

FIRST EXPERIENCES AND ASSESSMENTS AFTER 20 MONTHS OF THE STABILITY PACT

Bodo Hombach

Special Coordinator, Stability Pact for South Eastern Europe

For observers of South Eastern Europe, the following conclusions can be drawn from the experiences of the Stability Pact, now with almost two years of operating experience in the field.

The Stability Pact has set new parameters for regional co-operation in South Eastern Europe and pioneered the development of a comprehensive regional approach to preventive diplomacy.

The Stability Pact is not a crisis-management organization, but a political process with a medium to long-term perspective. I do not claim that we are original in all that we do. In fact, I am proud that we have a good track record of applying recipes which have previously been successful elsewhere: the CSCE process, the EU approach to integration, and of course NATO's own very progressive approach to regional security and defence questions.

The wish of regional countries to join the European Union and NATO is arguably the strongest driving force we have for an effective and timely reform process in the countries of the region. It is obvious that we still have a long way to go in this area, and partial setbacks (for example: terrorism in Macedonia and instability in Southern Serbia) are part of the regional political equation. But generally speaking, we can agree that the trendlines have been overwhelmingly positive.

The Stability Pact framework is a two-way street. Reform and regional co-operation on the one hand are "traded" against (some cynics would say "bought with") financial support and integration within European and Euro-Atlantic structures on the other. In this sense there is conditionality on the aid given to regions. No one expects a free lunch.

The Stability Pact's main role is to provide a co-ordinating, catalytic framework, which does not attempt to duplicate or act where

others are clearly doing better work. As I have said, neither is the Stability Pact a classic crisis intervention instrument - we have no implementing capacities and no field structure. The Stability Pact is designed to synergise existing expertise, and we fully embrace NATO as the key player in the regional security field.

The approach pioneered by the Stability Pact has yielded tangible results:

- Politically - The main culprits of the violent disintegration of the former Yugoslavia have been removed from power through democratic means. Mr. Milosevic has been arrested. Everywhere we have democratic structures in place, which have opened the door for a new, if at times difficult, beginning.

- Security - Despite the worrisome news from Preshovo, Macedonia or Kosovo, there is no longer the danger of widespread international conflict. Internationally co-ordinated crisis management and conflict prevention measures have clearly improved the regional security outlook.

The process of joining the European Union or NATO has proven to be the vital driving force for reform, as the Stabilisation and Association Agreements signed by Macedonia, initialed by Croatia, and being negotiated with Bosnia-Herzegovina, the Federal Republic of Yugoslavia, and Albania have shown. The SAAs under negotiation or planned are important instruments to conduct reforms and to align regional legislation and institutions to those of Western Europe along the standards set by European Union, the World Trade Organization, and the Council of Europe.

Regional co-operation has improved substantially and is now a cornerstone of Stability Pact operations in the areas of refugee return, trade liberalisation, and fighting organized crime and corruption. This is reflected in SEECF's role and in the co-ordinated reaction to the Macedonian crisis. Countries in South Eastern Europe are fully aware that a proven capability for regional co-operation is also a precondition for adhesion to the European Union.

Stability Pact Activities in the Field of Security

With the fall of Mr. Milosevic, there is a unique chance to redesigning the security architecture for South Eastern Europe, inclu-

ding non-proliferation, arms control, and disarmament activities, confidence and security building measures and right-sizing the region's armed military forces.

The continuing contributions of NATO and the Euro-Atlantic Co-operation Council (EAPC) in this context are vital. The Southeast European Task Force, the Partnership for Peace, the Membership Action Plan process, SEEGROUP and SEECAP are some examples of the success of intensified regional co-operation.

Under the Stability Pact's Working Table III, the main activities we are dealing with are in mine action and the elimination of small arms and light weapons.

In Zagreb, the Regional Arms Control and Verification Implementation Center (RACVIAC) opened its doors last year and is now ready to assist Governments with the evolution of their armed forces in line with the current security environment.

NATO and its partners have initiated Disaster Preparedness and Prevention activities on a cross-border basis, an initiative that is designed to address an existing and serious deficit in the region.

The joint efforts of NATO and the World Bank to train demobilized military personnel for their integration into the civilian workforce serve as a shining example of what we can accomplish when we work together, building of our individual strengths for the common good. After successful beginnings in Romania and Bulgaria, these retraining programs are now also being applied in Albania and Croatia.

Stability Pact Activities in the Field of Economics

The economies of South Eastern Europe have high growth rates. The EBRD estimates are 5% on average for 2000/2001. The EBRD also noted the continuing process of major reforms in the year 2000 and sees good chances for a speedy recovery of the FRY/Serbian economy.

Foreign direct investment almost doubled in 2000 as compared to 1999 when it stood at US\$2bn, an effect EBRD attributes directly to the Stability Pact's initiatives. In Bulgaria and Romania, FDI increased six-fold since 1996, in Macedonia they are now at US\$120m, which

admittedly is low but is 10 times more than the 1996 levels. Despite all this good news, it is vital to involve the private sector much more in the coming months.

The biggest challenges in economic policies for the near future are reforming the banking sector, strengthening governmental institutions, fighting corruption, and reducing trade barriers.

On banking: in the Federal Republic of Yugoslavia, the majority of state banks are insolvent as most credits are faulty and cannot be revoked. In other South Eastern European countries we have seen an increased interest by foreign investors. In Croatia, major financial businesses are by now foreign-owned; in Macedonia, the biggest bank has just been sold; in Bosnia-Herzegovina, we have German and Austrian investments, and Albania is experiencing a growth in foreign investment in the sector. Similar developments can be expected in Serbia and Montenegro. Whereas Romania remains difficult terrain for banking reform and restructuring, the overall regional developments in the financial sector are positive.

On institutional weaknesses and corruption: several initiatives have been designed to tackle this joint problem, such as the Anti-Corruption Initiative (SPAI) and the initiative against organized crime (SPOC). Both are difficult areas and visible results can only be expected in the mid- to long-term. Obviously, while the international community can provide moral and material support to these initiatives, the driving force has to come from the regional governments bent on cleaning their own houses.

On trade: the European Union has granted unilateral trade liberalization to all countries of the region, which has resulted in tariff-free export opportunities for 95% of the region's exports. This is very attractive for investments in the region. Additionally, the countries have now begun to reduce and eliminate intra-regional trade barriers. Up to now we had a whole range of tariff and non-tariff barriers on trade, which resulted in a fragmentation of markets. Seven trade ministers of the region (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Romania, Macedonia and the Federal Republic of Yugoslavia) agreed in January 2001 to form a network of Free Trade Agreements for the entire region by the end of 2002. This will create a market of 55 million consumers and will also facilitate political integration.

The Way Ahead

Continuing deficits in civil society and democratic institutions unfortunately parallels progress in the economic field. To address these problems the Stability Pact has developed a range of instruments, such as the Investment Compact, the Anti-Corruption Initiative, the Media Charter, the Steering Group on Refugee Return, the Szeged Process, the initiative against Organized Crime, and the Migration and Asylum initiative.

Governmental financial assistance amounted to Euro2.4bn at the Funding Conference in March 2000, which was committed to projects within the "Quick Start Package". This is a lot of money but it is not enough to solve the problems of the region. It is therefore imperative that this money is used as a strategic investment lever to foster confidence in the region in order to attract more investments, specifically greater private sector activity. So far, 9 out of 10 projects have started; and more than two thirds of the money has already been disbursed.

This year we will have two more financial conferences, one for Serbia to support the reform agenda of the new government and one for the region at large with focus on projects for democratization, institution building, refugee return, infrastructure and security.

There is a certain danger that with the region sailing into calmer waters, donor fatigue will set in. I warn against reducing efforts now. Preventive diplomacy needs a lot of stamina; the Stability Pact is a marathon. Crisis prevention is by definition a long-term process.

As recent events in Bosnia-Herzegovina, Macedonia and Kosovo clearly demonstrate, the "peace project in South Eastern Europe" still needs a vigorous security component in order to succeed. The Stability Pact can only work if Europe and the United States continue to closely co-operate. The European Union has the potential to take the political lead in this, but a strong US commitment is needed to secure this endeavor militarily. I have just returned from Washington where the Stability Pact was confirmed as a key element of the Trans-Atlantic agenda. Therefore, I am optimistic that we shall succeed in bringing the Stability Pact a major step forward towards our common goals.