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## **FREE MOVEMENT OF PEOPLE, GOODS, SERVICES AND CAPITAL IN View OF THE CONTEXT OF STABILITY PACT**

### **1. Introduction**

The Stability Pact is a strategic concept whose aim is to warrant long-term peace and stability in South-Eastern Europe. It is becoming an indispensable element of the global security structure which is currently being constructed in relations between the big powers, the USA, Russia and China, with the active participation of the United Nations, the European Union, international financial institutions and individual countries. As one of the sponsors of the pact, the European Union is keenly interested in stability and peace among its next-door neighbours, some of whom are covered by the pending eastern enlargement. This enlargement is intended to transcend centuries of civilisational and religious divisions in Europe, the causes of many political and armed conflicts in the past. The vision of Europe in the 21st century, reaching all the way to the borders of the former Soviet Union, is that of a multicultural community encompassing states with diverse civilisational, religious, ethnic and cultural characteristics.

The EU as an international integration is one of the most important elements in the process of globalisation which is based on structural changes in world economy. The theory of liberal internationalism<sup>38</sup> views international integration as an inseparable part of globalisation, as a basic foundation for the realisation of the concept “peace by integration” in an international system with increasing interdependence. Under the conditions of globalisation, international integration is

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<sup>38</sup> Reinhard Meyers: Temeljni pojmovi i teorijske perspektive meunarodnih odnosa, PAN LIBER, Osijek-Zagreb-Split, 1999.

organised with the purpose of contributing to a better control and co-ordination of international economic, as well as political relations, with their better internal organisation and co-ordination. Thus integration is nurtured by the process of a continuing growth of profit, carried out by intensification of economic exchange, trans-border differentiation of the division of labour, entwining of segment markets, their merging into a common market, and the economic and monetary union. These theoretical precepts, which have so far been proven as facts on many examples, prove that the membership in international integration, as an inseparable part of the globalisation process, is far more favourable, economically and politically, for each of the members than if they had remained outside such an integration. Since economic and political benefits from participation in this integration are interactive, it follows that the essence of international relations as a whole develops within and among an individual world integration. The position of one country within an international integration determines its position in international relations, thus the main content of international relations of a country proceeds through its participation in international integration. It is particularly relevant to small countries like SEE ones.

The European Union (EU) as one important global integration was established upon theoretical precepts of liberal internationalism, both internally and externally. Liberal internationalism in international relations is compatible with the value system of each member-state, which is based upon liberal democracy and the constitution of a rule of law. Since the subject is a compatible value system both internally and externally, it is the basis for democratisation of international relations, which by the nature of things enables small states as well as big ones to actively and equally participate in international relations, according to their abilities and competence, and especially according to their efficiency to adjust to this value system. Therefore, the participation in international integration is the best way towards the realisation of their national interests under the conditions of globalisation. This goes for SEE countries, too.

One of the most significant characteristics of the liberal internationalism, particularly implicated in the European integration process, is the right of implementation of the four freedoms: freedom of free movement of persons, i.e., of labour force, of goods, services and capital. These 'freedoms' are the foundation of the EU, functioning since its very

beginning, from the first six members in 1957 up to the present day, and the process of its future “eastern enlargement”, as well as the Stability Pact process, will also be based upon them. They are the prerequisite for the successful functioning of the integration on:

- A political level, because they are the prerequisite for the compatibility of the value system in each member state, which in the case of the EU is based upon liberal democracy and respect for the rule of law in the internal and on liberal internationalism on the international level;
- An economic level, because they are the prerequisite for a gradual convergence of economic development of all member states, without which an economic and monetary union being a final act of every international integration cannot function successfully;
- A cultural level, because they are the prerequisite for mutual understanding and mutual respect which is a basic component of every voluntary, i.e., ‘bottom-up’, integration;
- A scientific and technological level, because they are the prerequisite for a gradual convergence in development, which is especially important in relation to the conditions of globalisation.

## **2. The Specific Position of the SEE Sub-region**

Each country or group of countries that wants to become an equal member of the EU, being at the moment the most prominent and the most concrete form of the process of international integration, has to be aware of the fact the implementation of these four freedoms must be indivisible – not only for the past member states, but also for any country that will become an equal member state in the future. It is also applicable both to the SEE countries, the majority of which are in various phases of the process of stabilisation and association to the EU (SAA and Stability Pact process), and to the other countries of the region that are in more advanced stages of integration - Bulgaria and Romania on the one side, and Hungary and Slovenia on the other. The four freedoms cannot be based only on some institutionalised phases of co-operation, i.e., they cannot be restricted only to the countries that are institutionally closer to full integration (Hungary, Slovenia, Bulgaria and Romania), and in a different way to the countries that are, within the SAA and Stability Pact process, somewhat further away from the full integration. Even the countries that within the framework of that process are in various stages of association cannot be seen separately.<sup>2</sup> The phases of functional and neo-functional integration by the nature of things cannot be restricted within the frameworks of different institutional phases of association because this would be contradictory to the very philosophy of the ‘four freedoms’. The perfect example for that is the process of the Stability Pact, from the very beginning of its activities.

What should be taken into account, however, are the specific qualities of particular sub-regions, which should gradually become an institutional part of the wider region, i.e., the EU<sup>3</sup>. A significant dose of fine-tuning is necessary here, particularly in the light of the fact that EU enlargement has several times so far been based on the regional principle. For

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<sup>2</sup> Out of five countries participating in that process, Croatia has signed the SAA, Macedonia has only ratified it, while Albania, Bosnia and Herzegovina and FR Yugoslavia have not started to negotiate yet. Among other countries of the region, Hungary and Slovenia are ahead of the entrance into the full membership, while Bulgaria and Romania are in the second group of candidates, but still closer to the integration than the countries of the SAA process.

<sup>3</sup> For the sake of this paper, the SEE will be considered as a sub-region and the EU as a region.

instance, Great Britain and Ireland were accepted together, as was the case with Spain and Portugal. It has not been proclaimed as a formal principle anywhere, thus, for instance, Denmark was accepted together with Great Britain and Ireland. However, wherever it is possible the EU applies the regional principle, for the very sake of pragmatism, because it does not want to accept as its members the countries that have unresolved problems with their neighbours. This would mean that those problems would be carried over to the Union, which would have an unfavourable impact on the cohesion of the whole. The EU applies that principle also in the case of the first phase of the eastern enlargement, thus motivating the Central European countries to increase economic co-operation by establishing the free trade area CEFTA (Central European Free Trade Area) that encompasses all countries from the first two groups of candidates for accession to the full membership<sup>4</sup>.

That is why the example of CEFTA as a successful sub-regional integration is often being cited in Brussels, it should be looked up to by the SEE countries as well, particularly by the members of the Stability Pact process. The inappropriateness and the unrealistic quality of such automatic comparisons is actually one of the themes the Union should clear up so that it can as successfully as possible complete the final stage of the eastern enlargement (with the countries of the SAA process).

The area of the Stability Pact in South East Europe is today composed of 9 or 10 states (Yugoslavia – Montenegro). It is certainly respectable, if not because of its economic development, then according to the number of inhabitants. It encompasses developed countries, middle-developed countries as well as of the three poorest European countries (Macedonia, Albania, B-H). There is one NATO member in the group (Hungary), two presumable candidates for the next round of enlargement (Slovenia and Romania), two states that have started negotiations on the entrance to the EU (Hungary and Slovenia), two states that have signed the Association Agreement (Romania and Bulgaria), and five countries that are members of the Stabilisation and Association Agreement. This market, starting from the assumption of faster economic development, could also open

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<sup>4</sup> Within the framework of the first group of candidates are the CEFTA members, the Czech Republic, Hungary, Poland and Slovenia, and within the framework of the second group are Bulgaria, Romania and Slovakia. Along with those countries, Estonia is a member of the first group, while Latvia and Lithuania are members of the second.

the way for greater political linking with the aim of a joint resolution of some problems, also within the mechanism of the Stability Pact. However, while doing so, some specific qualities should be taken into account which are particularly related to the historical development of all countries of the region. First, this sub-region is one of those areas where a centre of their own which would attract other countries has never been built, neither have any forms of co-operation based upon some common interest been established. Without any visible common interest, precisely the dark pages of sub-regional history become more important. Economic analyses, on the one hand, speak about potential possibilities of co-operation, but numerous reservations are instantly visible, on the other hand, which stress that each of these states have always been directed toward relations outside the region, that no attractive arrangements have ever been made between those states and, finally, that there is a constant fear that linking to the sub-region, whose geographical name “the Balkans” has a pejorative meaning for many states of the region, would increase the distance from or make the road to European integration more difficult. With such bad historical experiences and so many fears from the present, it is very hard to develop sub-regional co-operation, which should however be the first step in proving the maturity and capability of those states to go down the road of resolution of their problems and within it find some useful forms of unity.

The wars in former Yugoslavia made the differences and hostilities even worse. Even the arguments that could have been used as a motive for greater linking, co-operation and unity, assumed a negative connotation in the war, pulling the entire development as well as the mind-set backwards. Of course, today it is a significant aggravating factor on which it is impossible to build new European relations, to say nothing of the application of the philosophy and principle of the ‘four freedoms’. The sensitivity of the countries that have passed through the war devastation should be taken into consideration. The beliefs that a vision of future material benefit could neutralise this inheritance of evil, are surely naïve and do not correspond to reality. The attempt to push all states together without the solution of some basic issues, putting the equality sign between the aggressors and the victims, are a typical example of a mechanical, bureaucratic approach, but not at all a

foundation on which co-operation could be developed that would be desirable and useful to all.

A bureaucratic approach that, for the sake of higher political or human and sinecure reasons, would aspire to fast solutions, acting as a supervisor or the only initiator of action, cannot succeed here, either. A mechanism of bureaucratic decision making of the international community during the past few years has recorded a sufficient number of failed examples which should be carefully analysed in order to prevent their repetition in the first phase of the eastern enlargement of the EU. No matter how poor or devastated by war these countries are, the majority of them are not yet ready, at least for the time being, to accept unconditionally supranational mechanisms that would significantly weaken their sovereignty. Strong outside pressures, the attempt to create and offer some alternative solutions, which would be closer to the bureaucratic centres of decision-making, have not so far been welcomed by the citizens who at that time chose their national option in spite of the fact that perhaps it was less useful for them. Only the projects that would take into consideration the reality of relations, the mood of the main protagonists and the possibility of their gradual realisation, can hope for success and, as such, could become the projects of a successful development and even the foundation for co-operation based on the philosophy of the 'four freedoms'.<sup>5</sup>

### **3. Security Aspects of the Process**

The gradual accession to the EU is such a project, which after many failed attempts of joint projects can motivate the countries of the sub-region for a closer co-operation. After the difficult historical legacy during which these countries had completely different geo-strategic goals, this is their first common goal that all want to achieve. Therefore, the EU should make it clear to those countries, i.e., should offer them credibly a joint prospective of entrance into the Union, regardless of the various institutional phases of that process. For political leaders of the

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<sup>5</sup> For further information see: Vukadinović, R. Security in the southeast of Europe.

region, and, what is more important, for the people at large, Europe is a syntagm without alternative and the vast majority of citizens is aware that it is the future also for this area. Therefore, only if that process is consistently and credibly implemented and if every project set up in the region leans on or relates to the wider regional European solutions, a sincere and concrete sub-regional co-operation can be established that will implement the philosophy of the 'four freedoms'. That is why the Stability Pact should not, by any means, be a substitute for an "eastern enlargement" of the EU, and neither for the SAA process. Those processes must be complementary.

One should also pay a lot of attention to the security aspect of this process, which is very much bound with all kinds of cooperation based of the "four freedoms". The events following the collapse of former Yugoslavia showed that instability in the subregion threatens broader regional and global security. The UN's and NATO's peace-keeping actions, as well as NATO's armed action, helped to pacify parts of this region by force, establishing a kind of protectorate over the most sensitive focal points – a full protectorate in Kosovo and a modified protectorate in Bosnia-Herzegovina. There are many indications that international presence might be required for as long as it takes to complete the process of the EU's eastern enlargement. It is increasingly shown that this process is compatible, in the sense of security, with the military-political containment. The "Europe of the thirty" assumes a broader European region of peace, stability and prosperity on the basis of long-term strategies that will enable the EU to more than double the number of its members – from the present-day fifteen to over thirty members. With its accelerated eastern enlargement, the EU expands also the limits of broader regional security. This proves again that the process of eastern enlargement is not limited to admitting the first and the second group of candidates, currently twelve countries, with whom accession agreements have already been signed. We should add also the countries which have already signed or will soon sign the Stabilisation and Association Agreements, which means the South-Eastern European countries.

The events in this region over the past ten years have highlighted some other characteristics of international relations, which should also be considered. The political practice in this part of the world clearly



shows that the main agent of change are the United States and its policy. The United States was the decisive factor in stopping the wars and establishing peace in Croatia, Bosnia-Herzegovina, and Kosovo. Seen from a broader perspective, the geo-strategic space of South-Eastern Europe can be linked with the turbulent parts in the neighbourhood. Quite obviously, it is in the United States' interest to have this subregion as a stable and peaceful environment, particularly after and during the anti-terrorist campaign in Central Asia, which is in fact in the very vicinity. Bosnian-type conflicts, instability either in Kosovo or in Macedonia, would fit ill with the American interests and objectives. South-Eastern Europe as a link with Western Europe and as a peaceful hinterland of the European continent is the desired state of affairs. The US activities in Macedonia and Kosovo clearly reflect this line of thinking. In this context, sub-regional linkages in South-Eastern Europe gain relevance. A rational adoption of a functional, sub-regional cooperation and projects that are being offered under this scheme are at the moment in the national interest of all countries concerned. But for the time being, all that can only be reached, if the foreign troops remain in this area as long as it is necessary.

#### **4. The Relevance of Functional Co-operation**

Functionalism as one of the theories of integration starts from the assumption that development of international integration should be based on functional connections, through various common activities such as health care, science, culture, trade, economy, transport, etc. Successful co-operation on a functional basis without the establishment of a political body or another supranational authority – in the long term – leads to mutual approaching and creates the basis for an easier solving of political problems. The experience of the establishment of the EC for coal and steel led some of the theoreticians to the comprehension of the purpose-serving quality of functional co-operation and integration, primarily when the subject is co-operation and connections on a regional (or sub-regional), and not on a global level. Neo-functionalism, as a continuity of functionalism, considers exactly such doubts in the

functioning of integration, which are the need for the establishment of supranational systems or a possibility of development through some form of intergovernmental co-operation. As distinguished from functionalism, theoreticians of neo-functionalism advocate the establishment of common institutions with a real mandate. According to the opinion of the neo-functionalists, stimulus for integration starts from a common interest and integration should be developed from a specific field of co-operation into the sectors in which there is interest in mutual co-operation (sectors of interest for regional or sub-regional co-operation, sectors in which co-operation of trans-border areas is possible and the like)<sup>6</sup>.

It could be concluded that within the framework of the theory of functionalism, which is static, co-operation, i.e., functional co-operation is more dealt with, while neo-functionalism is more dynamically oriented and deals with functional integration. Co-operation does not imply common supranational institutions, while integration cannot efficiently function without them. According to many indicators, as well as according to the past historical experience, free movement of labour force, goods, services and capital on the territory of South East Europe can only proceed on the basis of functional co-operation. There are many practical as well as political reasons for that. The most important practical reason is the one already mentioned in the previous considerations. The subject is about the countries on a different level, not only of economic but also political development. These are, for instance, countries that are ahead of a direct entrance into the full membership of the EU (Hungary and Slovenia), which due to this are on an appropriately higher level of economic development than other countries of the sub-region. Croatia is not only on a much higher level of economic development than the other countries of the SAA and Stability Pact process, but it is also more developed than most of them when speaking about the development of institutions both political and economic. Its market is already by many channels connected with the European, it is a member of the world monetary system, it has organised a national audit, etc. Albania and Macedonia lag a lot in this respect, and

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<sup>6</sup> For further information on the theories of integration and on the theories of functionalism in that context see: Samard\_ija, Vi\_nja: *European Union and Croatia*, and in: Vukadinovi\_, Radovan *Theories in International Relations*

if the fact is added that in and around those countries the security situation is still unstable, then any co-operation with them carries heightened risks. FR Yugoslavia and Bosnia and Herzegovina are partly protectorates. A national audit, which would be related to the world financial market, does not function there. Thus, it is hard to imagine in this phase how any kind of institutional co-operation, to say nothing about integration, would be established. If you add a lower level of development of democratic institutions in these countries – the military and the police, for instance, are not completely de-politicised, the rule of law functions in a very problematic way, etc., then it is clear that any pressure upon any kind of integration within the entire SEE area would be counterproductive and practically unfeasible.

There is another very significant reason why any pressure on the stimulation of the process of the 'four freedoms' in the region through any kind of integration would be counterproductive. Processes of co-operation between countries, especially those realising the philosophy of the 'four freedoms' on the basis of liberal internationalism, and the development to date of the EU is the best confirmation of their historical foundation, more and more develop through non-governmental or non-state actors, through various civil associations, i.e., through civil society. It is the result of the fact that the international division of labour under the conditions of globalisation leads to functional networking, which is the result and the prerequisite of scientific, technical, economic and political modernisation. The protagonists of such networking are decentralised individuals, who develop co-operation with others on the basis of individual entrepreneurial interests in all kinds of work. It is the very link that connects liberal internationalism on the external with liberal democracy on the internal level within the framework of every state belonging to that civilisation pattern or intending to become a part of it. The free movement of labour force, goods, services and capital in South East Europe should follow that process, which actually means the adjustment to the conditions of globalisation without which any either economic or political process, cannot be successful either on the external or the internal level. Emphasis should be laid on local protagonists, civil society, various non-governmental associations, which will develop such functional co-operation in accordance with authentic interests and which will only in that case have some chance for success and even stimulate

the process towards higher forms of functional and, when the conditions are created, of institutional integration. The best example of this is economic co-operation, which in order to be successful would have to be initiated from the bottom, i.e., by economic entities, companies, enterprises, their associations, entrepreneurs, etc. Regardless of the level of inter-governmental or inter-state co-operation, the businessmen in this region try to co-operate, mutually researching the market, consulting out conditions of payment, etc.<sup>7</sup> On the basis of the interests of the businessmen, i.e., the economic part of civil society, functional co-operation gradually moves to the institutional level by concluding bilateral agreements on free trade (for instance, the agreements between Croatia and all countries of the sub-region). This is an example of moving from functional to institutional co-operation, where the contents of this kind of co-operation should be differentiated from the contents of a possible integration, because now such co-operation is mainly realised on the bilateral level. If raised to the sub-regional level, it would be the road to integration, but for the time being it is obviously still too early for that. However, with the development of the relations within the current level of co-operation, it is possible that, when the conditions are created, this very economic part of the civil society in Croatia or some other country of the sub-region, through their associations or even the national chamber of economy demand the establishment of higher forms of functional and even institutional co-operation, and, furthermore, of functional and institutional integration<sup>8</sup>.

In this phase it would be optimal to develop a free movement of labour force, goods, services and capital within the sub-region on the basis of functional co-operation, which, with the development of relations, should grow first into institutional co-operation (an example of this are current bilateral agreements on free trade between Croatia and the countries of the sub-region), and then, when the conditions are created,

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<sup>7</sup> An already many times mentioned example for this is the visit of 400 Croatian businessmen to Belgrade immediately after the establishment of the democratic government in Serbia. On the basis of the talks then held even today the businesses are being concluded without any mediation of the state and regardless of the nature of the inter-state relations.

<sup>8</sup> Remember the difference between the contents of co-operation and integration, which is related to the difference between the theories of functionalism and neo-functionalism. Functionalism lingers on co-operation and does not demand the establishment of supra-national institutions, while neo-functionalism considers that the process of functional co-operation logically ends by the establishment of supranational institutions as a step towards integration.

into functional and institutional integration. How this would look like can be illustrated by the example of the development of co-operation in the improvement of mutual trade.

## **5. Promotion of Mutual Trade**

The promotion of mutual trade must be an important and, based on past experience in Europe and elsewhere, probably the leading component of the broader, long term economic co-operation of the countries of SEE as a tool of their integration into EU structures. This long-term vision of regional trade co-operation and eventual integration into the EU contrasts sharply with present reality. Trade relations in the countries of the region are characterised by a variety of restrictions and impediments to trade with each other and with the rest of the world. Moreover, relations with the EU are shaped by a variety of different bilateral trade arrangements which reflect the different states of play of bilateral relations of these countries with the EU. In many conferences and discussions on this issue, the participants identified numerous concrete actions as priorities for each country, as well as some areas for regional cooperation. The following major themes were common:

*Competitiveness* is a very important concept for economic and trades development in each country and the region and it needs to be promoted and used as a basis for further trade development. To increase competitiveness, each country needs to conduct and use competitiveness studies, including cutting-edge methodology; identify and support champions (leaders) and clusters; build a better policy dialogue between business and government; and educate business and government as well as strengthen business associations and promote improved communication between the associations and government and partnerships between business and government. In this context studies of the country's competitiveness and export potential as grounds to formulate government policy and business strategies are also very important. On this basis, training for business and government in areas such as competitiveness, management, marketing, finance, trade, and strategic planning can be provided. The identification of the best

regional and international trade and tax policies and practices will provide the framework for the recommendation of the policy changes to reduce corruption and unfair competition.

*Trade Finance* means development of trade financing and non-banking instruments by joint work of lenders, businesses, and government in order to promote export financing and increase access to financing projects of mutual trade. In this way, a better use of international and regional assistance programmes will be encouraged, contacts between lenders and business, and a better flow of information between lenders and borrowers, especially the improvement of credit information, will be facilitated.

In the field of *Administration* enhanced transparency, competence and efficiency from both governmental and non-governmental administration, e.g., chambers of commerce, trade promotion centres, etc., are needed. Administrative staff must be trained and professionalised and coordination among and within administrative agencies and economic operators must be improved.

*Legal Environment* must be established in a way so that the rule of law, which is the basis for the promulgation of the existing trade agreements must become a top priority. The legislative process has to be more transparent, business must be involved in developing legislation, legislative barriers to trade must be identified and reduced, and the currently diverse legal framework must be equalised. Trade law, including international agreements and trade-related laws and regulations, must be published in easily accessible forms and in a user-friendly manner, including the Internet.

Public and private institutions and organisations must coordinate their efforts to collect and distribute reliable *Trade Information*: databases, contacts, and trade opportunities should be standardised and audited; and trade shows should be promoted. The coordination and synergy between public and private institutions and organizations in their efforts to collect and distribute reliable trade information should be strengthened. A national database of unified business information, contacts, and trade opportunities by using available sources and ensuring quality and accuracy of the information should be created. Business associations and governments should promote and assist participation of businesses in trade shows.

All in all, there is a great need to increase cross-border trust and contacts. Information must be improved, standardised, and made available readily. Cooperation between governments is necessary, particularly in standardising trade-related procedures, laws, and regulations. There was the idea of establishing a SEE web site trade navigator, containing tariff and non-tariff trade measures and procedures, with links to international initiatives and national administrations. The idea has not been realised yet.

Regional and bilateral trade shows and conferences would also be very useful because regional cooperation in the competitive regional trade development has to be matched by efficient follow-ups and active cooperation and coordination with different initiatives and donors. Cross-border cooperation and business contacts, especially between SMEs, by promoting free movement of businessmen in the region, supporting regional and bilateral trade events, and improving communication between business support institutions are also very important. Some kind of gradual cooperation

among governments in the region in general and particularly in the areas of taxation, free trade, law enforcement, and coordination of integration to international structures could also be effective tools for enhancing functional cooperation in trade. At the present stage of development, this kind of cooperation can be focused on some kind of exchange of national and regional information about customs procedures and EU and WTO regulations. If this kind of information is widely available in English, it will be of very much help. An SEE trade navigator in web site and paper versions could contribute, as it was mentioned before, as a very efficient tool.

## **6. The Case of Croatia**

We have already mentioned the example of bilateral agreements on free trade, which Croatia concluded with the countries of the sub-region and which are based on functional co-operation, although they already have some characteristics of institutional co-operation (joint committees). Thus, the subject is the process that is not only connected to the

development of economic relations, but also influenced by political circumstances. As an example of the complexity of the correlation of economic and political conditions, without whose combined appropriate establishment, none, and thus not even this sub-regional co-operation, will be successful, i.e., it will not speed up the functioning of the 'four freedoms' in the sub-region. On the contrary, the example of the problematic relations of Croatia with the neighbouring countries of the sub-region will be shown. That example also illustrates all the complexity and delicacy of the entire historical and civilisation legacy of the whole sub-region, within which the functioning of the 'four freedoms' should be established.

**Bosnia-Herzegovina** is a particularly important neighbour with whom the Croatian policy will probably have to demonstrate the highest possible degree of diplomatic and political expertise. Although he accepted the Dayton Agreement, President Tuđman at the same time continued to fan the hopes of nationalists in Bosnia-Herzegovina, thus weakening their desire for cooperation within their own country. The Croatian coalition government made it known from the very beginning that its attitude towards Bosnia-Herzegovina will be different, based on the respect for its state sovereignty and the wish for good neighbourly relations. The consistent implementation of such a policy has rapidly weakened yet those Croatian forces in Bosnia-Herzegovina that opted for secession. The development of normal, bilateral relations and concern for the fate of the Croatian people in Bosnia-Herzegovina has so far enjoyed the strong support of the international community. Under such conditions one can predict intensive economic and political cooperation and the creation of conditions for security along the Croatian border with Bosnia-Herzegovina, which especially gains relevance in the light of the global antiterrorist campaign. This will require the solution of the problem of refugees, both in the Federation and in the Republic of Srpska, and the common approach to cooperation within the Stability Pact on the following foundations:

- Cooperation should be based on the project of EU eastern enlargement and fit within the framework of the Stabilisation and Association Agreement, with the objective to establish a zone of long-term stability in the region.
- In this regard, close cooperation should be established with the



international community, as part of its mandate, which is to transform Bosnia-Herzegovina into a country capable of implementing the main principles and criteria of the European Union.

- It is of crucial importance for Croatia to intensify cooperation with those parts of the Croatian people in Bosnia-Herzegovina who are not responsible for the exodus of Croats from this country, which brought their numbers to less than a half over the past ten years, and which threatens their position as a constituent nation.
- Cooperation between Croatian and Bosniac people in coordination with the international community should be stimulated.
- The international community should have its attention drawn to its excessive tolerance towards the Republic of Srpska, which threatens the integrity of Bosnia-Herzegovina.
- In the economic sphere, functional cooperation should be encouraged, while possible institutional economic cooperation, for instance in the form of a bilateral free trade zone, will depend on the dynamics of the democratisation in Bosnia-Herzegovina, on the basis of the Dayton Accords and the Zagreb Summit Declaration.
- Both countries have a specific responsibility in fighting illegal immigration, which might be a perfect mechanism for fostering terrorist channels from Central Asia to Europe. The successful cooperation in controlling very long and, in some spots, inaccessible borders will strengthen their role in the global antiterrorist campaign.

**Yugoslavia** is Croatia's neighbour with whom it has a number of complex open issues. To start with, Belgrade provided the inspiration and support for the Serb rebellion; the aggression was also spearheaded from that centre; the suffering and destruction as well as the major Serb exodus after the fall of the so called Krajina were also the products of Milo\_evi\_'s policies. This is recent past, which still cannot be forgotten, although the rational political approach speaks in favour of the beginning of normalisation. Croatia needs to be very cautious with every move it makes, because it is still not quite clear whether "democratic processes" in Yugoslavia are true, or whether the new government is simply playing for time to improve the perception of Serbia in the international community (an effort in which it is even partly successful). The international community is still vacillating between the desire to

treat “new” Serbia (FR Yugoslavia) as an important factor of stability, even at the price of double standards for it and the other countries in the sub-region, and the need to punish the new authorities for failing to express clearly whether they want to adopt the standards of cooperation, especially cooperation with the International War Crimes Tribunal in The Hague. The international community has not yet defined a clear strategy towards “new” Serbia, opting instead for the wait-and-see policy in order to give the new authorities more time (especially with view of the very obscure reaction to the terrorist attack on America and the very hesitating, if at all, support to global antiterrorist campaign). This kind of tolerance towards, the so called, democratic authority in Yugoslavia, again puts the credibility of the international community seriously at stake. Moreover, with the unresolved question of Kosovo, with Montenegro seeking independence, with Sandjak seeking autonomy, and Vojvodina moving increasingly in the same direction, Yugoslavia is still a source of great uncertainty. The last elections marked just the first step towards greater security in planning bilateral cooperation and concrete steps towards the normalisation of relations. Some specific issues (such as the return of refugee Serbs, minimal opening of mutually useful transport routes and the establishment of the first forms of trade) are possible small steps towards normalisation. Everything else will need to wait for a new stage of development in which Yugoslavia, or Serbia, will truly solve its domestic political issues and start along the path of democratic European development. Only then will it be possible to open up prospects for cooperation on the bilateral and sub-regional levels. The following points need to be made at this stage:

- The main precondition and framework for Croatia’s cooperation with Yugoslavia must be the project of EU eastern enlargement, with the idea of creating a long-term stability zone in this region.
- In this context, cooperation should be adjusted to the dynamics of international democratisation in Serbia, which depends mostly on (a) realistic recognition of the responsibility for the aggression on three neighbouring countries, (b) the quality of its cooperation with the international War Crimes Tribunal in The Hague, (c) the quality of its genuine support of the global antiterrorist campaign, (d) the recognition of the borders of all neighbouring countries, especially

Bosnia-Herzegovina and Macedonia, (e) the recognition of Montenegro's right to independence.

- Once positive developments are recorded in these domains, a high degree of formal and institutional relations should be established within a broader regional and security project.
- The international community should be informed repeatedly that the geopolitical situation in this part of the world has changed so much that Serbia can no longer be the main factor of sub-regional stability, and that any insistence on such a perception slows down and threatens the establishment of the security zone in the region. The best evidence for this is Yugoslavia's hesitating sustenance to the global antiterrorist campaign.
- In the economic domain, functional economic cooperation should be encouraged at this stage, and any institutional cooperation, for instance the unrealistic idea of a regional customs union, should be rejected.

If the political development in Montenegro should come out in favour of independence, Croatia should immediately recognise that country as an independent international legal entity.

**Slovenia** and Croatia emerged from Yugoslavia together, but their paths soon parted. While Slovenia continued to systematically build its European political, economic and cultural structure, Croatia remained buried under its domestic difficulties and problems. The issues marring their bilateral relations (Bay of Piran, the Ljubljanska Banka debt, the Krško nuclear power plant) should not pose major difficulties for normal bilateral relations. But since the two countries were new states which wanted to demonstrate their sovereignty at all cost, conditions were created to aggravate the problem and block cooperation. The new approach by Croatia – one hopes also by Slovenia – should lead to a relatively quick solution of all the disputes, leaving room for the many elements that bind them. Croatia is an interesting economic space for Slovenia, while the Adriatic coast is a traditional destination for Slovene tourists. For Croatia, Europe begins on the border with Slovenia, and through Slovenia Croatia can reach Europe economically and politically much faster. The two countries also share the view of cooperation in South-Eastern Europe, the question of succession, and Slovenia's help for Croatia in joining CEFTA. Given good political will, it is possible to

predict many new developments in the interest of both countries which might contribute also to Croatia's image abroad.

**Hungary** is the neighbour with whom Croatia has developed best relations, unburdened by any open issues. To this we should also add the expressed readiness of Hungary to continue to cooperate in the same spirit, and the Croatian authorities should build relations that will establish deeper ties between the two neighbouring Danubian countries. Hungary is moving fast towards a full membership in the European Union. It is a NATO member already and is also included in the Stability Pact. Studying the Hungarian progress towards the Euro-Atlantic integrations and organisations, Croatia could draw many lessons, and the Hungarian vote of support might be very important as Croatia bids to join CEFTA and later the EU.

## **7. Conclusion**

This paper deals with the possibility of the establishment of the process of the 'four freedoms' in the SEE sub-region, which is considered in a wider sense than the part of the sub-region covered by the Stability Pact and the SAA process. The process of the 'four freedoms' cannot be restricted either institutionally or politically, starting from the assumption that all countries that participate in it share the same value system. The subject under discussion is the model of liberal internationalism in foreign and the model of liberal democracy in internal relations. The EU is also established on that model as well as all the phases of its enlargement including the most recent one, i.e. the phase of the eastern enlargement.

Thus, all countries that want to become members of the Union must secure gradual a functioning of the 'four freedoms', not only in the direction of the current EU members, but also of the new members, particularly the neighbours in the sub-region. This also relates to the SEE sub-region although due to the inherited historical and civilisational reasons whose characteristics burden even the most recent past, it will not be so simple. This is also true for some other areas and sub-regions. A mechanical or bureaucratic comparison with an imposition of the

examples of other sub-regions would be counterproductive in the SEE area. Since sub-regional co-operation based on the philosophy of the 'four freedoms' is in the direct national interest of all countries in the sub-region, but also in a wider regional, especially security, interest, it should be approached carefully, respecting the specific qualities of the area with an optimal combination of respecting narrower national but also wider regional and sub-regional interests. On the basis of the theory, but also on the practice of international co-operation and integration, functional co-operation of the countries in this phase seems to be as appropriate in meeting all those interests. In accordance with the democratisation of internal relations of all countries in the sub-region, this co-operation would gradually grow into functional integration, and then into institutional co-operation and integration. The EU for its part will facilitate and speed up this process if offers these countries a clear and credible prospective of fast entrance into the Union.

Non-governmental organisations and associations, i.e., the institutions of the civil society of all countries under discussion can play a significant role in this process. They can become main protagonists of the functional linking and gradually encourage the entire process leading towards the wanted goal. The exchange of information, publications, experts, the organising of scientific and expert conferences on various fields of co-operation, the elaboration of joint projects, all this can have an impact on the increase of knowledge and interest in co-operation, which then, depending on other political and security circumstances, can faster overcome all phases from functional to institutional co-operation and integration.

As to Croatia, due to its geostrategic position in the centre of this strategically important project, which marks the beginning of the new millennium, the Stability Pact (only under the previously mentioned preconditions) opens new possibilities for its internal economic development, released from the need to continue allocating a significant part of its GDP to defence and security, and provides a good basis for a faster involvement in European and global security structures.

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