period as an interim phase, waiting for a more favourable moment to finish changing of borders in line with the ethnical-mythological template. European Union and each of its member states have to be consistent in all forms of discouraging such concept of division, regardless of the referendum results in Spain and Great Britain. It is a red line and no one should be allowed to cross it, if there is intent to use this moment for historical pacification of the Balkans.
5. Unemployment, social inequality, corruption, political cronyism are more or less omnipresent in all countries of the Western Balkans and they represent the best environment for the right-fascist revival. These sectors should be "integrated" into the EU without waiting for formal membership.
6. Hesitation of the European Union to clearly define and then build and defend its interests on the Balkans opens a dangerous space for those who want play their global games in that fragile European courtyard.

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<sup>29</sup> Connecting the Balkan countries on the European idea of suprainterests, without classical division on the left, center and right, based more on the idea of prosperity in the concept of "shared society".

## APPENDIX

Table 1.

|     |   |                        |  |  |                 |                                 |
|-----|---|------------------------|--|--|-----------------|---------------------------------|
| AIS | Driving innovative maritime and marine growth | Transport and energy   | Environment  | Regional image and tourism                           |                 |                                 |
| DS  | Security                                      | Culture and tourism    | Sustainable energy                                 | Environment  | Biodiversity    | Quality of waters and waterways |
| RCC | Infrastructure and environment                | Trade and investments  | Growth in employment                               | Education and innovation                             | Good governance | Fight against organised crime   |
| CfG | Growth in employment                          | Attracting investments | Enhancing competitiveness and business environment | Improving the status of small and medium enterprises |                 |                                 |

AIS: Adriatic-Ionian Strategy

DS: Danube Strategy

RCC: Regional Cooperation Council

CfG: New initiative by the European Commission – growth and employment

Table 2.

### 7.3 List of grants approved in 2013

| Project Code               | Operation Title  | Beneficiary                           | Grant type                  | Lead IFI(s) | Grant allocated (€) | Loan Estimation | Total Estimated Investment |
|----------------------------|--|---------------------------------------|-----------------------------|-------------|---------------------|-----------------|----------------------------|
| <b>Round 9 – June 2013</b> |  |                                       |                             |             |                     |                 |                            |
| WB9-BIH-ENE-01             | HHP Babino selo  | Bosnia and Herzegovina                | CD, EIA, FS, SIA            | EBRD        | 750,000             | 22,000,000      | 28,850,000                 |
| WB9-BIH-ENE-02             | HPP Vinac  | Bosnia and Herzegovina                | CD, EIA, FS, SIA            | EBRD        | 750,000             | 20,000,000      | 25,850,000                 |
| WB9-BIH-ENE-03             | Pale district heating  | Bosnia and Herzegovina                | CF                          | EBRD        | 1,500,000           | 4,500,000       | 7,600,000                  |
| WB9-HR-ENE-01              | JANAF oil pipeline upgrading   | Croatia                               | ATP, EFA, EIA, PD, SIA, TMA | EBRD        | 1,600,000           | 20,000,000      | 53,600,000                 |
| WB9-MKD-ENE-01             | 400kV interconnection from part of Bitola (from) - Elbasan (Albania) line & substation | former Yugoslav Republic of Macedonia | DD                          | EBRD        | 900,000             | 37,300,000      | 43,500,000                 |
| WB9-SER-ENE-01             | 400kV OHL from sub-stations Bajina Basta to Kraljevo                                   | Serbia                                | EIA, FS, PD, SIA            | KfW         | 800,000             | 35,000,000      | 40,800,000                 |
| WB9-REG-ENE-SDP-01         | Biomass heating in Western Balkans sector study  | Regional                              | SD                          | WB          | 875,000             |                 | 875,000                    |
| WB9-BIH-ENV-03             | Water supply & sanitation in FBiH  | Bosnia and Herzegovina                | PIU                         | EIB         | 1,250,000           | 60,000,000      | 121,300,000                |
| WB9-REG-ENV-SDP-01         | Klokot water source (Bihac) protection zone study                                      | Regional                              | SD                          | WB          | 750,000             |                 | 750,000                    |
| WB9-HR-SOC-01              | Health institutions reconstruction & construction of depts & centres                   | Croatia                               | ATP, DD, EIA, FS, PD, SIA   | CEB         | 1,500,000           | 29,295,000      | 60,090,000                 |
| WB9-HR-SOC-02              | Zadar University: new campus & Learning Resource Centre                                | Croatia                               | ATP, TMA                    | EIB         | 1,200,000           | 15,000,000      | 90,000,000                 |
| WB9-SER-SOC-01             | Palace of Justice  | Serbia                                | PIU, SoFW                   | EIB         | 800,000             | 45,000,000      | 91,800,000                 |
| WB9-REG-SOC-SDP-01         | Higher and Professional Education Finance in South East Europe - pilot project         | Regional                              | FS, TMA                     | KfW         | 400,000             |                 |                            |
| WB9-KOS-TRA-01             | Railway Route 10 rehabilitation  | Kosovo                                | ATP, DD                     | EBRD        | 1,840,000           |                 | 70,000,000                 |
| WB9-MKD-TRA-01             | Motorway A4 Skopje - Blace, section Stenkovec interchange Blace                        | former Yugoslav Republic of Macedonia | DD, EIA, FS, PD, SIA        | EBRD        | 1,000,000           | 100,000,000     | 101,000,000                |

Table 3.

| Round 10 – December 2013 |                 |  |                                       |                   |      |           |             |             |
|--------------------------|-----------------|--|---------------------------------------|-------------------|------|-----------|-------------|-------------|
| ■                        | WB10-KOS-ENE-01 | Rehabilitation for DH in Gjakova                   | Kosovo                                | FS, ESIA, TD      | KfW  | 600,000   |             | 600,000     |
| ■                        | WB10-MNE-ENE-01 | Gas development masterplan                         | Montenegro                            | I                 | EBRD | 550,000   |             | 550,000     |
| ■                        | WB10-SER-ENE-01 | Biomass fired cogeneration plant Subotica          | Serbia                                | PD, ATP, SofW     | KfW  | 600,000   | 20,000,000  | 24,800,000  |
| ■                        | WB10-ALB-ENV-01 | Water supply in rural areas                        | Albania                               | FS, DD, ATP, SofW | KfW  | 750,000   | 24,000,000  | 42,800,000  |
| ■                        | WB10-MKD-ENV-01 | Water and Sewerage Programme                       | former Yugoslav Republic of Macedonia | DD, ATP, SofW     | KfW  | 400,000   | 8,635,000   | 13,099,143  |
| ■                        | WB10-SER-SOC-01 | Post-earthquake housing reconstruction in Kraljevo | Serbia                                | PIU, TMA          | CEB  | 880,000   | 8,000,000   | 14,200,000  |
| ■                        | WB10-MNE-TRA-01 | Bar-Vrbnica Railway Line Upgrade                   | Montenegro                            | FS, ESIA, DD, TMA | EIB  | 1,000,000 | 40,000,000  | 47,300,000  |
| ■                        | WB10-MNE-TRA-02 | Priority bypass on Montenegrin coast               | Montenegro                            | FS, DD            | KfW  | 500,000   | 50,000,000  | 51,500,000  |
| ■                        | WB10-SER-TRA-02 | Construction of Highway E-80 (Merdare to Doljevac) | Serbia                                | PFS, I            | EIB  | 900,000   | 320,000,000 | 321,000,000 |

Table 4.



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