

# QUERYING THE ROLE OF TRADE AMONG THE EUROPEAN UNION AND WESTERN BALKANS FOR A UNITED AND STRONG EUROPEAN UNION

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## ***Abstract***

*The European Union (EU) has always been a unique example of an effective and successful economic integration for the academia of social sciences. For instance, we refer to the EU when we are studying the theory of monetary union, the effectiveness of the common market or the welfare effects of the free movement of labor and capital. Nevertheless, when it comes to the political integration issues, the scene becomes a little bit blurry. Even though the European integration has begun with a political will, the impetus was given with economic integration goals.*

*In spite of the legitimate success stories of economic as well as political integration since 1950s, the EU has been experiencing hard times recently with the compelling issues ranging from quasi-instability within the euro area to Brexit, from migration and refugee agenda to the reluctance of Poland to the EU tasks and some regional issues. Along with these integration issues as mostly referred to deepening, the EU has been trying to hold its momentum on enlargement. As of 2018, Western Balkan countries and Turkey are at the enlargement agenda as candidate countries. Actually, issues like migration and refugees, energy, sustainable development and environment which are embodied within the deepening tasks, constitute an integral part of the EU enlargement agenda, as well. Such a compelling and inter-related agenda could be more competently tackled with a united EU.*

## ***Keywords***

*European Union, Western Balkans, integration, trade.*

## **Tough Issues Challenging the European Union in Recent Times**

The challenges that the EU has been facing recent times could not give enough room to the enlargement tasks. Due to the stringencies of the challenges, the EU has not been very enthusiastic for enlargement. However, the EU announced its ambition for a clear and more definite enlargement policy towards the Western Balkan countries in 2017. J. C. Juncker, the President of the European Commission, mentioned the need for a definite framework with a clear time frame for the accession of the Western Balkan candidate countries to the EU in his State of the Union-2017 speech. According to Juncker, if the EU wants more stability in its neighborhood, then it must sustain a credible enlargement perspective for the Western Balkan countries (Juncker, 2017, p. 15).

### **Western Balkans within the Compelling Agenda of the European Union**

Western Balkan countries are the bordering neighbors of the EU and thus entail a special emphasis. The political as well as economic stability of the Western Balkans directly related with the stability of the EU because any minor problem could start an *avalanche* within the EU. The EU has displayed the required emphasis by giving them a full membership prospect to the EU. Although Western Balkan countries have candidacy or potential candidacy status for full membership, they need some more time to fulfill the necessary requirements. At this preparatory stage for full membership, the relations are conducted via Stabilization and Association Agreements. Even though the current basis of the relations is the Stabilization and Association Agreements, the bilateral relations have a long and precious history. The examination of this valuable history would be a subject of another paper. Thus, a brief reminder of the relations is given below, taking the end of Cold War as the starting point.

#### ***Relations after the Cold War***

The EU has undertaken a very prominent role at the integration of the ex-communist East European countries to the Western Europe after the collapse of the Soviet Union. Actually, the initiatives have started soon after the demolition of the Berlin Wall in 1989. A group of OECD countries, referred

to G-24, was established to support the democratization and economic transition efforts of the ex-communist East European countries. The EU Commission was appointed to manage the financial and technical support which would be given to these countries. The first accomplishment of the EU Commission was the PHARE Program which had been a very efficiently run financial and technical aid program towards the ex-communist East European countries. The first beneficiaries of the PHARE Program were Hungary and Poland. Then, Bulgaria, Romania, ex-Czechoslovakia and ex-Yugoslavia were included in 1990. Albania, Estonia, Lithuania, Latvia and Slovenia were appended to the Program in 1992 (Dağdemir, 1998, p. 36).

Apart from its management role within the G-24, the EU has initiated its own integration policy towards the ex-communist East European countries. The main goal of the EU was to support the political stability centered on five inter-related aims: (1) to encourage the liberal democratic system based on the rule of law; (2) to respect the environment; (3) to prevent the ethnic and minority problems; (4) to prevent migration; (5) to promote the transition to the market economy (Gower, 1994, pp. 286-289). However, as political stability is an integral part of economic stability, it could not be attained without a concrete socio-economic development program. The political, as well as economic stability of the ex-communist East European countries was constituting a vital importance for the EU because they were neighboring countries not very far from the borders of the EU. Any political and/or economic instability would be a heavy burden to the EU economy and welfare as a whole. Thus, the EU had to respond to this ex-communist East European challenge rapidly. Even though the main goal and motive was to support the political stability, the instrument used was bilateral trade. In other words, the EU has preferred to enhance its trade relations with the ex-communist East European countries so as to upgrade the relations and to have a sustainable political stability.

Actually, such a preference was not a new phenomenon for the EU. The project of integrating the European countries in the post-war era in 1950s was merely a political initiative aiming to prevent any other political conflict which might lead to catastrophic outcomes to all Europe. The fathers of today's EU used strengthened and enhanced bilateral trade as an effective instrument in attaining their political will. They decided to establish a common market which is an advanced type of economic integration. The first step within the establishment of a well-functioning common market among themselves was to achieve a customs union. A customs union which encompassed a strengthened

and enhanced bilateral trade would have been a relevant escalator for the next steps of economic integration. Briefly, economic integration has been regarded as an eminent path through a united Europe.

Along with the collapse of the East European bloc, the EU has conducted its prominent and active role by clustering the ex-communist East European countries into two policy groups, namely the Central and Eastern European countries and the South-East European countries. According to the OECD, Bulgaria, Romania, the Czech Republic, Slovenia, Slovak Republic, Hungary, Poland, Albania, Croatia and the three Baltic States – Estonia, Lithuania and Latvia, are the Central and Eastern European countries. However, the EU has narrowed the scope of the Central and Eastern European countries group within the context of its enlargement and integration policy. From then on, the Central and Eastern European countries corresponded to the ex-communist East European countries except Albania and Croatia. Western Balkan countries, including Albania and Croatia, were embodied within the South-East European countries group.

Actually, the EU was not very-well prepared for such an immediate and concrete dissolve within the East European bloc. Thus, it has started up different initiatives for cooperation and integration towards the ex-communist East European countries. All these initiatives are given at Table 1. Table 1 exposes a web of extemporaneous EU initiatives of almost thirty years. The main reason of not having a single and efficient initiative is the instability and conflicts within some of the Western Balkan countries. The EU has rapidly realized that a *one-size-fits-all* policy could not be applied to them. This fact is probably the main reason for the EU to cluster the ex-communist East European countries into two groups.

When Table 1 is examined, it is understood that the EU has started its relations with some of the ex-communist East European countries via Trade, Commercial and Economic Cooperation Agreements before the collapse of the East European bloc. These were the agreements granting Generalized System of Preferences (GSP) to their counterparts. Afterwards, similar agreements, referred to Trade and Cooperation Agreements were concluded with the other ex-communist East European countries. However, it should be noted that Romania was the first ex-communist East European country that became eligible for the trade preferences under the GSP in 1974 and the first trade agreement was signed in 1980. These first agreements of the EU with the ex-communist East European countries could be referred to *First Generation Agreements*.

From 1992 on, clustering of the ex-communist East European countries into two groups had become apparent. The EU had begun to sign Europe Agreements with ten ex-communist East European countries which had had *First Generation Agreements* before. Only Albania and Macedonia were out of the Europe Agreements. The EU has decided to maintain the *First Generation Agreements* with these two Western Balkan countries. Actually, this decision has displayed the route of the prospective Central and Eastern Europe enlargement of the EU.

Along with the Europe Agreements, the signatory ten ex-communist East European countries have referred to Central and Eastern European Countries (CEEC) by the EU. The Europe Agreements have served as instruments of supporting the CEEC to enter into the fifth enlargement process of the EU and thus could be referred to as *Second Generation Agreements*. The Europe Agreements did not only espouse articles relating with strengthening trade and economic cooperation between the signatory states, but also embrace provisions to reinforce democracy and rule of law within the CEEC (Cable & Henderson, 1994, p. 42). Most probably, those provisions related with the reinforcement of the democracy and rule of law were the hub of the *Second Generation Agreements* and the most efficient instrument that enhanced bilateral trade.

**Table 1:** *Cooperation and Integration Initiatives of the EU Towards the Ex-East European Countries*

Trade, Commercial and Economic Cooperation Agreements (1988-1989)	Trade and Cooperation Agreements (1989-1992)	Europe Agreements (1992-1996)	Royaumont Process (1995)	Autonomous Trade Preferences (1996-1997)	Regional Approach (1996)	Stability Pact (1999)	Stabilization And Association Agreements (2001 - )
Hungary	Albania	Bulgaria	Albania	Bosnia-Hers.	Albania	Albania	Albania
Poland	Slovenia	Romania	Bulgaria	Croatia	Bosnia-Herzegovina	Bulgaria	Bosnia-Hers.
Soviet Union	Macedonia	Slovenia	Romania	Yugoslav Fed. Rep.	Croatia	Romania	Croatia
German Democratic Rep.	Estonia	Hungary	Slovenia		Yugoslav Fed. Rep.	Slovenia	Macedonia
Bulgaria	Letonia	Czech Rep.	Bosnia-Hers.			Hungary	Serbia
	Latvia	Poland	Croatia			Bosnia-Hers.	Montenegro
	Romania	Slovak Rep.	Macedonia			Croatia	Kosovo
		Estonia	Yugoslav Fed. Rep.			Macedonia	
		Letonia	Turkey			Turkey	
		Latvia	Greece			USA	
			USA			Russia	
						Canada	
						Japan	

**Source:** Dağdemir 2004: 95.

The Europe Agreements were distinguished association agreements which foresaw full membership of the CEEC to the EU once the required conditions were met. It should be reminded that the EU had given full membership perspective to the CEEC with the Copenhagen European Council Decisions in 1993. On the other hand, relations with the Western Balkan countries were retained under the South-East European policy designated by the Trade and Cooperation Agreements.

Meanwhile, the EU had paved the way for a good neighborhood and stability policy for the Western Balkan countries under the Royaumont Process, which was a French initiative indeed. Apart from the Western Balkan countries, Bulgaria, Romania and Slovenia from the CEEC, Greece from the EU, Turkey as a neighbor country which had an association relationship with the EU and the USA became participants of the Royaumont Process in 1995. In addition to these countries, the European Commission, the European Parliament, the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE) involved within the Process. Unlike the previous economic cooperation and trade enhancement initiatives, Royaumont Process had tried to help to the stabilization of the Western Balkan countries via socio-cultural dialogue. Nevertheless, it should be pointed out that this Process was a complementary initiative to the *First Generation Agreements* and *Second Generation Agreements* which were the primary anchors of the bilateral relations.

Soon after the launch of the Royaumont Process, the EU concurrently commenced two different initiatives towards the Western Balkan countries. One of these initiatives was granting autonomous trade preferences and the other one was referred to as the Regional Approach. Essentially, the Regional Approach with an aim of strengthening the economic and political relations with the Western Balkan countries could not give birth to any solid and concrete proposal.

Apart from the Regional Approach, the EU proposed to give start to a new policy in 1999 under the Stability Pact, which was foreseeing long-term strategies for the political and economic stability of the Western Balkan countries. The main aim of the Stability Pact was to support the establishment of the peace process and democratization and to give impetus to the economic development of the region. Along with the Western Balkan countries, Bulgaria, Romania, Slovenia and Hungary from the CEEC, Turkey, the USA, Canada, Russia and Japan as third countries participated within the Stability Pact. Although it seemed to be an ambitious initiative,

the Stability Pact was far from having definite steps going to the final stabilization goal. Especially the articles related to the enhancement of the bilateral trade and the endorsement of the economic development were very ambiguous (Dağdemir 2004: 92-95).

Consequently, the Trade and Cooperation Agreements has been superseded by the Stabilization and Association Agreements in 2001. Since then, relations between the EU and the Western Balkan countries have been conducted under the auspices of the Stabilization and Association Agreements. They have the prospect of eventual membership of the Western Balkan countries to the EU with a progressive partnership established on a *free trade area* pillar. The Stabilization and Association Agreements are developed on a *tailor-made* basis depending on the specific features and conditions of the Western Balkan countries.

### ***A New Era with Stabilization and Association Agreements***

After a long period of political and economic fluctuations within the Western Balkan countries, a relatively stable climate was set in 2000s. Consequently, the EU has responded to this favorable climate by developing a new commencement towards the Western Balkan countries referred to as a Stabilization and Association Process. The Stabilization and Association Process is defined as a European policy framework for relations between the Western Balkan countries and the EU, all the way to their eventual full membership to the EU.

The main instruments of this new Process are the Stabilization and Association Agreements. They can be regarded as the fruits of this peaceful and reasonable milieu. The Agreements embrace a prospect of full membership of the Western Balkan countries to the EU once they meet the full membership criteria. Although the Stabilization and Association Agreements are designated by taking into consideration the specific features of the Western Balkan countries, they mostly embrace common objectives. A short biography of the Stabilization and Association Agreements is given in Table 2.



**Table 2:** *A Short Biography of the Stabilization and Association Agreements*

Country	Date of Signature	Date of Entry into Force	Objectives
Albania	12.6.2006	1.4.2009	(1) Support the efforts of Western Balkan countries to strengthen democracy and the rule of law, (2) Contribute to political, economic and institutional stability of Western Balkan countries and wider region, (3) Provide an appropriate framework for political dialogue, (4) Support to develop its economic and international cooperation, (5) Support to complete the transition into a functioning market economy, (6) Promote harmonious economic relations, (7) Develop gradually a <i>free trade area</i> between Western Balkan countries and the EU, (8) Foster <i>regional cooperation</i> in all fields covered by the Agreement.
Bosnia-Herzegovina	16.6.2008	1.6.2015	
Macedonia	9.4.2001	1.4.2004	
Montenegro	15.10.2007	1.5.2010	
Serbia	29.4.2008	1.9.2013	
Kosovo	27.10.2015	1.4.2016	

**Source:** European External Action Service, Treaties Office Database.

When Table 2 is examined, differences in signing and entering into force dates of the Stabilization and Association Agreements become apparent. The earliest Stabilization and Association Process was commenced with Macedonia while the latest was with Kosovo. Regarding the status of Kosovo, Article 2 of the Stabilization and Association Agreement signed with Kosovo has a vital importance. According to Article 2, *“none of the terms, wording or definitions used in this Agreement, including the Annexes and Protocols thereto, constitute recognition of Kosovo by the EU as an independent state nor does it constitute recognition by individual Member States of Kosovo in that capacity where they have not taken such a step.”* (Official Journal of the EU, L 71/3).

In spite of the differences in signing and entering into force dates, the objectives of the Stabilization and Association Agreements are almost common. They mostly embrace ambiguous political objectives like supporting the efforts of the Western Balkan countries to strengthen democracy and the rule of law, contributing the stability of the countries and the region

as a whole, providing an appropriate framework for political dialogue and supporting to develop their economic and international cooperation.

Unlike these vague political objectives, the Stabilization and Association Agreements have more definite and tangible economic goals. Although the aims of supporting to complete the transition into a functioning market economy and promoting harmonious economic relations comprise obscurity, developing of a *free trade area* between Western Balkan countries and the EU and fostering *regional cooperation* in all the fields covered by the Agreements justify the concrete and perceptible grounds for the economic objectives.

Regarding the issue of *free trade area*, the economic term itself is defined as an area, in which all the trade restrictions, like the tariffs and non-tariff restrictions, are abolished. Thus, trade is performed without any restrictive instrument among the member countries of the free trade area. On the other hand, it is the initial stage for the countries which would like to establish an advanced economic integration. Once the free trade area is established, the participating countries would probably proceed through the economic integration process with a customs union and then a favorable common market.

Even though the Stabilization and Association Agreements have envisaged to develop a free trade area between the Western Balkan countries and the EU, a common deadline for their establishment and functioning was not set. The Stabilization and Association Agreements of Bosnia-Herzegovina, Montenegro and Serbia have targeted to establish a free trade area among the signatory countries and the EU within five years following the entry into force of the Agreements. While the Stabilization and Association Agreements of Albania and Kosovo have not mentioned any deadline for the functioning of the free trade area, the Agreement with Macedonia has laid out a transition period of maximum ten years.

Taking into consideration the deadlines, the free trade area between the Macedonia and the EU in one part and between Montenegro and the EU on the other part should have been established while the free trade area between Serbia and the EU should have been about to commence as of 2018. Moreover, the free trade area between Bosnia-Herzegovina and the EU should be on the negotiation table as the deadline for its establishment is 2020.

Apart from a free trade area between the Western Balkan countries and the EU, fostering *regional cooperation* constitutes the other more definite and tangible economic goal of the Stabilization and Association Agreements. One of the most explicit and also exciting parts of the regional cooperation

objective lies in its reference to a probable establishment of a *free trade area* among Western Balkan countries. Along with the establishment of a free trade area among the Western Balkan countries, the EU would no longer be a hub of the bilateral free trade areas. Frankly speaking, a Western Balkan regional trade bloc could be an efficient commencement to integrate with the EU economy in particular and the global economy in general.

The scope of the *regional cooperation* objective has been unravelled by the Berlin Process, which was launched on 28th August 2014 by the German Chancellor Merkel. The Berlin Process is an initiative that aims to foster regional cooperation in the Western European countries and to support the integration of these countries to the EU. The Berlin Process has a social dimension which refers to the linking people; an economic dimension which approximates the economies via various policies and political dimension which adducts the policy-makers. *Connectivity* has become the key word of the Berlin Process launching the intergovernmental cooperation via Regional Youth Cooperation Office, Western Balkan Chambers Investment Forum and Western Balkans Fund (The Berlin Process Information and Resource Centre). Last but not least, the Berlin Process has paved the way to the Western Balkans Summits to be held annually and hosted by a EU member state that involves with the Western Balkan issues at most.

As of 2018, none of these prospective free trade areas between Western Balkan countries and the EU has been established. Trade between the Western Balkan countries and the EU has been continuing based on the autonomous trade preferences granted by the EU since 1996. These preferences were renewed in 2015 and will be valid until 2020. These autonomous preferences which are in the form of tariff quotas mostly cover the agricultural exports of the Western Balkan countries to the EU market except for sugar, wine, baby beef and some fisheries products (Council Regulation, 2009).

Nevertheless, benefiting from these autonomous trade preferences is related to some prerequisites and conditions. According to the Council Regulation of 2009, *the granting of autonomous trade preferences is linked to respect for fundamental principles of democracy and human rights and to the readiness of the countries concerned to develop economic relations between themselves. The granting of improved autonomous trade preferences in favor of countries participating in the EU Stabilization and Association Process should be linked to their readiness to engage in effective economic reforms and in regional cooperation, in particular through the establishment of free trade areas in accordance with relevant GATT/WTO*

*standards. In addition, the entitlement to benefit from autonomous trade preferences is conditional on the involvement of the beneficiaries in effective administrative cooperation with the EU in order to prevent any risk of fraud* (Council Regulation 2009: 3).

On the other hand, the efforts to establish a free trade area among the Western Balkan countries along with the aim of fostering regional cooperation had also been modest. Nevertheless, the initiatives have gained a momentum and the endeavors have accelerated under the auspices of the Western Balkan Summits. The Western Balkan countries have declared their commitment to the Central European Free Trade Agreement (CEFTA) on their way to establish a Western Balkan free trade area. Actually, this free trade area would be an initial phase for the regional economic integration with four freedoms, namely the free movement of goods, services, skilled labor and capital. In this respect, a Consolidated Multi-Annual Action Plan for a Regional Economic Area in the Western Balkans Six was introduced at the Trieste Western Balkan Summit in 2017 (Consolidated Multi-Annual Action Plan).

### ***A Closer Look at the Trade between Western Balkan Countries and the EU***

Until now, a brief history of the relations between the Western Balkan countries and the EU has been given and the significance of the economic relations has been emphasized. Regarding the economic relations, the most discrete part was devoted to the bilateral trade with a prospect of establishment of a free trade area between Western Balkan countries and the EU in one hand and a free trade area among the Western Balkan countries on the other hand. Since the scope of this paper queries the effect of the trade among the Western Balkans and the EU for a *united* and *strong* EU, neither the prospective free trade area, nor the trade relations among the Western Balkan countries are taken into examination. This important and interrelated part of the topic is left for another study.

Due to the slow and minor steps through a free trade area, trade between the Western Balkan countries and the EU have still been going upon the autonomous trade preferences granted by the EU. After emphasizing the importance of the trade and the current trade regime, it would be adequate to give brief information about trade between the parties. The following tables are prepared by the author, depending on the trade data which was collected from the Eurostat database in the Standard International Trade Classification

(SITC) form of the United Nations. Due to the difficulties in gathering the past data for all the Western Balkan countries, the trade examination covers only the 2008-2017 period. Since the data is collected from the Eurostat database of the EU, the following tables acknowledge the EU as the home country and the Western Balkan countries as the partners.

**Table 3:** *Trade Balance between the EU and Western Balkan Countries (Million ECU/EURO)*

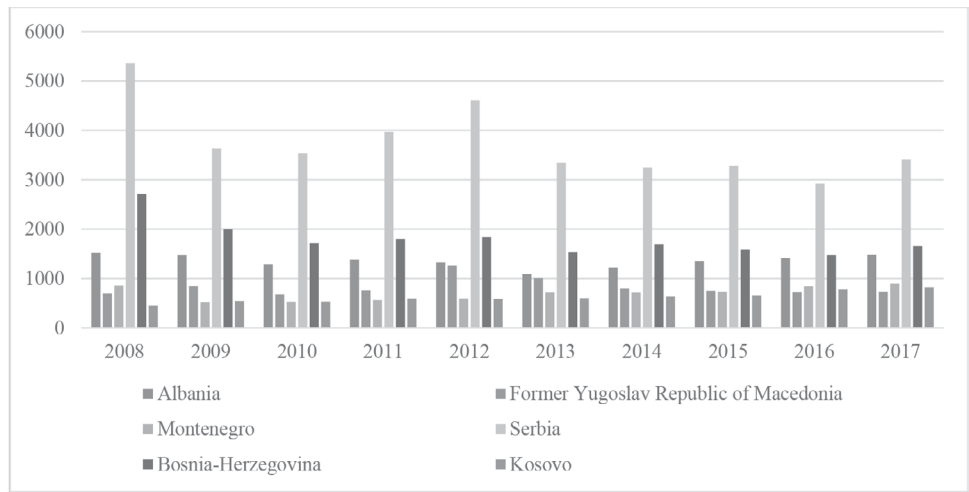
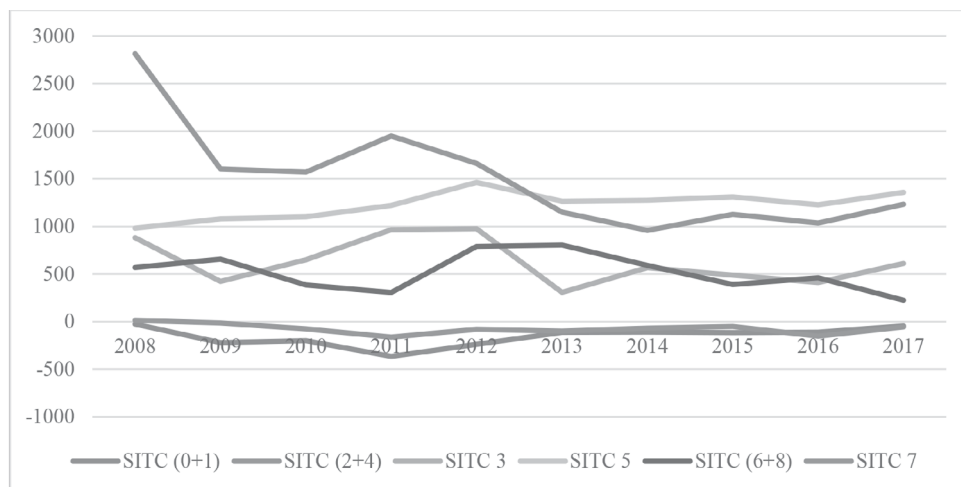


Table 3 gives the trade balance between the EU and Western Balkan countries which is the outcome of an extremely low volume of bilateral trade. It’s not surprising to see that the EU has a positive trade balance or, in other words, a trade surplus with each of the Western Balkan countries. The biggest trade partner of the EU among the Western Balkan countries is Serbia, followed by Bosnia-Herzegovina and Albania.

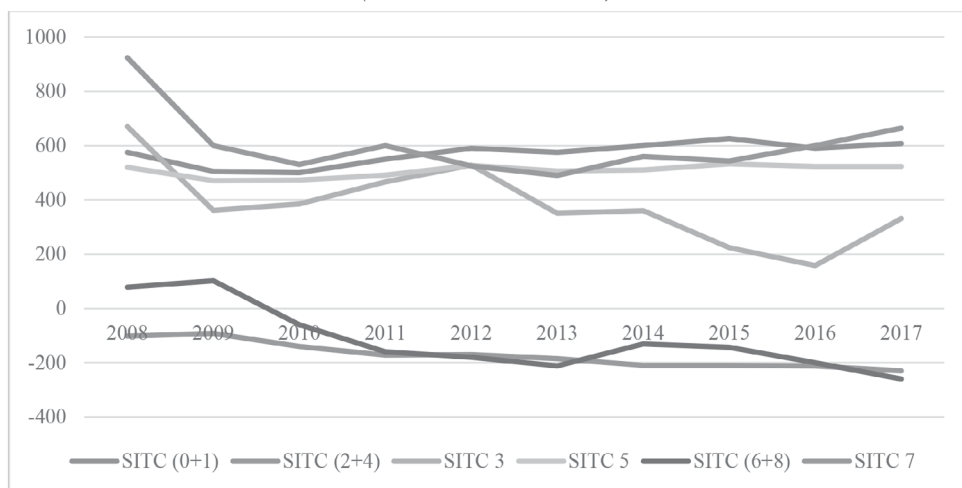
**Table 4:** *Trade Balance between the EU and Serbia (Million ECU/EURO)*



**Note:** *SITC (0+1): Food, drinks and tobacco; SITC (2+4): Raw materials; SITC 3: Mineral fuels, lubricants and related materials; SITC 5: Chemicals and related products; SITC (6+8): Other manufactured goods; SITC 7: Machinery and transport equipment.*

Table 4 gives the trade balance between the EU and Serbia which is the biggest trade partner of the EU among the Western Balkan countries. The EU has a trade surplus in the SITC 3, SITC 5, SITC (6+8) and SITC 7 and a trade deficit in the SITC (0+1) and SITC (2+4). It is important to note that the trade surplus of the EU in SITC (6+8) has been declining while the others have been inclining. On the other hand, the trade deficit of the EU in the SITC (0+1) and SITC (2+4) have been declining, as well. According to these basic findings, it could be propounded that the output composition of the Serbian economy has been changing paving the way to the *other manufactured goods*.

**Table 5:** *Trade Balance between the EU and Bosnia-Herzegovina  
(Million ECU/EURO)*



According to the Table 5, the EU has a trade surplus within its external trade with Bosnia-Herzegovina in all the SITC forms except for the SITC (2+4) and SITC (6+8). Moreover, there has been a steady increase in the trade deficit of the EU within the SITC (2+4). On the other hand, the change within the SITC (6+8) trade balance should also be taken into consideration. While the EU had a trade surplus in SITC (6+8) trade until 2010, it has been experiencing a trade deficit since then. Other remarkable changes are at the SITC 3 and SITC 7. The trade surplus of the EU in SITC 3 had declined between 2012 and 2016 and then started to increase again. Likewise, the trade surplus of the EU in SITC 7, which had been fluctuating, began to increase after 2015. All these preliminary findings might suggest that the output and export composition of Bosnia-Herzegovina have been changing.

**Table 6:** Trade Balance between the EU and Albania (Million ECU/EURO)

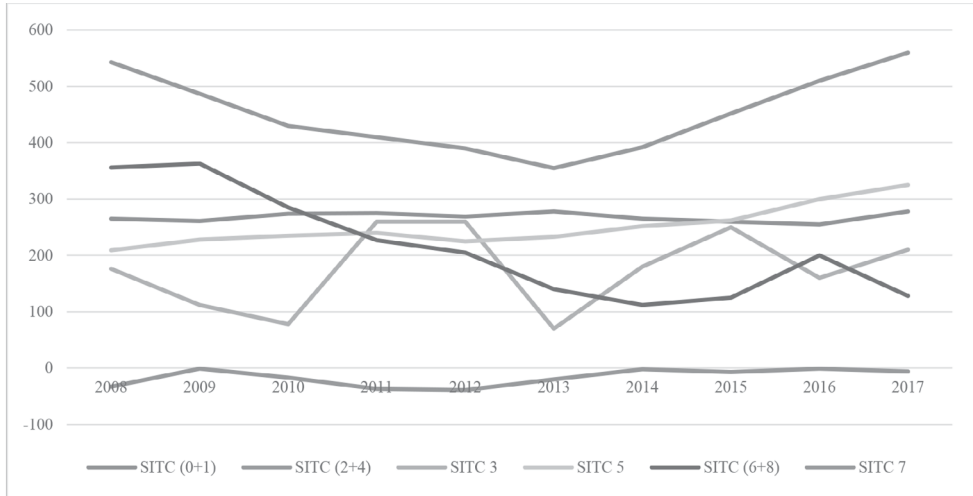
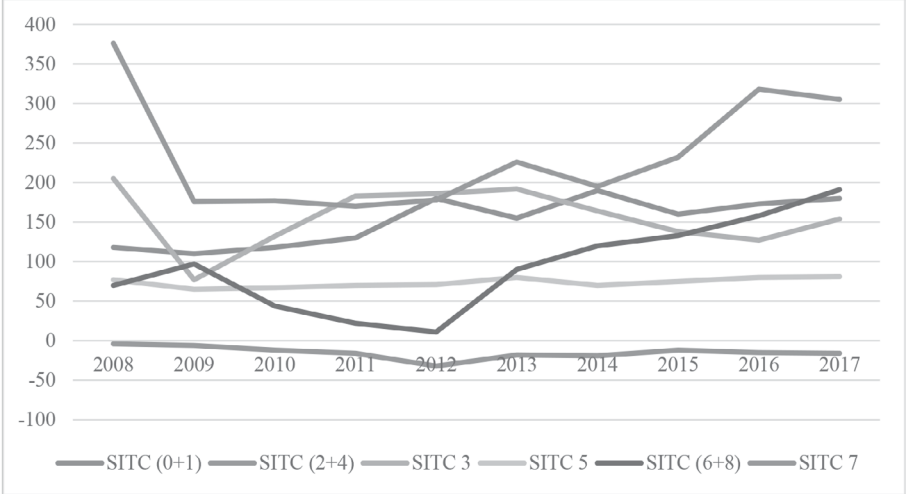


Table 6 displays the trade balance between the EU and Albania. According to the Table, the EU has a trade deficit in SITC (2+4) as with Serbia and Bosnia-Herzegovina. The trade surplus of the EU in SITC (0+1) and SITC 5 has been steady but there have been fluctuations mostly in SITC 3. Except for the period of 2014-2016, the decrease in the SITC (6+8) trade surplus of the EU is also remarkable. On the other hand, the trade surplus of the EU in SITC 7, which had decreased until 2013, started to increase since then. It is understood from these basic findings that Albania might have a potential at the *other manufactured goods* trade like Serbia and Bosnia-Herzegovina.

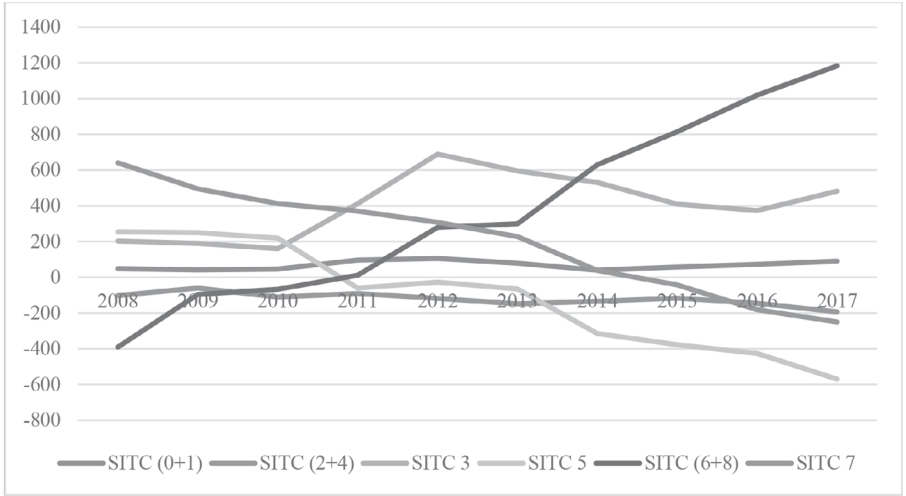


**Table 7:** Trade Balance between the EU and Montenegro (Million ECU/EURO)



It is understood from the Table 7 that the EU has a trade deficit in SITC (2+4) in its trade with Montenegro and has a steady trade surplus in SITC 5. However, there has been a sharp increase in SITC (6+8) since 2012. There have been fluctuations in the trade surplus of the EU in the other SITC areas mostly referring to increases. On the other hand, the decline in the SITC 7 trade surplus should be kept into examination after 2017. If the decline would continue, then it could be a positive signal for the *machinery and transport equipment* industry of Montenegro.

**Table 8:** Trade Balance between the EU and Macedonia (Million ECU/EURO)



According to Table 8, the EU has a trade deficit in SITC (2+4) in its trade with Macedonia like in the previously examined Western Balkan countries. Along with this accustomed finding, it is surprising to note the apparent increase in the trade deficit of the EU within SITC 5. Apart from SITC 5, the EU has been experiencing trade deficit in SITC 7 since 2015. On the other hand, the sharp increase in the EU trade surplus within the SITC (6+8) should also be taken into consideration. According to these crude findings, the *chemicals and related products* and *machinery and transport equipment* industries of Macedonia seem to be gaining competence.

**Table 9:** *Trade Balance between the EU and Kosovo (Million ECU/EURO)*

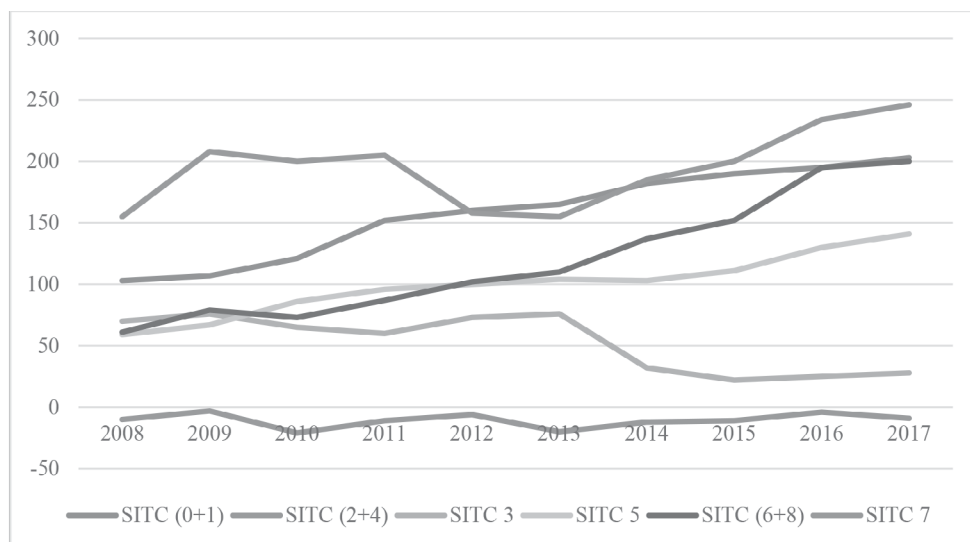


Table 9 gives the trade balance between the EU and Kosovo which has the latest Stabilization and Association Agreement among the Western Balkan countries. As in all other Western Balkan countries, the EU has a trade deficit in SITC (2+4) in its commodity trade with Kosovo. On the other hand, trade surplus of the EU has been increasing in SITC (0+1), SITC 5, SITC (6+8) and SITC 8. However, there has been a decrease in the trade surplus of the EU in SITC 3 trade. As being the smallest trade partner of the EU among the Western Balkan countries, it seems that Kosovo needs more time to enhance its external trade with the EU.

## Overall Evaluation and Conclusion

The EU, the last century's integration success, has been challenging many tough and interrelated tasks for almost ten years. The global financial crisis of 2008 and its negative economic repercussions to the Member States have constituted simply a *confidence-test* for the *unity* of the EU. Undoubtedly, the EU had experienced many problems before the 2008 crisis but none of them queried the unification of the EU. The EU has met not only the Brexit fact, but also the severe problems accompanying migration and refugee issues, increased vulnerability of the Euro, budgetary problems, energy matters... However, the most worrisome predicament is the negligence and in some instances, the reluctance within the Member States on the EU tasks. Nevertheless, these challenges could only be effectively met within a *united* Europe but not alone.

The relations with the Western Balkan countries constitute a particular importance within this recent, formidable agenda of the EU. Not only the common past and historical background, but also the geographical borders with the Western Balkan countries entail a solid policy. Along with the collapse of the East European bloc, the EU has responded to this instantaneous challenge with different policy initiatives and instruments. The latest and most coherent policy is the Stabilization and Association Process. This new policy has been regulated via Stabilization and Association Agreements with the prospect of full membership to the EU. In the meantime, the Berlin Process has been initiated so as to foster regional cooperation that was mentioned in the Stabilization and Association Agreements.

Certainly, the main task of the Stabilization and Association Agreements is to achieve sustainable political stability of the Western Balkans which are at the crossroads of the EU. To that end, the EU has preferred to use trade enhancement as the best cement for unification as the fathers of today's *united* EU did in 1950s. In this respect, the Stabilization and Association Agreements foresee a free trade area between Western Balkan countries and the EU. In the meantime, the basis of the trade between the parties is the autonomous trade preferences of the EU. However, they seem far from enhancing trade, as they are in the form of tariff quotas mostly covering the agricultural exports of the Western Balkan countries to the EU market except for sugar, wine, baby beef and some fisheries products. The trade data shows that the EU has a trade surplus in almost all SITC trade except for SITC (0+1), representing food, drinks and tobacco, and SITC (2+4), representing raw materials. It is

encouraging to see that the Western Balkan countries have a trade surplus within the food, drinks and tobacco trade, in which the EU has granted autonomous trade preferences. However, these are the primary goods which would not boost the industrialization of the Western Balkan countries.

Regarding the trade potential in the long run, it's promising to find out that some of the Western Balkan countries like Serbia, Bosnia-Herzegovina and Albania might have a comparative advantage potential in *other manufactured goods*, classified under SITC 6+8. Montenegro might gain competence in *machinery and transport equipment* industry, classified under SITC 7. Macedonia seems to be gaining competence in *chemicals and related products* and *machinery and transport equipment* industries, classified under SITC 5 and SITC 7. Kosovo, which has the smallest economy among the Western Balkans, requires more time to enhance its trade relations with the EU.

On the other hand, the ever promising part of the aim of fostering *regional cooperation* is to establish a *free trade area* among the Western Balkan countries. Along with the launch of the Berlin Process in 2014, regional cooperation gained impetus with the hub of *connectivity*. One of the vital spokes of this hub is to have a functioning free trade area among the Western Balkan countries, which would pave the way to an efficient regional economic integration. In this regard, accelerated efforts should be given to abolish the trade restrictions within the Western Balkan economic region.

As a conclusion, including the commodities in which Western Balkan countries have or might have a potential comparative advantage and paving the way to wider autonomous trade preferences would serve best for a *united* and *strong* EU. The EU has to act as a responsive global actor as it has always been and to facilitate the Council Regulation 2009 conditionality on granting of improved autonomous trade preferences. Undoubtedly, the economically stronger and prosperous Western Balkans would be more enthusiastic in respecting for fundamental principles of democracy and human rights and capable of combatting fraud within full membership *venture*. In addition to this fact, the Western Balkan countries should be more cooperative and ambitious in abolishing trade restrictions among themselves and establishing a free trade area under CEFTA, keeping in mind that a well-functioning free trade area would be a strong incentive for the deepening of the Western Balkan integration and would give a robust support for a *united* Europe.

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