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The Price of EU Membership: Implications of the Stabilisation and Association Agreement to Bosnia and Herzegovina's Policy Reform

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The development of EU accession processes in the Western Balkan states would alter Bosnia's reluctance to pursue tough reforms, otherwise the economy loses a good chance to achieve sustainable development, if not to survive. As the neighbouring countries' EU accessions become a matter of reality and hence EU boundary will emerge just in front of Bosnia, the time is running out to let the Bosnian exports comply with various EU standards. This is not a mere technical issue in trade facilitation, but has significant implications to domestic political process. However, there is a risk of moral hazard in Bosnia to pursue reforms. To avoid the risk of 'waiting game' between Brussels and Sarajevo, a more proactive interventionist approach may want to be considered for the EU.

Key words: Bosnia and Herzegovina, European Union, Stabilisation and Association Agreement, regionalism, post conflict

1. INTRODUCTION

The sixteen years after the General Framework Agreement for Peace in Bosnia and Herzegovina, so-called the Dayton (Peace) Agreement, saw no recurrence of violent conflict in Bosnia and Herzegovina (BiH). Under the international supervision exercised by the High Representative and EU Special Representative supported by the Office of the High Representative (OHR), BiH endeavours to pursue the dual goals of post-conflict state building and post-socialist economic transition.

BiH has been in a process of EU accession since 2000 when the European Council stated that BiH, among others in the Western Balkan region, were potential candidates for EU membership. The accession countries are required to complete a variety of institutional reforms as the condition to proceed to the EU entrance. One of the important steps for the accession countries to realise the membership is a signature of

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Stabilisation and Association Agreement (SAA) by which a country can enjoy tariff-free access to EU markets and financial and technical assistance by the EU but with reform obligations (although the reforms themselves contribute to strengthening the country's capacity). By satisfying the provisions of SAA, a country is formally granted a 'candidate status' by Brussels.

While other Balkan countries went through the process, BiH finally signed the SAA in June 2008—after a compromise of the EU in an important reform condition on the one hand and a series of setbacks in which political divisions between the three ethnic groups have delayed the required reforms to be pursued on the other. The latter has made BiH the last runner of the accession race.

The international community believed that BiH's nationalist politics would progressively fade away and that a more 'Western-style' political system would develop to replace them. However, the political life is still led by three nationalist parties. The two entities of the Federation of Bosnia and Herzegovina (Bosniac and Croats) and the Republika Srpska (Serbs) still fear each other; and this feeling constitutes one of the main obstacles to the creation and consolidation of common institutions and a *state* (Juncos 2005). The division and tensions between the three have had significant negative implications to BiH's post-conflict rehabilitation and longer term sustainable development.

This article was initially motivated by the following questions. The EU has been promoting political and economic reforms in counterpart countries leveraged by granting preferential access to its lucrative market. In BiH context, to maintain and strengthen the stability of the Western Balkan region is of an important security issue for the existing EU members. Hence it is legitimate for the EU to be involved in BiH's post-conflict rehabilitation. However, the recent worldwide financial crisis triggered by the 2008 Lehman shock and Eurozone debt crisis may have impacts on Brussels' external policies. For BiH side, there might also be skepticism about the value of a EU membership at the expense of the politically costly reforms—that 'how much does a EU membership give us tangible (and shorter term) benefits?' and that 'do we really have to meet the EU condition *in full*, while Brussels may concede again in future negotiation stages?

In short, this article is concerned about the policy changes in Brussels and Sarajevo under the recent (and ongoing) worldwide economic crisis and the 2008 signature of the SAA, if any, and the implications thereof to the latter's development. For this

purpose, this article examines the three hypotheses. First, the EU might have become reluctant to promote BiH's accession process due to the expected burden (not merely financial assistance to BiH but unexpected problems implied by the Greek sovereign debt crisis) as well as to the twin fatigues of 'accession fatigue' (MacDonald and Buckley 2011)—i) the admission of the twelve new members in 2004 and 2007 is enough and ii) 'Bosnia fatigue', Brussels' irritation at the series of non-compliance with the EU's conditions. Second, the EU economic crisis may discourage BiH's reform efforts, as there is little space for politicians to pursue difficult reforms at the expense of constituency's support. Third, hence the SAA signature brings about limited impacts, if not little, on BiH's reform efforts towards a sustainable economy, let alone an EU membership.

This article is organised as follows. Section 2 overviews the current settings and issues with particular focus on BiH economic aspects. Section 3 examines BiH's EU accession process. After reviewing the trajectory in the last fifteen years, the EU's approach to BiH and the policies behind it are examined. Subsequently section 4 investigates the benefits and costs as well as the implications of the SAA to BiH, and section 5 concludes this article.

Although the domestic political process in BiH has played a primary role in the country's disappointing records of reform efforts and EU accession process, it is not within the scope of this article to provide an account of the BiH politics—which the literature has already had profound analyses.

2. ISSUES IN BOSNIA'S ECONOMY

In 2010, the economic size (gross domestic product: GDP) of BiH was about USD 8.2 billion with GDP per capita of over USD 2,000 (or USD 4,500 at current price) (Table 1). Service sectors (e.g. retail trade, public administration and financial services, among others) accounts for more than 60 percent of total value added. The income level and the share of services in the economy suggest that the country is categorised as a middle income economy. Nevertheless, the industrial base is weak (largely due to the destruction by the war and the falter in post-socialist transition) and consisted of few number of large scale factories in, namely, metal sector and small and medium scale enterprises with lower technological levels. World Bank (2011b: 2) points out that BiH is 'a predominantly rural country... and agriculture production represents a

great area of potential for economic growth and employment' to address the high rate of unemployment (27 percent). The exports account for 11 percent of GDP in which manufacturing sectors—mainly footwear in the 'Miscellaneous manufactured articles' and base metals (aluminium, iron and steel) in 'Manufactured goods' of Table 2—are the main contributors. The economy has been running trade deficits (about 20 percent of GDP) which are financed by foreign credits (*ibid.*).

Table 1. BiH selected economic indicators: 2005-2010

	05	06	07	08	09	10
GDP (a) (b)	7 013	7 447	7 957	8 388	8 128	8 193
GDP growth (%)	5.0	6.2	6.8	5.4	-3.1	0.8
GDP per capita (a)	1 854	1 969	2 106	2 223	2 157	2 179
Agriculture value added (c)	10.5	10.4	10.1	9.1	8.0	8.1
Industry value added (c)	25.1	24.7	27.4	28.5	28.1	28.8
o/w Manufacturing (c)	11.3	11.9	14.2	14.1	12.9	13.2
Services value added (c)	64.4	64.9	62.6	62.4	63.9	63.1
Unemployment (%)	n.a.	31.8	29.7	23.9	24.1	27.2
Export goods & services (c)	32.7	36.9	38.9	36.8	33.4	40.7
Export goods & services (d)	16.2	13.7	12.6	4.2	-3.5	11.3
Import goods & services (c)	73.9	67.1	73.3	69.4	58.0	62.3
Import goods & services (d)	7.9	-10.7	16.6	-1.9	-4.5	-3.9
Agricultural raw materials export (e)	9.8	8.3	8.2	6.8	6.2	n.a.
Manufactures export (e)	57.6	62.1	63.3	64.0	60.7	n.a.
FDI inflow (f)	613	766	2 080	932	246	63

Notes: (a) constant 2000 USD, (b) millions, (c) % of GDP, (d) annual % growth, (e) % of merchandise exports, (f) USD millions at current price

Source: World Development Indicators database (World Bank 2011c), Labour Force Survey 2010 (Agency for Statistics of Bosnia and Herzegovina 2010), UNCTAD (2011)

Table 2. BiH exports and imports by commodity: 2010

SITC Rev.4 sections	Exports		Imports	
	Km 000's	%	Km 000's	%
Food & live animals	436.8	6.2	1 859.9	13.7
Beverages & tobacco	54.2	0.8	442.2	3.2
Crude materials, inedible, except fuels	906.2	12.8	475.0	3.5
Mineral fuels, lubricants & related materials	1 103.2	15.5	2 627.4	19.3
Animal & vegetable oils, fats & waxes	54.3	0.8	85.2	0.6
Chemicals & related products	366.2	5.2	1 642.1	12.1
Manufactured goods	1 821.4	25.7	2 670.4	19.6
Machinery & transport equipment	841.2	11.9	2 523.5	18.5
Misc. manufactured articles	1 511.4	21.3	1 290.0	9.5
Commodities & transactions, n.e.c	0.7	0.0	0.6	0.0
TOTAL	7 095.5	100.0	13 616.2	100.0

Source: Agency for Statistics of Bosnia and Herzegovina (2011)

The impacts of the global economic and financial crisis were significant. According to the database of the United Nations Conference on Trade and Development (2011), BiH received foreign direct investment (FDI) of USD 63 millions in 2010 and saw a

drastic decline from USD 2.1 billions in 2007, whilst the economy saw a negative growth of -3.1 percent in 2009 for the first time after the war. Above figures suggest that the FDI plays a major role both positively and negatively in the economic performance with such a narrow industrial base. MacDonald and Buckley (2011) suggest that the West Balkan countries, including BiH, are also among the countries that would suffer the most from the current Eurozone crisis. While central European states (e.g. Poland and the Czech Republic) have become manufacturing powerhouses exporting to Western Europe, much of the investment for Western Balkans tends to be directed into the sectors such as construction and tourism—which are susceptible to recession.

Table 3. Regional comparison: 2009

	BiH	Croatia	FYR Macedonia	Montenegro	Serbia
GDP (USD million)	17 042	63 034	9 221	4 141	42 984
Population (000's)	3 767	4 432	2 042	624	7 320
GDP per capita (USD)	4 525	14 222	4 516	6 635	5 872
Merchandise exports (USD million)	3 954	10 474	2 692	414	8 345
EU share in total exports (%)	54	61	56	48	54
Export composition (%)					
Agricultural products	14	17	19	14	24
Fuels & mining products	24	17	4	42	12
Manufactures	59	66	51	42	62
Global competitiveness index ranking (2011-12)	100	76	79	60	95
Doing Business ranking ('10)	110	84	38	66	89
SAA/IA signature	Jun 08	Oct 01	Apr 01	Oct 07	Apr 08
IA entry into force	Jul 08	Mar 02	Jun 01	Jan 08	Feb 10
SAA entry into force	?	Feb 05	Apr 04	May 10	2012 ?

Sources: Eurostat; World Bank, World Development Indicators and Doing Business database; WTO statistics; World Economic Forum (2011)

The Global Competitiveness index in Table 3 ranks BiH 110 in the world, compared to 38, 66, 84 and 89 for FYR Macedonia, Montenegro, Croatia and Serbia, respectively. The GDP per capita, USD 4,525, is the lowest level among the counties, lagging far behind Croatia of USD 10,474. World Bank's Doing Business ranking indicates that the business environment (i.e. a proxy for investment environment) of BiH is again the worst among the economies. As the export structure and its reliance on the EU market are similar to other economies (who are also EU accession countries and hence practical competitors), enormous efforts—such as upgrading in physical infrastructure, business environment and human capital as well as greater coherence

in administrative system, to name a few—are vital for BiH economy to *survive*, let alone to prosper in the long run.

World Bank (2011b: 8) indicates that BiH needs to address three critical and interrelated development challenges: i) to sustain growth through improved competitiveness; ii) to reform public finances and institutions to improve service delivery and to make growth more inclusive and iii) to achieve the sustainable use of the natural resources by adapting to the climate change. Lack of progress in tackling the weakness in governance may undermine any progress on these challenges. BiH lacks coherent countrywide sectoral policies in the areas of energy, agriculture, education and transportation. The enterprise sector has been hit by an unfavourable regulatory environment and increased costs and risks due to ‘a large and complex public administration and layers of administrative approval authorities’ (World Bank 2011a: 3). Corruption is said to be prevalent throughout the administrative agencies of state, entity and canton levels¹.

There is a broad consensus that such weakness is ascribed to the deficiency in constitutional settings and administrative structure under the Dayton system². Although the Dayton Agreement achieved the end of the deadly war, it also established the unwieldy, redundant constitutional structure—2 entities for 3 constituent peoples of Bosniacs, Croats and Serbs, 5 presidents, 4 vice presidents, 13 prime ministers, 14 parliaments, 147 ministers and 700 members of parliament, all of whom serve a population of just under four million people (Joseph and Hitchner 2008). Some elements of this complexity were the result of necessary compromise to end the war. Nevertheless, the institutional inefficiency with complicate decision making, delayed reforms and political, ethnic stalemate have had significant implications to the country’s sixteen years of post-conflict trajectory, as represented in the disappointing performance above³. The EU’s wide range of conditionality for BiH’s EU accession is intended to address these problems. The following section examines the EU policies towards BiH, and explores the factors which have prevented the union’s efforts from functioning effectively.

3. BOSNIA’S INTEGRATION FOR EUROPE

3.1. Stability Pact and Stabilisation and Association Process

The EU’s policy framework towards the Western Balkan region is represented by the

Stability Pact for Southeast Europe and the Stabilisation and Association Process (SAP); the both launched in June 1999. The Pact, being the leading strategy, and the SAP, as a complementary to the Pact, are seen as the cornerstone of the EU's policy to promote stability and to facilitate closer association with the EU (World Bank 2007: 78-9; Bechev 2006: 36)⁴. The Pact, consciously modelled on the post-1945 Marshall Plan, attempts to replace the previous reactive intervention policy with a comprehensive long term approach in order to address the common problems and prospects observed in the Western Balkans (Belloni 2009: 318-9). With the SAP—launched in 1999 in response to the war in Kosovo and exclusively designed for the Western Balkan countries (i.e. BiH, FYR Macedonia, Serbia, Montenegro and Kosovo)—the EU stated that countries were 'potential candidates' for EU membership⁵.

This has effectively given the countries credible prospect of EU membership, which would be the main motivator for reforms in the accession countries. Belloni (2009: 319) points out that the shift from post-war stabilisation to an agenda of enlargement has provided two important advantages compared to the previous conflict management policies. First, addressing the situation in the Western Balkans as an enlargement issue rather than as a foreign policy issue has allowed European institutions and EU member states to reduce ambiguities and divergent preferences to, say, Bosnia (against Serbs). Second, the promise of association and eventual membership has provided the EU with the opportunity to deploy the full strength of political conditionality (see below).

3.2. EU's normative power and 'Carrots and Sticks' approach

The philosophy behind the SAP is underwritten by the concept of *normative power* by the means of persuasion and sympathy with EU values—such as commitment to the promotion of democracy, the rule of law and human rights. Juncos (2005: 97) argues that the EU describes its role as a norm promoter in the regional and international stage. A normative power would be characterised by the centrality of civilian instruments (e.g. economic, financial and diplomatic tools), by the use of force as the last resort, being possible and necessary in specific circumstances and by the promotion of multilateralism and regional cooperation through its external actions for achieving stability and security. In the SAP context, the EU has wielded considerable ideational power as a promoter of certain normative notions of appropriate state

behaviour with the *carrots and sticks* approach (i.e. both positive and negative conditionality in BiH's reforms), leveraged by granting the preferential access to EU market and membership of the union (*ibid.*: 94; Bechev 2006: 28).

In fact the conditions to pursue necessary but politically sensitive reforms (based on the shorter term calculations of the costs and benefits, i.e. *carrots and sticks*, in which EU aspiring governments respond to the material incentives offered by the European institutions) and social learning (i.e. the longer term redefinition of interests and identities of domestic players) are identified as the two main pathways of EU influence in the Western Balkans (Belloni 2009: 318-20; Coppieters *et al.* 2004). In this regard, an EU membership is considered to be the strongest incentive which would propel the process from stabilisation to association and to integration. The membership carrot should promote the required 'internal changes that would bring BiH into line with the EU standards, both political and economic' (Juncos 2005: 98; Kim 2005). The drawback of this conditions and carrots and sticks approach in BiH will be discussed below.

3.3. EU's policy objectives and experience in the Western Balkan

A review of the EU policy objectives towards the Western Balkan region—with investing considerable political and economic resources aiming to enhance institutional building, economic reconstruction and regional cooperation in the countries—may be of help for the subsequent discussions. The primary goal is no doubt security and stabilisation of Europe. The European Commission identified the prospect of an EU membership as the ultimate conflict prevention strategy (European Communities 2005). The 'academic near-consensus is that the Western Balkans' greater involvement in European institutions is the necessary condition for stabilisation' for Europe, and it constitutes the essential component of EU's foreign policy (Belloni 2009: 313). Javier Solana (2001), then the EU's High Representative for Common Foreign and Security Policy, explicitly stated:

'I make no apologies for concentrating on the Balkans. They are on our doorstep. The security of Europe depends on stability in the Balkans. They are also a test case for Europe's enhanced Common Foreign and Security Policy. Nowhere more than in the Balkans is the EU expected to deliver'.

Besides the violent armed conflict, transnational and regional issues, such as organised crime, are also an important concern for Brussels in BiH context. Belloni (2009) points out that once the Western Balkans is integrated into European institutions, the fight against organised crime should be easier to tackle, since the region will be part of the EU's law enforcement space. The promotion of the rule of law with functioning governments in the region (where hubs of organised crime, weapons smuggling, human trafficking, drug trafficking have existed) should reduce the threats which could easily spill over into the EU area. In fact one of the main priorities of the European Union Police Mission in BiH and European Union Force has been explained in this context⁶. The economic instruments, including preferential access to EU market and regional integration arrangement as well as considerable development assistance are placed under the objectives.

With the advent of the Kosovo conflict, the new century saw Brussels' shift in its policy for the Western Balkan region from an 'external relations' to the 'enlargement' segment with more engaged stance⁷. The 2000 Zagreb Summit between the Western Balkans and the EU declared that 'the deepening of regional cooperation [would] go hand in hand with rapprochement with the EU' (EC 2000). This declaration was materialised by the signature of the SAAs between the EU and Macedonia and Croatia in 2001. The following 2003 EU-Western Balkan Summit in Thessaloniki introduced a number of new instruments such as the European Partnerships, which made the SAP much closer to the accession process. In that sense, the summit was a move in the direction of the *hub and spoke* model in which Brussels sitting in the centre would make bilateral arrangements with each Balkan state. The Thessaloniki Agenda adopted at the summit seeks to balance the benefits between Brussels and the West Balkan countries by calling for reinforced cooperation in areas such as visa-free travel in the region and combating trans-border crime (EC 2003).

As in the Table 3, some countries are duly proceeding to the ladder towards EU membership. Croatia has closed the accession negotiation with the EU in June 2011, and the Accession Treaty has been signed in 9th December, leading to its scheduled EU membership in July 2013. For FYR Macedonia, the European Commission recommended the opening of accession negotiations to the union in October 2009, followed by visa liberalisation in EU area into force in December same year.

3.4. Dragging process in BiH

Table 4 reports the brief trajectory of BiH's EU accession process. Currently BiH remains the slowest among the region in the EU integration process. Although the SAA and Interim Agreement on Trade and Trade-related Issues (IA) have been signed in 2008, the former's entry into force is still on hold.

Table 4. Key dates in BiH's path towards the EU

1995	- The Dayton Agreement reached (Nov), and formally signed in Paris (14 Dec).
1997	- EU establishes political & economic conditionality for development of bilateral relations.
1998	- EU/BiH Consultative Task Force established.
1999	- EU proposes the SAP for 5 countries of South-Eastern Europe (SEE), including BiH.
2000	- Feira European Council states all SAP countries are potential candidates for EU membership (Jun). - Zagreb Summit launches SAP for 5 countries of SEE (Nov).
2003	- EC produces a feasibility study assessing BiH's capacity to implement a SAA. - Thessaloniki European Council: SAP is confirmed as EU policy for Western Balkans. This confirms the EU perspective for the countries (Jun). - The European Union Police Mission (EUPM) is launched as the 1st European Security and Defence Police (ESDP) mission
2004	- The EU decides on the 1st European Partnership for BiH. - EUFOR ("Althea" operation) replaces NATO's SFOR mission.
2005	- SAA negotiations are officially opened in Sarajevo (25 Nov).
2006	- SAA negotiation concluded (Dec).
2007	- Miroslav Lajcak becomes new High Representative/EU Special Representative (1 Jul). - Visa facilitation & readmission agreements with European Community signed (18 Sep). - EU initials the SAA (4 Dec).
2008	- Visa facilitation and readmission agreements enter into force (1 Jan). - A new European partnership is adopted by the Council (Feb). - BiH signs Instrument for Pre-accession Assistance (IPA) Framework Agreement (Feb). - Visa liberalisation dialogue launched (26 May). - EC presents roadmap setting out benchmarks for visa liberalization (5 Jun). - SAA and Interim Agreement on trade and trade-related issues signed (16 Jun). - Interim Agreement on trade and trade-related issues enters into force (1 Jul). - BiH & the EC sign the financing agreement for IPA 2007 National Programme (31 Jul).
2009	- Valentin Inzko becomes new High Representative/EU Special Representative (Mar).
2010	- EC adopted a proposal enabling citizens of Albania and BiH to travel to Schengen countries without needing a short term visa (May)

Source: EC (2010)

The country has disappointing records to meet the preconditions for every step in the accession process due to the lack of implementation of the required reforms. For example, the European Commission filed a Feasibility Study for the SAA in late 2003 and outlined 16 priority tasks (i.e. conditions) for BiH to complete prior to opening SAA negotiations, mainly dealing with the capacity of state institutions (which was not completed in the end). Even after the European Commission considered it was prepared to launch negotiations for SAA based on a 'positively' evaluated feasibility study (thanks to Brussels' political compromise), the failure to meet the preconditions

listed in the document, notably the reform of police forces, has prevented BiH from proceeding the process (Bechev 2006).

Besides the BiH government's insufficient capacity, many delays in implementing reforms (in even purely technical issues) are explained in political context. Joseph and Hitchner (2008) argue that the shared aspiration, i.e. EU accession, is not fully neutral; rather, by encouraging more concentration of power at the state level, it inherently favours the Bosniac interest (sometimes shared by Croats) to make the central state operational at the expense of the RS side (as well as of Serb's sentiment on war crimes issues). This facet was typically found in the late 2007 political crisis which was considered as the most serious one since the Dayton Agreement. The crisis was triggered by the Serbs' refusal to accept procedural rules limiting ethnic vetoes and by a plan to create a single police force in the country. 'Serbs feared that the first proposal would marginalise them in state institutions, while the second one would lead to a loss of autonomy for their self-governing RS' (Belloni 2009: 321).

While the carrot of an EU membership can be an incentive for Serb cooperation, but not a decisive one. Serb leaders have made it clear that 'when the choice is between Brussels and RS, we choose RS' (Joseph and Hitchner 2008: 4). This represents the persistent distrust among the entities; and the stalemate of reforms due to the political resistance is a textbook case of the Prisoner's dilemma. Aybet (2010: 32) summarises that 'considering the unique structure of the country—two entities, one of them comprising several cantons—and the international struggle to create functioning state-level institutions while societal divisions still persist, it is a wonder that any progress at all has been made in the Bosnian case'.

3.5. Critique on EU approach

Besides the domestic political divisions, the disappointing performance of BiH's reform implementation can be also ascribed to the problems of EU side as well. First, in retrospect, the literature doubts the effectiveness of external pressure with the carrots of EU accession and sticks of the Bonn Power exerted by the OHR to enforce reforms. McMahon and Western (2009) contend that exposing the costs of obstructionism and corruption to all Bosnians would weaken political support for the ethnic nationalists and create a stronger domestic constituency for reforms and for the development of a functioning central state. In practice, however, the Bosnia's sixteen year experience after the Dayton does not support this contention.

Domm (2011: 59-60) argues that the international community tends to approach BiH as a political problem requiring a political solution to post-conflict stabilisation. This typically involves pressuring domestic political actors to implement key reforms and to resolve sensitive issues, where this has often led to confrontations and overt politicisation of reforms, ending up with the sustained support for nationalist political forces and decline in support for EU integration (as evidenced in the RS discontent with the international institutions such as the OHR and International Criminal Tribunal for the former Yugoslavia (ICTY)). In ethnically divided societies, electoral competition is not associated with the emergence of moderate parties heading for the centre ground, but rather with polarisation and a 'race to the bottom' amongst extremists (Vicente and Wantchekon 2009)⁸.

External hands-on does not solely create antagonism, but dependency as well. Belloni (2009) and Domm (2011) point out that external imposition has led to a significant free ride phenomena in BiH and prevented from developing effective partnerships between international and domestic actors and from fostering domestic (i.e. BiH's) ownership to carry through with the difficult reforms⁹. In BiH, a de facto 'semi-protectorate' under the authority of the Bonn Powers, local politicians have regularly maintained an intransigent attitude, avoided inter-ethnic cooperation and accommodation and then blamed international organisations for their own failure to make good on their electoral promises.

Second, the uncertainty and inconsistency instigated by EU's structural problems may have distorted BiH's reform efforts. Belloni (2009: 324-5) raises concerns about the EU strategy that there are persistent internal divisions both among EU member states and within European institutions, pointing out that 'EU member states often struggle to maintain a semblance of unity' in key issues (e.g. further enlargement and the recognition of Kosovo's status). Despite the rhetoric of partnership, the execution of EU policies is still 'visibly top-down' (*ibid.*: 326). A part of EU conditionality towards the West Balkans involves the requirement of 'full cooperation' with the ICTY. In practice, this meant that the ICTY and its chief prosecutor became the de facto 'gatekeepers' in the process of European integration¹⁰. The lack of clarity about the respective responsibilities of the EU and ICTY in ascertaining compliance created an impression of indecisiveness. As such Belloni calls for a clear division of responsibilities between the technical/practical requirements to assess the degree of cooperation with international penal institutions and the task of elaborating a political

strategy. In this regard, EU foreign policy institutions, the ICTY, the Stability Pact and the SAP could all be criticised for their excessive attentions to BiH political leadership which polarised between Europeanised elites and non-Europeanised and alienated citizens.

In addition, the long term timeframe of accession process and inconsistent application of conditionality complicate the short term local endorsement of reforms, because local leaders need to deliver tangible results to their constituencies to push through tough reforms. In late 2007, for example, Bosnian authorities accepted a (revised) reform agenda package as a result of the EU's decision to authorise the SAA. However, the ICTY's demand of the '5-plus-2' objectives/conditions and the European Court of Human Rights judgements served effectively as additional membership criteria on top of the package (Anastasakis 2008)¹¹. For BiH side, the goal of its EU membership turned into a 'moving target' (Bechev 2006: 39)¹². The inconsistency is found, for example, in the accession experience of Bulgaria and Romania. The two states were allowed to join the EU in 2007 without doing enough to tackle organised crime and corruption, although they had been held to much higher standards (MacDonald and Buckley 2011). It appears to be an obvious double standard for Bosnians who face the same condition; and such inconsistency can reasonably generate moral hazard within BiH's reform efforts.

Third, Bosnia's unique conditions may have undermined the applicability of the uniformed EU approach. According to Belloni (2009), EU-induced, action-oriented reforms and instruments have long been anticipated to fail to address key BiH-specific problems, in particular the need to develop state and region-wide institutions. Due to the country's post-conflict status, the *acquis communautaire* and political conditionality (i.e. *acquis démocratique*), on which the EU's entire policy framework relies, are regularly contested. The conditionality-based Europeanisation process has been unable to alter domestic political actors' behaviour and to promote consensus (Domm 2011).

Aybet (2010: 32) argues that the process of norm compliance in traditional conditionality literature is not applicable to post-conflict states in which central state-level institutions are weak and there is very little consensus at the elite level about the contours of the new state. Indeed there have been successful cases in central and eastern Europe in which externally induced state building through conditionality worked for EU enlargements. The primary contribution to the successes was the

domestic ownership of state transformation which allowed the accession processes to be driven in mutually (i.e. Brussels and counterpart states) cooperative manner. In contrast, the Bosnian case shows that conditionality works very differently in post-conflict societies—if not hardly (*ibid.*: 21)¹³¹⁴.

3.6. Fluctuations and compromises in EU approach

The EU policies and approaches have not necessarily been consistent as mentioned previously. The compromise in the police reform has further damaged the credibility of EU conditionality. At the final stage of the SAA negotiation in April 2008, it stalled due to a disagreement over the prolonged, controversial police reform. The EU conceded its position substantially and watered down the centralisation aspect of the police system, putting the adaptation of the SAA before the effectiveness of the reform. Domm (2011) explains three factors for the compromise. First, there was a shared belief between the both parties that the SAA would be essential to realising the political and economic security of EU territories and Balkan region. Second, as the regional hegemony, the EU might have faced blames from the international community in case the EU failed to bear the responsibility (i.e. non-success in the SAA negotiation with BiH). And third, the six month term of EU chairmanship makes every chair country tend to seek for tangible, short term achievements. In 2005 afterwards, EU politicians had been optimistic about pushing reforms and other short term fixes in BiH and hence about making a signal of a ‘decisive break’ with the past. However, continual raising and dashing unrealistic expectations have contributed to a sense of instability and pessimism in chair countries and have lead to frustration in Brussels. The rotating EU Presidency may have added a structural dimension to this issue.

The police reform was not the only compromise by the EU. In March 2000, Brussels presented a Road Map which sketched out eighteen steps to be taken by BiH to qualify for a Feasibility Study for the SSA. The Map told BiH to strengthen the state institution by establishing a state treasury, ensuring funding for the State Border Service and removing all trade barriers between the entities. The Map, however, faced resistances from the Serb and Croat political parties. They tried to keep the state-level institutions as weak as possible, whereas the Bosniac and multi-ethnic political parties wanted to concentrate responsibilities at the state level. The EU initially expected the Map's conditions to be fulfilled within six months; but saw no significant progress.

However, only a few days before the elections in October 2002, the EU assessed the Map as ‘substantially completed’ (Commission of the European Communities 2003: 5; Hadikaduni 2005). Subsequently in November 2003, the EU’s Feasibility Study demanded significant progresses in sixteen priorities as the precondition for the SAA negotiation. The priorities included realisation of a ‘single’ economic space (i.e. streamlining the varying regulations between entities) as well as the structural reform of the police (Commission of the European Communities 2003). The series of negotiations illustrates how easily Brussels has watered down the conditions for Bosnia’s SAA (followed by renewed requirements, though). It reasonably appears to Bosnians that the conditions for EU membership can be flexible, if not inconsequential (McMahon and Western 2009).

Despite these setbacks, there is ‘a marked difference in the way international institutions have ... approached their roles in Bosnia’s state building process’ (Aybet 2010: 22-3). The EU (and NATO as well) have moved away from the interventionist, top-down approach exhibited in the Bonn Powers to a softer process of *guidance and persuasion*. Aybet explains that this move was largely driven by the conclusions of the Venice Commission report in 2005 (European Commission for Democracy through Law 2005), which calls for a reduction of the interventionist role of external actors as the only way to create effective state institutions and domestic state building. In part, this can be considered as a realistic evaluation of the past dismal record of imposing reforms with deadlines (which ended up generating antagonism among domestic parties against the EU and its approach).

The author’s research trip to Sarajevo in September 2011 has also confirmed the shift of EU approach ‘from imposition to facilitation’—that is, *although Brussels does set policy targets, it places no definite deadlines but ‘waits for the BiH side to arrive’¹⁵. The accession process will not advance unless BiH clears the targets; but the EU spares no assistance to that end*. This may be an indication that Brussels no longer scrambles to realise BiH’s accession; it can be as late as Kosovo’s. If so, it is a drastic policy shift. In the past the EU conceded even in the vital police reform—which represented the union’s emphasis on ‘soft power’, giving prominence to confidence building activities—so that BiH’s accession process could proceed to the next step. The EU’s shift, if any, might be a reflection of the ‘enlargement fatigue’ (MacDonald and Buckley 2011). They argue that the union have been suffering from fatigue after admitting twelve members in 2004 and 2007, and that the current Eurozone financial

problems have exacerbated the fatigue by making the biggest states wary of admitting small, weak economies.

This can be an opportunity to alter BiH's past resistance-oriented attitude. Belloni (2009: 322) is optimistic that the European perspective has the potential to achieve further reforms without the blatant top-down, social engineering tools frequently adopted by international actors. However, the failure of High Representative Schwarz-Schilling's minimalist 'local ownership' approach in 2006-07 period suggests that Belloni's presumption may not be materialised instantly¹⁶. Rather, there is a risk that the accession process would end up being a 'waiting game' in which Sarajevo expects another EU shift to more proactive stance, judged from Brussels' past record of fluctuations.

4. SAA: A ROAD MAP TO EU MEMBERSHIP

The BiH government and the EU signed the SAA and IA on 16 June 2008 in Luxembourg. As previously mentioned, SAAs are designed for the Western Balkans and are important components of the SAP, a formal contractual relationship between the signatories, and the European Neighbourhood Policy¹⁷. SAAs are based mostly on the EU's *acquis communautaire*, and must be ratified by the associating state and all EU member states. The SAA provides that most Bosnian products are subject to zero tariff in EU market, while Bosnian side is to gradually open its market to EU counterpart in five years. BiH will also introduce EU standards, progressively aligning its legislation in areas of competition, intellectual property, investment, public procurement and protection of personal data.

The SAA is regarded as the first step before BiH's application to the EU membership by which Brussels formally grants BiH a status as a *candidate country*. Upon the signature, the EU's Enlargement Commissioner Olli Rehn remarked '[T]he entering into force of this Agreement is a further proof of the EU's commitment to the European perspective of BiH. It will enhance economic development in the country. Its successful implementation is the gateway to candidate status' (EC 2008).

The accession to the EU (including the provisions of the SAA/IA) is expected to bring about number of benefits to BiH. The EU accession is broadly supported in BiH. In a 2009 opinion survey 66 percent of the population considered EU membership as a good thing; the mean respondent believed that Bosnia would join the

EU in 2022 (Gallup Balkan Monitor 2009). But on the other, all the major political parties have been careful not to say what sacrifices they are ready to make, while they have expressed their support for integration into the EU (Juncos 2005).

4.1. Immediate benefits of SAA and EU integration for BiH

The immediate advantages for accession countries can be summarised as financial support from Brussels, legal-bonded access to EU markets (and visa-free entrance to the Schengen area) as well as security and political stability. It will be also expected to encourage political and economic reforms in institution building, public administration, respect of human rights and the rule of law.

According to the World Bank (2007) calculation, the EU has given BiH about EUR 2.6 billion in financial assistance between 1991 and 2006. In the immediate post-war years funds were largely directed to refugee programmes and reconstruction projects, handled by the EU's humanitarian aid organisation. Since 2001 BiH has been a beneficiary of the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme, with the focus shifting from on post-war assistance to institutional capacity building and economic development¹⁸. Under the CARDS in 2001-06 years, the total EU assistance to BiH amounted EUR 600 million. Subsequently the EU has adopted a new financial aid mechanism, the Instrument for Pre-Accession Assistance (IPA), to streamline the different external aid components, to facilitate coherence and to improve consistency, replacing all previous external assistance programmes for candidate and potential candidate countries. The IPA covers the period 2007-13; the projected IPA volume for BiH amounts to EUR 550 million for 2007-12 period¹⁹. The IPA extends its cover to the areas of the rule of law, human rights, social inclusion and the protection of minorities as well as to the reforms in climate change, the media sector, public administration, the judiciary, unemployment, education and public health systems²⁰.

Even before the SAA signature, the majority of BiH products could enter the EU market duty-free by a preferential trade regime adopted in 2000 (which has expired in 2010 but reinstated in December 2011 for 4 years for all Western Balkans). By the SAA provision of free trade arrangement, the relative price competitiveness of Bosnian products will increase in the EU market. This opens opportunities for BiH to attract investments targeting the EUR 12.2 trillion market—which can contribute to addressing the high unemployment (particularly younger generations), to diversifying

the economic structure and to upgrading the BiH economy. In addition, the SAA provides BiH nationals visa-free entrance to the Schengen area. This has been the frequent demand of Sarajevo to address the high level of unemployment (Juncos 2005; Belloni 2009)²¹.

The accession can also achieve political stability and security. The EU shares this for its own benefit. McMahon and Western (2009) argue that BiH's geographical location 'prevents them from being ignored by their wealthy neighbours [in the west] ... a luxury that most conflict-ridden countries do not have'. The literature agrees that good relations with neighbours (i.e. the Balkan countries) through regional cooperation and deeper integration into the EU enhance stability and security. Gromes (2009: 437) argues that the prospect of EU integration has a role of discouraging the domestic extremists and secessionists, generating an increased acceptance of BiH as a common state of Bosniacs, Serbs and Croats. Brussels signals the Serb and Croat politicians in BiH that only acceptance of the common state would pave the way to an EU membership. They came to be aware that they were 'too small not to be a part of something undisputable'. In addition, by opening the prospect of EU memberships for Croatia and Serbia, the EU gave these countries an incentive to put up with the territorial integrity of BiH. In fact the policy changes in these neighbour states weakened the secessionist agendas in BiH. After the nationalistic HDZ (Croatian Democratic Union) party in Croatia had lost power in the elections in 2000, the new government changed policy towards BiH. In BiH, the OHR and the peacekeeping mission tackled illegal, ethnic exclusive power structures of the BiH political parties of SDS (Serb Democratic Party), (Bosnian) HDZ and Bosniac SDA (Party of Democratic Action), and blocked the option of the country's partition. With these regional and domestic developments, the institutions prescribed by the Dayton Accords gained relevance, and the conflict parties had to recognise that 'BiH was a fact'.

As evidenced in the cases of Mexico in the North American Free Trade Agreement and of Egypt under the European Neighbourhood Policy, regional cooperation and integration arrangement can create a 'policy lock-in' effect that member states are obliged to pursue policy measures stipulated in arrangement treaties (Watanabe 2007). This is particularly effective in economic reforms and relevant to BiH, because the country's socialist regulations can be liberalised with EU's incentives (e.g. loans from the Council of Europe Development Bank and European Investment Bank).

4.2. Issues and limits in SAA implementation

Bechev (2006: 38-9) argues that the EU sees free trade as an initial step in a longer term process. The SAA, like other institutional frameworks between the EU and neighbouring accession countries, provides for cooperation in terms of labour and capital mobility, reciprocal rights of business establishment and liberalisation of the trade in services. To make the regional cooperation and integration in the West Balkans *viable* (i.e. a common economic space under uniform rules of the game), the BiH-EU integration arrangement has to go beyond mere zero tariff; regional integration has figured amongst the goals further down the road²². Joseph and Hitchner (2008) also point out that the EU accession process puts onuses on the candidate countries to come up with their own solutions, not to depend on outside actors. This is the primary benefit of the SAA, forcing Bosnians to take ownership over their affairs, while eliminating debilitating dependency on the international community, especially the OHR. For instance, the Eastern Bloc transition countries acquired confidence in the ability of their political systems to develop vital institutional bargaining skills and to produce compromise in the course of their EU accession.

When it comes to BiH, however, such development appears to be a distant goal. Although there is a shared view that EU accession is the national priority, it does not narrow the gap between the competing political parties; no significant bargaining (like the experience observed in other accession countries) appears to take place. Rather, as evidenced in the police reform case, EU accession remains ‘secondary to the aim of preserving or even advancing the relative power of one’s own group’ (*ibid.*: 6). And the EU’s compromise may have constituted moral hazard within BiH to pursue reform agendas for EU accession²³.

More importantly, the SAA does not necessarily address the structural problems to achieve a longer term stability in BiH. Joseph and Hitchner stress that the SAA was not designed to resolve ethnic conflict or to address the dysfunctional constitutional structure (while it involves some transfer of powers from the entities to the state). For example, the full EU membership and associated investment and development have not worked out in the *impasse* between Greek and Turkish Cypriots. Although the *acquis communautaire* is an unparalleled spur to democratic reforms representing the union’s ‘soft power’, the reforms do not directly address the minority rights or provide human rights protections, let alone the divisions embedded in the post-conflict

country. It is naïve to consider the SAA as a panacea indeed. With acknowledging this limitation, the next section examines positive implications especially to economic perspectives.

4.3. The meaning of EU integration effort for BiH

For the BiH to make an internationally competitive economy and realise sustainable growth, the ongoing reform agendas have to be pursued not merely to meet the conditions for EU integration. The tariff-free access to the EU market should help BiH exports in theory. However, this advantage may not necessarily be materialised due to non-tariff barriers. The EU applies a variety of standards in the areas of food hygiene, environment and sanitary, among others. Under the absence of EU-compliant food safety institutions or regulatory framework in BiH, a broad range of its products remains banned from EU markets (World Bank 2011b). Take agricultural products. McMahon and Western (2009) illustrate by an example that Serb farmers in the RS who grow high quality organic fruits and vegetables cannot sell these lucrative products in the EU market because BiH does not have a centralised agriculture ministry which would have issued certificates to prove that the farmers' fruits and vegetables meet the required EU standards. BiH has duly established a state level Food Safety Agency, a Plant Health and Phytosanitary Agency and a Veterinary Office; and relating regulation has been developed. However, no sufficient agreement has been reached on precise demarcation of roles and responsibilities between various organisations as well as on the link to entity inspection services. Nor have laws and regulations been adopted and implemented. Currently such certificates can be obtained in Zagreb, Croatia, but costing EUR 25,000 per product²⁴.

Table 5. BiH trading partners: 2010

		Km 000's			
		Exports	%	Imports	%
EU Countries		3 869.91	54.5	6 251.5	45.9
	o/w				
	Austria	489.083	6.9	489.1	3.6
	Italy	862.022	12.1	1 210.4	8.9
	Germany	1 085.936	15.3	1 425.0	10.5
	Slovenia	611.744	8.6	808.9	5.9
Montenegro		310.18	4.4	44.5	0.3
Croatia		1 070.625	15.1	2 058.9	15.1
Macedonia FYR		69.971	1.0	137.3	1.0
Serbia		894.775	12.6	1 429.5	10.5
Others		880.042	12.4	3 694.5	27.1
TOTAL		7 095.503	100.0	13 616.2	100.0

Source: Agency for Statistics of Bosnia and Herzegovina (2011)

Table 5 shows that the EU accounts for 54.5 percent of the destination of BiH exports in 2010. The BiH exporters to the EU are largely represented by some large scale enterprises (e.g. alumina factories) which can absorb such administrative cost to meet the EU standards. No doubt, however, the cost is beyond the capacity for small and medium enterprises (SMEs) and farmers.

Table 6. Main destinations of BiH merchandise export: 2010

Km 000's					
Country	Total	Food & live animals	Beverages & tobacco	Crude materials, inedible, exc. fuels	Mineral fuels, lubricants, & related.
Germany	1 086.0	8.0	1.2	109.9	16.7
Croatia	1 070.6	123.6	26.2	80.9	244.2
Serbia	894.8	78.9	10.0	88.9	387.6
Italy	862.0	28.8	12.0	102.0	16.6
Slovenia	611.7	15.8	2.4	165.0	12.1
Austria	470.6	38.6	175.0	70.1	10.1
Montenegro	310.2	21.9	5.5	94.1	89.3
Switzerland	160.4	4.1	0.2	5.0	121.3
Hungary	126.1	1.5	0	21.7	1.0
France	87.0	3.8	0.5	1.0	1.4
Turkey	81.7	26.8	0.4	10.5	0.6
Netherlands	80.8	0.9	0.2	5.5	2.6
Country	Animal & vegetable oils, fats & waxes	Chemicals & related products	Manufactured goods	Machinery & transport equipment	Misc. manufactured articles
Germany	7.7	15.7	216.0	143.6	567.1
Croatia	24.5	28.7	406.3	43.8	92.5
Serbia	5.3	38.8	192.4	47.6	45.3
Italy	43.0	68.6	279.3	52.5	314.0
Slovenia	7.6	8.7	78.9	249.6	71.2
Austria	4.9	8.5	92.4	96.8	149.0
Montenegro	0.5	8.3	64.1	12.6	13.8
Switzerland	n.a.	0.9	5.8	2.9	20.1
Hungary	0.5	9.7	71.9	8.9	10.9
France	n.a.	0.2	24.1	12.9	43.3
Turkey	n.a.	9.0	27.3	6.8	1.0
Netherlands	0.0	3.6	21.0	13.6	33.6

Note: SITC Rev.4 sections

Source: Agency for Statistics of Bosnia and Herzegovina (2011)

The problem is not confined to the trade with the EU. The existing trade of SMEs and farmers with the neighbours will be shortly affected as well. For example, when Croatia enters the EU in July 2013, BiH exporters face the very EU boundary (which is currently prohibiting Bosnian farm products to enter) just next to them, and they have to comply with the EU standards to maintain their business. Croatia (technically) requires similar standards to BiH products even now, but the regulatory authority may

apply standards more strictly—otherwise they face Brussels' penalties. As in Table 6, the BiH exports to Croatia (KM 1.07 million) is almost as much as the ones to Germany (KM 1.08 million). More importantly, 'Food & live animals' (KM 123.6 thousand) is one of the main BiH exports to Croatia. If the unofficial, small scale cross-border trade by rural farmers is also taken into consideration, the implication of Croatia's stricter application of standards to BiH farm and SME products are significant.

The BiH government should have fixed its trade regimes before the EU's preferential treatment expired in 2010. As the Croatia's EU accession becomes a matter of reality, BiH government is finally becoming aware of this issue. For BiH economy to be self-reliant, the promotion of export sector is a pressing issue under the situation in which low technology and labour intensive manufacturing sector has been hit by Chinese competitors. Although it is no doubt important to exploit the *potentiality* of EU market, the defence of the *existing* markets in neighbouring countries is critical to BiH economy and employment.

The EU's IPA does have an assistance menu for BiH government to establish testing and inspection laboratories with equipment and technical assistance. However, the politicians' bargain between state and entities prevents the assistance to be executed at the de facto expense of farmers and SMEs. Needless to mention, the neighbours' EU accessions proceed regardless of BiH's progress. In this respect, the reforms are indispensable for BiH economy no matter how EU's conditions are demanding.

5. CONCLUSION

The development of EU accession processes in the Western Balkan region conveys a different sense of BiH's reforms. The reforms are no longer reluctant burden or matter of bargain for an EU membership with trying to gauge Brussels' moods. As the neighbouring countries' integration to the EU becomes a reality, the reforms are inevitable for BiH to increase the economy's competitiveness to serve a twofold objective—competing with the products of the accession countries in the EU market and preserving the existing markets *in the neighbours*. There is skepticism in BiH to wonder what tangible benefits an EU membership would provide in the midst of the worldwide economic downturn at the expense of the politically painful reforms. Nevertheless, it appears that BiH has no choice but to pursue the reforms *regardless*

of an EU membership, and cannot waste time to wait for the day of accession, if any. An EU membership for BiH deserves an alternative translation—that is, a *consequence* of the reform efforts rather than an aim.

The compliance with EU standards is not a mere technical issue in trade facilitation. The neighbouring countries would strictly require products coming from BiH to comply with EU standards to avoid penalties by Brussels and protect their domestic competitors. For this, BiH exporters will have to inevitably comply with the standards to exploit the advantage of tariff-free entrance to the EU market *and* to maintain the existing business with the neighbours. This involves political agreements between the parties divided in ethnic lines in BiH to manage the testing and inspection operations. As such the seemingly minor technical issue has significant implications to BiH's political process. In this regard, a regional perspective deserves more attention in investigating the issues in BiH's political economy and EU accession.

However, there is a risk of moral hazard that Sarajevo underrates the EU conditions owing to the EU's past record of inconsistent policies and compromises: 'Brussels may let us join in the end of the day, even if the required conditions would not be met in full'. This can be a potential impediment for BiH's determination, if any, to pursue politically difficult reforms. The progress of reform agendas under the HR Ashdown period suggests that the EU's proactive, interventionist approach may want to be re-evaluated to avoid a 'waiting game' and to press reforms.

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¹ See Worldwide Governance Indicators and the Transparency International's Corruption Perception Index at <http://info.worldbank.org/governance/wgi/sc_chart.asp> and <http://www.transparency.org/policy_research/surveys_indices/cpi>, respectively.

² In March 2005, the Venice Commission set out a range of constitutional reforms needed to make Bosnia compatible with European standards as precondition for the country to gain

candidate status of an EU membership. These included: i) transfer of competencies from the entities to the state; ii) reform of inefficient state legislative and executive structures; iii) elimination of 'prerogatives for ethnic or group right'; iv) strengthening citizens' rights; and v) clarification of the entities' future relationship to the state (Joseph and Hitchner 2008).

³ The police reform is a good example of the problem, and has been one of the key (and most controversial) conditions for BiH towards an EU membership. The issue has already been discussed in the literature so that no further discussion is needed in the context of this article. See Collantes Celador (2009) for details of the police reform.

⁴ See Table A1 in the Annex for the compendium of SAP structure.

⁵ The Pact was structured as an international coordination body for civilian aid. It aimed at developing a partnership between international and local actors and at creating the conditions for effective local ownership of the post-Yugoslav/post-war transition process. The SAP conditionality involves several steps, including the establishment of a Consultative Taskforce, the drafting of a Feasibility Study on a SAA and the negotiation and ratification of the Agreement—which in turn opens the way for an application for EU membership. The SAP has put a strong emphasis on regional cooperation. First, the readiness to engage in bilateral and multilateral cooperative schemes has been singled out as an essential condition for obtaining an associate status with the EU. Second, EU's assistance programme, the CARDS adopted in 2000, contains a pronounced regional cooperation element. It focused on the areas of i) multilateral trade facilitation measures, ii) infrastructure development and air-control cooperation, iii) the environment and iv) statistical cooperation. See EC (2001) for the details of the CARDS.

⁶ See <<http://www.eupm.org/OurMandate.aspx>>.

⁷ Bechev (2006) argues that EU policies to south-east Europe (SEE) has fluctuated. Brussels was initially reluctant to the enlargement, focusing more on deepening the union following the 1992 Maastricht agenda. Its policy change took place at the 1993 Copenhagen Summit in which the membership criteria (so-called the Copenhagen Criteria) were laid down for the candidate states. However, the judgment for membership would be bilateral basis rather than regional arrangement basis, despite the EU's primary policy to promote the latter. This bilateralism became the guiding principle for SEE and has helped the EU to exert its 'normative' power. The Kosovo crisis made Brussels to reconsider the strategy and required regional cooperation in SEE as in the Stability Pact. See this for the EU accession criteria, <http://ec.europa.eu/enlargement/enlargement_process/accession_process/criteria/index_en.htm>.

⁸ Kelly (2004) identifies the conditions by which external pressures can function. Membership conditionality on the one hand and persuasion and social influence on the other are not effective when they are used alone. The former is often much less sensitive to domestic opposition than is efforts in the latter. External agents (e.g. international organisations) could change policy in target countries with membership conditionality, whereas socialisation-based efforts only really worked when the domestic opposition was quite low or if ethnic minorities themselves had bargaining power in the government. The BiH case lacks the critical condition for the both approaches to function.

⁹ During the author's research trip to Sarajevo in September 2011, an interviewee of BiH official confessed that external pressure by the US and the EU would be needed to break through the political deadlock. For more than a year from the October 2010 elections, a state level government coalition had not been formed. The RS formed its government in January 2011. The Federation did so in March 2011 after the electoral victory of a coalition lead by the Social Democratic Party. But the continued impasse within the Federation among political parties claiming to represent ethnic Croats threatened to deepen ethnic politics and delayed an agreement at the State level (World Bank 2011b). The problem finally settled in December 2011 and the state government has been formed.

¹⁰ The current prosecutor is Serge Brammertz, while Belloni (2009) may be thinking of Carla Del Ponte (1999–2007) at the time of his writing.

¹¹ See <www.ohr.int/pic/default.asp?content_id=41874> for the 5 plus 2 objectives/conditions.

¹² One reaction to such moving target can be found in RS, for example, that the day after the 2005 French referendum on the EU constitution, the RS Parliament rejected once again the police reform package.

¹³ Simic (2001) further claims that even 'post-conflict' cannot wholly characterise the countries in the region, but they have diverse conditions and different institutional relations with the EU. Hence he questions that whether the concept of 'Balkan' as a whole can stand. This diversity has made it difficult to construct a single regional integration strategy for the South-east Europe for the EU.

¹⁴ Aybet (2010) points out that the processes of conditionality in the literature do not explain why the two entities in Bosnia complied with the defence reform upon the NATO's conditionality. She, while being careful not to mix up the security with governance issues, argues that the correct sequence (regardless it is deliberate or not) has made the defence reform being one of the few successful reforms in BiH in the situation where state-building and state transformation through the accession process occurred in tandem. Or, the success could be simply ascribed to HR Ashdown's tough exertion of the Bonn Powers. The validity of Aybet's account is subject to further examinations.

¹⁵ The research trip in September 2010 interviewed the anonymous officials of the BiH Government in charge of EU integration and economic planning, diplomatic missions including the European Commission and Japan as well as the United Nations organisations.

¹⁶ Under HR Schwarz-Schilling period, it became clear that BiH politicians were not going to meet reform expectations to allow the OHR to close and grant BiH an EU candidate status (Chivvis 2010).

¹⁷ The European Neighbourhood Policy (ENP), as a part of the EU's security strategy, is intended to maintain relations with the neighbouring countries in Eastern Europe, the Southern Mediterranean and the Southern Caucasus where EU accession is not in prospect. The ENP was introduced in 2003 to avoid the divisions between the countries of EU accession and of the ENP. See <http://europa.eu/legislation_summaries/glossary/neighbourhood_policy_en.htm>.

¹⁸ Key target areas of the CARDS for BiH were in line with the EU's conditions in SAP—public administration reform (e.g. customs and taxations), justice and home affairs (i.e. police restructuring, border management and judicial reform) and improvement of investment climate (e.g. trade, education, environment and infrastructure).

¹⁹ The European Commission announced in December 2011 that EUR 200 million would be disbursed for BiH for 2012/13 fiscal year under the IPA scheme. See this for EU assistance to BiH, <<http://www.delbih.ec.europa.eu/?akcija=clanak&CID=23&jezik=2&LID=33>> and <http://ec.europa.eu/enlargement/potential-candidates/bosnia_and_herzegovina/financial-assistance/index_en.htm>.

²⁰ Bechev (2006: 35) stresses that the size matters. Perceptions about the level of EU involvement mattered as much as the financial contributions. While the Stability Pact was formally placed under the Organisation for Security and Co-operation in Europe's umbrella, all SEE governments saw it as an EU instrument and judged its performance not only by looking at how much fresh money it was drawing to the region, but also how much it advanced political and economic ties with the EU. The beneficiary states were eager to show that they were eligible for membership on the basis of their commitment to the EU values.

²¹ Free trade arrangements with the EU and other accession countries can confound the already-substantial trade deficit of BiH. The implication would be significant to the uncompetitive manufacturing sector, while the food/agricultural sector may see less negative impacts than industry sector. The main food exporters (mainly the neighbouring countries) have already had free access to BiH market thanks to the bilateral and regional trade arrangement such as the Central European Free Trade Agreement (Table A2).

²² Even regional integration among SEE countries itself is not necessarily viewed as ideal for advanced SEE members. Bechev (2006: 39) points out that although the Stability Pact induces the SEE states to liberalise their mutual trade, the treaty-bound integration arrangement is seen as alarming by particular governments, e.g. Croatia. In 2000–01, its leaders voiced strong

criticisms on some prominent Western figures like George Soros and German Foreign Minister Joschka Fischer for their suggestions of establishing a Balkan customs union. Zagreb felt that such arrangement could lock the country firmly in the group of SEE 'backwater' states/territories (e.g. BiH) and undermine its chances to narrow the gap with the then EU candidate states.

²³ Although the SAA was ratified by all EU states in February 2011, its entry into force was frozen at the time of this writing, since BiH was still not complying with a part of the obligations for the SAA. (The IA has been into effect in July 2008.) The obligations include i) the adoption of state laws on state aids, ii) the national census and iii) the implementation of the Finci and Sejdic ruling of the European Court of Human Rights requiring an amendment to the BiH Constitution to allow minorities to be elected within the Presidency and to gain seats in the House of Peoples. RS opposes the three issues insisting that they are exclusively entity matters. For the Finci and Sejdic ruling, see the Court's web site at <<http://cmiskp.echr.coe.int/tkp197/view.asp?action=html&documentId=860268&portal=hbkm&source=externalbydocnumber&table=F69A27FD8FB86142BF01C1166DEA398649>>.

²⁴ Author's interview with an anonymous BiH government official.

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APPENDIX

Table A1. Stabilisation and Association Process

Aims and target countries of SAP		
<ul style="list-style-type: none"> - stabilising the West Balkan countries and encouraging their swift transition to a market economy - promoting regional cooperation between SAP countries, EU and candidates for EU membership in central Europe - building capacity of SAP countries to adopt EU laws & standards for future EU membership 		
Three Components of SAP		
1 (Conclusion of) SAA	2 EU financial assistance	3 Autonomous trade measures
<p><u>SAA & Interim Agreement</u></p> <ul style="list-style-type: none"> - Bilateral treaty between SAP countries and EU - Provides gradual implementation of a free trade area and reforms (e.g. competition and state aid rules, intellectual property) with benchmarks (as obligation to SAP countries) - prerequisite for any further assessment by EU of a SAP country's prospects of EU accession 	<p><u>CARDS (2000-06)</u></p> <ul style="list-style-type: none"> - Streamlined various EU aid schemes to West Balkans - 4 objectives 1. reconstruction, democratic stabilisation, reconciliation, return of refugees 2. institutional & legislative development for harmonisation with EU norms (e.g. democracy, rule of law, human rights, civil society, free market economy) 3. economic & social development 4. promotion of regional cooperation as above <p><u>IPA (2007-)</u></p> <ul style="list-style-type: none"> - Replaces CARDS with a more flexible financial instrument with 5 components: 1. support for transition & institution-building; 2. cross-border cooperation 3. regional development: support implementation of EU-cohesion policy 4. human resources development 5. rural development: concerns EU common agricultural-related policies 	<p><u>Trade concessions (until 2010)</u></p> <ul style="list-style-type: none"> - Allow SAP countries duty free access to the EU market - Intended to stimulate exports to EU and FDI to SAP countries

Source: Author

Table A2. Main origins of BiH merchandise import: 2010*

Country	Total (Km 000's)	Main imports
Croatia	2 058.9	Mineral fuels, lubricants, & related.
Serbia	1 429.5	Food & live animals; Manufactured goods
Germany	1 425.0	Machinery & transport equipment; Manufactured goods
Italy	1 210.4	Manufactured goods
Russia	1 189.1	Mineral fuels, lubricants, & related.
Slovenia	808.9	Manufactured goods; Machinery & transport equipment
China	655.5	Machinery & transport equipment; Misc. manufactured articles
Austria	489.1	Manufactured goods; Machinery & transport equipment
U.S.	485.5	Mineral fuels, lubricants, & related.
Hungary	416.8	Food & live animals; Mineral fuels, lubricants, & related.

Note: SITC Rev.4 sections

Source: Agency for Statistics of Bosnia and Herzegovina (2011)

