CURRENT EU ACCEDING COUNTRIES AND CANDIDATE COUNTRIES

Croatia, which is scheduled to join the EU in 2013, is currently recognized in EU terminology as an "acceding country." Five other countries are considered by the EU as official candidates for membership: Iceland, Macedonia, Montenegro, Serbia, and Turkey. All are at different stages of the accession process, and face various issues and challenges on the road to EU membership. In the paper we are examining each one of them.

CROATIA

Full name: Republic of Croatia
Capital and largest city: Zagreb
Official language: Croatian
Ethnic groups: 90.4% Croats
4.4% Serbs
5.2% others/ unspecified
Population: 4.3 million
Currency: Kuna (HRK)
GDP per capita PPP: EUR 14,000 (2012 est.)
Accession status: Accessing on 1 July 2013

Croatia is one of the six countries that made up the former Yugoslavia.

In 2001, within a decade of gaining independence, Croatia concluded a Stabilization and Association Agreement (SAA) with the EU to govern relations, including financial and technical assistance geared toward helping Croatia meet the political and economic criteria for EU accession. The agreement liberalised trade in almost all goods and contributed substantially to increased trade between the EU and Croatia. In 2012, EU imports from Croatia amounted to EUR 5.5 billion while EU exports to Croatia reached EUR 11.2 billion. The main sources of export to the EU in 2012 were industrial products (60%), followed by commodities (20%) and agriculture (10%). Similarly, the Croatian imports from the EU in 2012 were mainly in these three sectors with the emphasis on processed food and manufacturing, with commodities making up less of the trade.

In 2012 the EU was Croatia’s main trading partner (62% of external trade). The second most important markets for Croatia were its southern neighbors Bosnia-Herzegovina and Serbia. The EU stock in foreign investment to Croatia was 92%.

Croatia submitted its application to join the EU in February 2003.

In June 2004, the EU named Croatia as an official candidate for membership. At the time, the EU asserted that Croatia still needed to make further progress on some of the political preconditions for membership related to issues such as minority rights, judiciary reform, and the apprehension of war criminals stemming from the Balkan conflicts of the 1990s. In December 2004, the EU announced it would open accession negotiations with Croatia in March 2005, provided that Croatia demonstrated “full cooperation” with the International Criminal Tribunal for the former Yugoslavia (ICTY). The start of accession talks was delayed, however, because some EU members were not convinced that Croatia was cooperating sufficiently with the ICTY in apprehending a prominent war crimes suspect.

EU accession talks with Croatia were eventually opened in October 2005, following a determination that Croatia was in full compliance with the ICTY. Croatia's accession talks stalled, however, in
December 2008 when neighboring EU member Slovenia began blocking the opening and closing of several chapters of the *acquis* maid a border dispute. In September 2009, Slovenia agreed to resolve the border issue separately, detaching it from Croatia’s EU membership bid and thereby allowing accession negotiations to continue.

In June 2011, the EU concluded *accession negotiations* with Croatia. The EU and Croatia signed the *Treaty of Accession in December 2011*. In January 2012, Croatian voters approved the country’s EU accession in a national referendum, with 66% in favor, and the Croatian parliament ratified the accession treaty in March 2012. Croatia is expected to become the 28th member of the Union on July 1, 2013, subject to the completion of the ratification process in all existing 27 member states.

The EU maintains that Croatia is a stable democracy with a functioning market economy (despite Croatia’s ongoing recession and difficult financial situation), but notes that Croatia must continue to work on completing a number of reforms, especially with regard to tackling corruption, improving its judiciary, and protecting fundamental rights.

**Timeline of close cooperation between Croatia and the EU**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Croatia joins the EU on 1 July</td>
</tr>
<tr>
<td>2012</td>
<td>Croatian voters approved the country’s EU accession in a national referendum, with 66% in favor, and the Croatian parliament ratified the accession treaty</td>
</tr>
<tr>
<td>2011</td>
<td>Croatia and the 27 Member States of the European Union sign the EU Accession Treaty.</td>
</tr>
<tr>
<td>2011</td>
<td>Accession negotiations formally end on 30 June.</td>
</tr>
<tr>
<td>2005</td>
<td>International Criminal Tribunal for the former Yugoslavia (ICTY) confirms Croatia’s co-operation. Accession negotiations are launched the same day.</td>
</tr>
<tr>
<td>2004</td>
<td>Croatia receives official candidate status and the European Council sets the date for the entry negotiations to begin in 2005.</td>
</tr>
<tr>
<td>2003</td>
<td>Application for membership submitted.</td>
</tr>
<tr>
<td>2001</td>
<td>Croatia and the EU sign the Stabilisation and Association Agreement (SAA) to start closer economic and political cooperation.</td>
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</tbody>
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**ICELAND**

**Capital and largest city:** Reykjavik

**Official language:** Icelandic

**Ethnic groups:**
- 93.44% Icelandic
- 2.83% Polish
- 3.73% others

**Population:** 321,857

**Currency:** Icelandic króna (ISK)

**GDP per capita PPP:** $39,223

**Accession status:** Candidate country
Although Iceland has close and extensive ties with the EU, it resisted joining the EU for decades. In July 2009, however, Iceland applied for EU membership in the wake of the 2008 financial crisis that led to the collapse of its banking system and the devaluation of its national currency. Many Icelandic officials believed that membership in the Union would significantly bolster Iceland’s ability to recover from its economic recession. The EU named Iceland as an official candidate in June 2010, and began accession negotiations with Iceland in July 2010.

Iceland has a stable democratic government and open market economy. Iceland and the EU have a free trade agreement dating back to 1972, and Iceland has been a member of the European Economic Area (EEA) since 1994. Through the EEA, Iceland participates in the EU’s single market and a significant number of EU laws already apply in Iceland. Also, Iceland is a member of the Schengen area, which enables Icelanders to work and travel freely throughout the EU, and participates in a number of EU agencies and programs in areas such as enterprise, the environment, education, and research.

Given Iceland’s existing integration with the EU, many observers expected accession talks to proceed quickly. As of the end of 2012, talks have been opened on 27 chapters, and one-third of these have been provisionally closed. However, several challenges remain for Iceland. These include resolving differences with the EU on fisheries and whaling policies, and settling an ongoing dispute over fully repaying the British and Dutch governments for debts incurred when Iceland’s online bank—Icesave—failed in 2008. Furthermore, it is unclear at present whether Icelanders would support EU membership in a national referendum; Iceland’s political parties are divided on the benefits of EU accession and recent public opinion polls suggest that a strong “no” camp exists. Some analysts also note that Iceland will hold national elections in April 2013, and that a new government may not be inclined to continue Iceland’s EU membership bid. In mid-January 2013, Iceland announced that there would be no further government or parliamentary decisions on joining the EU until after the April election.

**Timeline of close cooperation between Iceland and the EU**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Council decides to open negotiations with Iceland</td>
</tr>
<tr>
<td>2010</td>
<td>Opinion by Commission on Iceland’s application for EU membership</td>
</tr>
<tr>
<td>2009</td>
<td>Iceland replies to Commission questionnaire</td>
</tr>
<tr>
<td>2009</td>
<td>Council requests Commission opinion on application</td>
</tr>
<tr>
<td>2009</td>
<td>Iceland applies to join EU</td>
</tr>
<tr>
<td>1994</td>
<td>Iceland joins European Economic Area (EEA)</td>
</tr>
<tr>
<td>1973</td>
<td>Free trade agreement with the European Community</td>
</tr>
<tr>
<td>1970</td>
<td>Iceland joins European Free Trade Association (EFTA)</td>
</tr>
</tbody>
</table>

**REPUBLIC OF MACEDONIA**

**Capital and largest city:** Skopje

**Official language:** Macedonian

**Ethnic groups:**
- 64.2% Macedonians
- 25.2% Albanians
- 3.9% Turks
- 2.7% Roma
Population: 2,058,539 (2011 est.)
Currency: Macedonian denar (MKD)
GDP per capita PPP: $10,718
Accession status: Candidate country

The former Yugoslav Republic of Macedonia was the first among the Western Balkans countries that signed the Stabilisation and Association Agreement (SAA) on 9 April 2001. An Interim Agreement, covering trade and trade-related aspects, entered into force in June 2001.

The EU is the main trading partner of the country, accounting for 60% of the country's exports and 48% of imports. The Western Balkan region (or the new CEFTA region) is the other main trading partner, representing 35% of the country's exports and 11% of its imports. The export structure remains highly concentrated on a few products, the most important being ferro-nickel, iron and steel, and textile products. The main imports are crude oil, electricity, flat-rolled iron and steel products and vehicles.

It applied for EU membership in March 2004. The EU named Macedonia as an official EU candidate in December 2005, and the European Commission has recommended opening membership talks with Macedonia since 2009. According to the Commission, Macedonia is sufficiently fulfilling the political and economic criteria for membership, although it continues to urge Macedonia to complete necessary reforms aimed at improving the rule of law, protecting freedom of expression, promoting the independence of the judiciary, and strengthening anti-corruption efforts.

Some EU officials also remain concerned about inter-ethnic tensions in Macedonia, especially with respect to its Albanian minority. Macedonia has not yet secured a start date for accession negotiations, however, largely because of a long-running and ongoing disagreement with Greece over the country's official name.

Macedonia maintains the right to be recognized internationally by its constitutional name, the Republic of Macedonia, but Greece asserts that it implies territorial claims to the northern Greek province of the same name. As a result of this dispute, Greece continues to block the opening of EU accession talks with Macedonia. Currently, the EU refers to Macedonia in official documents as the Former Yugoslav Republic of Macedonia (FYROM), a provisional name coined in 1993 to enable Macedonia to join the United Nations.

In light of these difficulties, the European Commission launched a High Level Accession Dialogue (HLAD) with Macedonia in March 2012 in order to help maintain momentum for the EU reform process in Macedonia. In addition, the Commission has reportedly been working to find a way to enable accession talks with Macedonia to begin before a final resolution of the name dispute. In December 2012, all EU member states (including Greece and Bulgaria, which has raised concerns about Macedonia's readiness for membership amid a separate bilateral dispute) agreed to assess the prospects for opening negotiations with Macedonia in spring 2013, following a Commission report on Macedonia's reform efforts, its progress toward promoting "good neighborly relations," and steps taken toward resolving the name issue. Thus, some commentators are hopeful that Macedonia may be given a green light to begin accession negotiations in the near future; others remain doubtful that Macedonia's EU membership bid can be furthered without significant progress on the name issue.

Timeline of close cooperation between Macedonia and the EU

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
</tr>
</thead>
</table>
2009  Citizens of the former Yugoslav Republic of Macedonia, Montenegro and Serbia travel visa free to the Schengen area
2008  Visa facilitation and readmission agreements enter into force
2005  Council grants candidate status to the country
2005  The country replies to EU questionnaire
2004  Council asks Commission to give opinion on application
2004  Stabilisation and Association Agreement (SAA) enters into force
2004  Application for EU membership
2001  Agreement on trade and trade-related matters enters into force
2001  Stabilisation and Association Agreement (SAA) is signed.

MONTENEGRO

Capital and largest city: Podgorica
Official language: Montenegrin
Ethnic groups: 44.98% Montenegrins
               28.73% Serbs
               8.65% Bosniaks
               4.91% Albanians
               3.31% Muslims
               0.97% Croats
               8.45% others / unspecified
Population: 625,266
Currency: Euro (EUR)
GDP per capita PPP: $11,800
Accession status: Candidate country

After ending its union with Serbia and gaining independence in June 2006, Montenegro and the EU began talks on a Stabilization and Association Agreement. The SAA was signed in October 2007. Montenegro applied for EU membership in December 2008 and was granted candidate status in December 2010.

In October 2011, the European Commission assessed that Montenegro had achieved the necessary degree of compliance with the political and economic criteria for accession talks to begin. The EU opened accession negotiations with Montenegro in June 2012. Although EU officials acknowledge Montenegro’s progress toward meeting EU standards, they also assert that more work is needed. Key challenges facing Montenegro include improving the rule of law, fighting corruption and organized crime, enhancing the independence of the judiciary, and strengthening administrative capacity.

Timeline of close cooperation between Montenegro and the EU

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Accession negotiations with Montenegro started on 29 June 2012.</td>
</tr>
</tbody>
</table>
SERBIA

Capital and largest city: Belgrade

Official language: Serbian

Ethnic groups: 83.3% Serbs
            3.5% Hungarians
            2.0% Bosniaks
            2.0% Roma
            0.8% Slovaks
            8.3% others
            (excluding Kosovo)

Population: 7,186,862 (2011 est.)

Currency: serbian dinar (RSD)

GDP per capita PPP: $5,667

Accession status: Candidate country

Until relatively recently, Serbian-EU relations were difficult and Serbia’s path toward eventual EU membership faced several obstacles. Most EU member states and EU officials viewed Serbia as bearing the bulk of responsibility for the violent dissolution of the former Yugoslavia in the 1990s and for the 1999 conflict over its former province of Kosovo. Many in the EU considered Serbia as being slow to implement necessary political and economic reforms, largely uncooperative in tracking down Serbian war crimes suspects indicted by the International Criminal Tribunal for the former Yugoslavia, and resistant to normalizing relations with Kosovo (which declared independence from Serbia in 2008, but which is not recognized by Serbia).

Over the last few years, however, Serbia has made considerable progress in modernizing its political and economic system. As part of EU efforts to boost pro-Western political forces in the country, the EU concluded a Stabilization and Association Agreement with Serbia in April 2008.

In December 2009, Serbia submitted its formal application for EU membership. In the summer of 2011, Serbia’s accession prospects improved significantly following the arrest and extradition of two high-profile war crimes suspects wanted by the ICTY.

In October 2011, the European Commission recommended EU candidate status for Serbia, provided that it continued to work on improving relations with Kosovo in EU-brokered talks. In February 2012, Serbia concluded two accords with Kosovo aimed at addressing some key EU concerns; Serbia agreed to conditions under which Kosovo may participate in Western Balkans regional institutions, and on the technical parameters for jointly managing its border with Kosovo (which EU officials hope will reduce tensions in Serb-dominated northern Kosovo). In light of these accords, the EU named Serbia as an official candidate in March 2012.
Nevertheless, the EU expects Serbia to achieve further steps in normalizing its relations with Kosovo before Serbia is deemed ready to begin accession negotiations. Talks between Serbia and Kosovo are continuing under EU auspices. In December 2012, EU leaders agreed to assess the possibility of opening negotiations with Serbia in spring 2013, following a Commission report on Serbia’s progress toward meeting all EU membership criteria, and in particular, on whether Serbia has done enough to promote “a visible and sustainable improvement” in its relations with Kosovo. According to recent press reports, Serb officials are hopeful that the EU will look positively on Serb efforts with respect to Kosovo, and decide to open accession negotiations with Serbia by June 2013. Even once such discussions begin, however, Serbia will not be ready to join the EU for many years. Experts also assert that ultimately, it is unlikely that the EU would admit Serbia as a member until Kosovo’s status is fully resolved.

**Timeline of close cooperation between Serbia and the EU**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>European Commission delivers its Opinion on Serbia's EU membership application, granting candidate status based on one key priority.</td>
</tr>
<tr>
<td>2011</td>
<td>Serbia replies to Commission questionnaire</td>
</tr>
<tr>
<td>2009</td>
<td>Serbia applies for EU membership</td>
</tr>
<tr>
<td>2008</td>
<td>Stabilisation and Association Agreement (SAA) and Interim agreement on trade and trade-related issues are signed in Luxembourg</td>
</tr>
<tr>
<td>2005</td>
<td>Negotiations launched for Stabilisation and Association Agreement</td>
</tr>
</tbody>
</table>

**TURKEY**

**Capital and largest city:** Ankara, Istanbul

**Official language:** Turkish

**Ethnic groups:**
- 70-75% Turks
- 18% Kurds
- 7-12% others

**Population:** 75,627,384 (2013 est.)

**Currency:** Turkish lira (TRY)

**GDP per capita PPP:** $17,279

**Accession status:** Candidate country

Turkey has a long-standing bid for EU membership, but the relationship between Turkey and the European project has been characterized historically by a series of ups and downs. Although EU member states have always supported a close association with Turkey, divisions continue to exist among member states over whether Turkey should be allowed to join the Union given concerns about its political system, human rights record, economy, and large Muslim population. The status of Turkey’s membership application is a frequent source of tension between Turkey and the EU.

Turkish EU aspirations date back to the 1960s. Turkey and the European Economic Community concluded an association agreement (known as the Ankara Agreement) in 1963, which was aimed at developing closer economic ties. The Ankara Agreement was supplemented by an Additional
Protocol, signed in 1970, preparing the way for a customs union. Nevertheless, Turkey’s 1987 application for full membership in the European Community was essentially rejected.

In 1995, the customs union between the EU and Turkey entered into force, allowing most goods to cross the border in both directions without customs restrictions. In 1997, the EU declared Turkey eligible to become a member of the Union. In 1999, the EU finally recognized Turkey as an official candidate country; at the same time, the EU asserted that Turkey still needed to comply fully with the political and economic criteria for membership before accession talks could begin. In 2001, the EU adopted its first “Accession Partnership” with Turkey, setting out the political and economic priorities Turkey needed to address in order to adopt and implement EU standards and legislation. Ankara had hoped that the EU would set a firm date for starting negotiations at its December 2002 summit, but was disappointed; several EU members argued that although Turkey had undertaken significant reforms—such as abolishing the death penalty and increasing civilian control of the military—it still did not fully meet the membership criteria. Some member states also remained concerned about Turkey’s stance toward Cyprus, which has been divided since 1974 between the internationally recognized Republic of Cyprus administered by the Greek Cypriot government in the island’s south, and the Turkish Republic of Northern Cyprus, controlled by Turkish Cypriots. Turkish troops remain stationed in northern Cyprus, and Turkey does not recognize the Republic of Cyprus under the Greek Cypriot government.

In December 2004, the EU asserted that Turkey had made sufficient progress on legislative, judicial, and economic reforms to allow accession talks to begin in October 2005, provided Turkey met two conditions by that time: bringing into force several additional pieces of reform legislation; and agreeing to extend Turkey’s existing agreements with the EU and its customs union to the 10 new EU member states, including Cyprus. Turkey met both of these requirements by July 2005. In pledging to extend its EU agreements and the customs union, however, Turkey asserted that it was not granting diplomatic recognition to the Greek Cypriot government. After some contentious debate among EU members over issues related to Turkey’s lack of formal recognition of Cyprus and whether a “privileged partnership” short of full membership for Turkey should be retained as a future option, the EU opened accession talks with Turkey in October 2005. The negotiating framework asserts that the “shared objective of the negotiations is accession,” but that it will be an “open-ended process, the outcome of which cannot be guaranteed beforehand.” In other words, despite agreeing to open accession talks, Turkey is still not ensured eventual full EU membership.

Detailed negotiations between the EU and Turkey on the acquis began in 2006. Since then, the EU has opened talks on 13 chapters of the acquis (one of these was provisionally closed in June 2006), but progress has been slow and negotiations have been complicated by Cypriot-related issues. According to the EU, Turkey’s continued refusal to open its ports and airports to ships and planes from the Greek Cypriot part of the island, as required by the 1970 Additional Protocol and the customs union, is a major stumbling block. In December 2006, the EU decided to delay the opening of eight chapters dealing with areas affecting the customs union pending Turkey’s compliance with applying the Additional Protocol to Cyprus. Although negotiations on other chapters would be allowed to continue or be opened when ready, the EU also asserted that no further chapters would be provisionally closed without resolution of the issues related to the Additional Protocol. In December 2009, the EU reaffirmed the freeze on the opening of the eight chapters affecting the operation of the customs union. Cyprus and France have also put holds on opening several other chapters of the acquis.

Many observers view Turkey’s accession process as largely stalled. No new chapters of the acquis were opened in 2011 or 2012, and little progress appears to have been made in the chapters already under negotiation. Formal accession talks were further complicated in the second half of 2012, when Turkey froze its relations with the EU’s rotating six-month presidency because it was held by Cyprus from July to December 2012. Given the various difficulties with Turkey’s membership negotiations, in May 2012, the European Commission launched a “positive agenda” with Turkey to reinvigorate EU-
Turkish relations and to inject new momentum into Turkey’s accession process. Areas covered by the “positive agenda” include, among others: alignment of Turkish legislation with the EU acquis; political reforms and fundamental rights; visas; energy; and counterterrorism. The European Commission asserts that this “positive agenda” is intended to complement and support, not replace, Turkey’s accession process.

Experts contend that the slow pace of Turkey’s progress toward EU membership suits some EU governments and many EU citizens who question whether Turkey should join the EU. Those of this view remain wary about the implications of Turkey’s accession on the Union’s institutions and finances given Turkey’s size (with nearly 80 million people, Turkey would rival Germany as the largest EU country in terms of population), and the relatively large portion of Turks considered poor in economic terms. Despite Turkey’s improving and increasingly vibrant economy, some in the EU still fear an influx of Turkish laborers, who would have the right to live and work in existing EU member states should Turkey accede to the Union. Many EU leaders and publics also worry that Turkey’s predominantly Muslim culture would fundamentally alter the character, policies, and identity of the Union. In addition, EU concerns persist about the status of Turkish political reforms, the independence of its judiciary, women’s rights, the degree of media freedoms, and the extent to which religious and ethnic minorities are protected.

Analysts predict that at best, Turkish membership in the EU is at least another decade away. Moreover, they note that it is highly unlikely that Turkey would be able to join the EU without a political settlement on the divided island of Cyprus. A number of observers point out that some Turkish policymakers and citizens are also increasingly questioning the value of and need for Turkish accession given the EU’s current financial woes and sovereign debt crisis and ongoing European concerns about Turkey’s potential membership. Some commentators suggest that the European Commission’s “positive agenda” may ultimately provide a way for both Turkey and the EU to back away from full EU membership for Turkey, while allowing for the development of stronger Turkish-EU ties. Turkish officials, however, continue to assert that EU membership remains a priority for Turkey, and many experts contend that neither Turkey nor the EU, at present, appear prepared to end Turkey’s accession process.

**Timeline of close cooperation between Turkey and the EU**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase in the accession process</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>Negotiations are opened on Chapter 12 (food safety, veterinary and phytosanitary policy).</td>
</tr>
<tr>
<td>2006</td>
<td>Because Turkey refused to apply to Cyprus the Additional Protocol to the Ankara Agreement, Council decides that eight chapters will not be opened.</td>
</tr>
<tr>
<td>2006</td>
<td>Negotiations are opened and closed on Chapter 25 (science and research).</td>
</tr>
<tr>
<td>2005</td>
<td>Council adopts negotiating framework, and negotiations are formally opened.</td>
</tr>
<tr>
<td>2001</td>
<td>Council adopts Accession Partnership for Turkey.</td>
</tr>
<tr>
<td>1997</td>
<td>Luxembourg Council summit declares Turkey eligible to become EU member.</td>
</tr>
<tr>
<td>1995</td>
<td>Turkey–EU Association Council finalises agreement creating a customs union.</td>
</tr>
<tr>
<td>1987</td>
<td>Turkey applies for full EEC membership.</td>
</tr>
<tr>
<td>1963</td>
<td>Association agreement (&quot;Ankara Agreement&quot;) is signed, aiming at bringing Turkey into a customs union with the EEC and, ultimately, membership.</td>
</tr>
<tr>
<td>1959</td>
<td>Turkey applies for associate membership in the European Economic Community (EEC).</td>
</tr>
</tbody>
</table>
PROSPECTS FOR FUTURE ROUNDS OF EU ENLARGEMENT

As noted previously, the EU asserts that the enlargement door remains open to any European country that is able to meet and implement the political and economic criteria for membership. The remaining Western Balkan states of Albania, Bosnia-Herzegovina, and Kosovo are all recognized as potential EU candidates but their accession prospects and timetables vary; most analysts believe that it will likely be many more years before any of these countries are ready to join the EU. Nevertheless, the EU hopes that the possibility of membership will help accelerate reforms and promote greater stability in these and other states interested in eventual EU accession. Countries such as Ukraine and Georgia have also expressed long-term EU aspirations.

On the other hand, “enlargement fatigue” has become a serious issue in Europe. Although the EU is moving ahead with enlargement to include Croatia and probably some of the other Western Balkan countries and Iceland, experts assert that a number of European leaders and many EU citizens remain cautious about further EU enlargement. This is especially true with respect to Turkey or the countries of “wider Europe,” usually considered to include Ukraine, Moldova, and the southern Caucasus (Georgia, Armenia, and Azerbaijan). EU officials increasingly stress that the process of enlargement must take into account the Union’s “integration capacity.” In other words, acceding countries must be ready and able to fully assume the obligations of EU membership, and additional EU enlargement must not endanger the ability of the EU’s institutions to function effectively or render EU financing arrangements unsustainable.

Apprehensions about continued EU enlargement seem to be driven by several issues. Some EU policymakers and European publics have long worried that the addition of nations with weak economies and low incomes could lead to an influx of low-cost or unwanted migrant labor. Such fears prompted the EU to allow the “old” member states to institute some temporary restrictions on labor migration from those countries that joined the EU in 2004 and 2007. Although EU members that chose not to impose any transitional restrictions (such as the UK and Ireland) did see an increase in workers from Central and Eastern Europe, most studies since 2004 suggest that the proportion of EU citizens moving from east to west following enlargement has been relatively small and that such migrants have not displaced local workers or significantly driven down local wages. Nevertheless, such concerns persist, especially when considering the accession of big, relatively less affluent countries such as Turkey or possibly Ukraine in the longer term.

The addition of large countries like Turkey or Ukraine could also have substantial financial consequences for the Union’s budget and regional assistance programs, as well as implications for the functioning of certain EU institutions. Some key EU member states may fear that an ever expanding Union could ultimately weaken their ability to set the tone and agenda in EU institutions and to drive EU policies. Moreover, doubts persist about the ability of some potential EU aspirants to implement EU standards, especially in areas related to the rule of law, fundamental rights, and anti-corruption measures. Many experts viewed the EU as having been too “soft” in previous accession negotiations with countries like Bulgaria and Romania. Another broad European concern with respect to ongoing enlargement is with the overall identity of Europe, what the Union stands for, and where “Europe” ends. The Union’s struggle with these issues has been highlighted by the possible admission of Turkey with an Islamic culture perceived by many Europeans to be vastly different and not compatible with Europe. Similarly, some in the EU question whether countries like Ukraine or those of the southern Caucasus should be considered as part of “Europe,” or whether their geography, history, and culture make them distinct. Many experts believe that enlargement may soon be reaching its limits and that the EU is unlikely to include the countries of “wider Europe” for the foreseeable future.

Moreover, commentators suggest that the EU’s recent financial problems and sovereign debt crisis—which have hit the countries of the Eurozone particularly hard and caused some observers to doubt the future of the EU’s common currency—could potentially slow future rounds of EU enlargement. They note that EU leaders are grappling not only with trying to remedy the Eurozone’s financial
troubles, but also with uncertainty about the future direction of the EU itself. As a result, they may be less inclined to robustly push forward the enlargement agenda. Conversely, the EU’s economic difficulties might make joining the Union—and ultimately the common currency—less attractive for some current and potential EU candidates. For decades, many countries aspired to join the EU largely for the economic benefits that membership would bring. If financial instability in the Eurozone persists, however, some aspirants such as Turkey—with a rapidly expanding and dynamic economy—may not view the benefits of membership as outweighing the potential constraints on its sovereignty and national fiscal and monetary policies.

POTENTIAL FUTURE EU CANDIDATES IN THE WESTERN BALKANS

For many years, the EU has considered all the countries of the Western Balkans as potential future candidates. The EU’s Stabilization and Association Process (SAP) is the framework for the EU’s relations with the countries of the Western Balkans. The centerpiece of the SAP is the conclusion of a Stabilization and Association Agreement (SAA), which represents the contractual relationship between the EU and each Western Balkans country; the SAA also sets out EU financial and technical assistance to help each country meet the EU’s membership criteria. Many view the SAA as the first step toward EU membership for the Western Balkan countries. With Croatia expected to become the 28th member of the EU in 2013, and with Macedonia, Montenegro, and Serbia formally recognized as EU candidates, three countries in the region with a future EU perspective remain: Albania, Bosnia-Herzegovina, and Kosovo.

ALBANIA

Capital and largest city: Tirana
Official language: Albanian
Ethnic groups: 95% Albanian
3-6% Greek
2% others
Population: 2,821,977 (2011)
Currency: Lek (ALL)
GDP per capita PPP: $8,052
Accession status: Potential candidate country

Albania and the EU completed a Stabilization and Association Agreement in June 2006. In April 2009, the SAA entered into force and Albania formally applied to join the EU. In October 2012, the European Commission asserted that Albania was making good progress toward meeting the political criteria for membership, and recommended that Albania be granted candidate status, subject to the completion of reforms in the areas of the judiciary, public administration, and parliamentary rules of procedure. EU members will decide whether or not to name Albania as a candidate country once the Commission has determined that Albania has made the necessary progress in its reform efforts; EU leaders will also likely take into account the conduct of upcoming parliamentary elections in Albania, expected in June 2013, and which are viewed as a “crucial test” of the country’s democratic institutions. Other areas of EU concern include Albania’s ability to tackle corruption and organized crime, its protection of property rights, and its treatment of minorities, especially its Roma community.
KOSOVO

Capital and largest city: Pristina (Prishtina or Priština)

Official language: Albanian, Serbian

Ethnic groups: 92% Albanians
  8% Serbs, Bosniaks, Gorani, Roma, Turks, Ashkali and Balkan Egyptians

Population: 1,733,872 (2011)

Currency: Euro (€); Serbian dinar (EUR; RSD)

GDP per capita PPP: $6,600 – 7,369

Accession status: Potential candidate country

Kosovo declared its independence from Serbia in February 2008 and is recognized by the EU as a potential future candidate under U.N. Security Council Resolution 1244, which ended the 1999 conflict between Serbia and Kosovo.

Serbia insists that Kosovo remains part of its territory; 22 of the EU’s 27 members recognize Kosovo’s independence. Kosovo participates in the Stabilization and Association Process and receives pre-accession financial assistance from the EU, but efforts to forge an SAA have been complicated by the lack of full EU diplomatic recognition.

In October 2012, the European Commission announced the results of a feasibility study, which found that the EU could conclude an SAA with Kosovo, even though it is not recognized by all EU countries. EU members are assessing the possibility of beginning SAA negotiations with Kosovo in the spring of 2013, following a Commission report on Kosovo’s efforts to normalize relations with Serbia and its progress in meeting a number of short-term reform priorities (key EU concerns in Kosovo include the rule of law, public administration, protection of minorities, corruption, and organized crime). Although some observers are hopeful that the EU will agree to start negotiations on an SAA with Kosovo in the near future, others doubt this will be possible until there is EU consensus on Kosovo’s status.

BOSNIA AND HERZEGOVINA

Capital and largest city: Sarajevo

Official language: Bosnian, Croatian, Serbian

Ethnic groups: 48% Bosniaks
  37.1% Serbs
  14.3% Croats
  0.6% other

Population: 3,839,737 (2011 est.)

Currency: Convertible mark (BAM)

GDP per capita PPP: $8,215

Accession status: Potential candidate country

Bosnia and Herzegovina has a bicameral legislature and a three-member Presidency composed of a member of each major ethnic group. However, the central government’s power is highly limited, as the country is largely decentralized and comprises two autonomous entities:
1. Federation of Bosnia and Herzegovina
2. Republika Srpska

with a third region, the Brčko District, governed under local government

The Federation of Bosnia and Herzegovina covers 51% of Bosnia and Herzegovina's total area, while Republika Srpska covers 49%. The entities, based largely on the territories held by the two warring sides at the time, were formally established by the Dayton peace agreement in 1995 because of the tremendous changes in Bosnia and Herzegovina's ethnic structure. Since 1996 the power of the entities relative to the State government has decreased significantly. Nonetheless, entities still have numerous powers to themselves.

The Brčko District in the north of the country was created in 2000 out of land from both entities. It officially belongs to both, but is governed by neither, and functions under a decentralized system of local government. The Brčko District has been praised for maintaining a multiethnic population and a level of prosperity significantly above the national average.

The Federation of Bosnia and Herzegovina is itself complex and consists of 10 federal units - cantons. They are unique to the Federation of Bosnia and Herzegovina entity, which consists of ten of them. All of them have their own cantonal government, which is under the law of the Federation as a whole. Some cantons are ethnically mixed and have special laws implemented to ensure the equality of all constituent people.

The fourth level of political division in Bosnia and Herzegovina is the municipalities. The Federation of Bosnia and Herzegovina is divided in 74 municipalities, and Republika Srpska in 63. Municipalities also have their own local government, and are typically based on the most significant city or place in their territory. As such, many municipalities have a long tradition and history with their present boundaries. Some others, however, were only created following the recent war after traditional municipalities were split by the Inter-Entity Boundary Line.

Its economy is based largely on agriculture.

The war in the 1990s caused a dramatic change in the Bosnian economy. GDP fell by 75% and the destruction of physical infrastructure devastated the economy.

While much of the production capacity has been restored, the Bosnian economy still faces considerable difficulties.

- highly decentralized government,
- excessive bureaucracy,
- segmented market,
- high unemployment
- large trade deficit.

Figures show GDP and per capita income increased 10% from 2003 to 2004; Annual inflation is the lowest relative to other countries in the region at 1.9% in 2004. This and Bosnia's shrinking national debt being positive trends, but high unemployment and a large trade deficit remain cause for concern.

**International trade of B&H**

The international trade of Bosnia and Herzegovina is mainly determined by the Central European Free Trade Agreement (CEFTA).
The original CEFTA agreement was signed by the Visegrád Group countries, that is by Poland, Hungary and Czech and Slovak republics (at the time parts of the Czech and Slovak Federative Republic) on 21 December 1992 in Kraków, Poland. It came into force in July 1994. Through CEFTA, participating countries hoped to mobilize efforts to integrate into Western European institutions and through this, to join European political, economic, security and legal systems, thereby consolidating democracy and free-market economics.


All of the parties of the original agreement had now joined the EU and thus left CEFTA. Therefore it was decided to extend CEFTA to cover the rest of the Balkan states, which already had completed a matrix of bilateral free trade agreements in the framework of the Stability Pact for South Eastern Europe. On 6 April 2006, at the South East Europe Prime Ministers Summit in Bucharest, a joint declaration on expansion of CEFTA to Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK on behalf of Kosovo was adopted. Accession of Ukraine has also been discussed. The new enlarged agreement was initialed on 9 November 2006 in Brussels and was signed on 19 December 2006 at the South East European Prime Ministers Summit in Bucharest.

Because of the CEFTA agreement major partners of B&H are members of that free trade area which is showed in next table.

<table>
<thead>
<tr>
<th>Exports</th>
<th>$5.427 billion (2012 est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export goods</td>
<td>metals, clothing, wood products</td>
</tr>
<tr>
<td>Main export partners</td>
<td>Croatia 17.22%, Serbia 14.1%, Germany 9.15%, Austria 6.18% (2008)</td>
</tr>
<tr>
<td></td>
<td>13.6%, Italy 12.56%, Slovenia</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Imports</th>
<th>$10.18 billion (2012 est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import goods</td>
<td>machinery and equipment, chemicals, fuels, food</td>
</tr>
<tr>
<td>Main import partners</td>
<td>Croatia 17.06%, Germany 11.75%, Serbia 10.59%, Italy 9.33%, Slovenia 5.89%, Hungary 4.14%, Austria 3.72% (2008)</td>
</tr>
</tbody>
</table>

**Bosnia-Herzegovina** has not yet applied for EU membership. Bosnia and the EU signed a Stabilization and Association Agreement in June 2008 and an interim agreement is in place. The **Stabilisation and Association Agreement** (SAA) has been ratified by all EU Member States, but has not yet entered into force. **Visa liberalisation** for citizens of Bosnia and Herzegovina travelling to the Schengen area has been in force since December 2010. Bosnia and Herzegovina receives **financial assistance** under the Instrument for Pre-accession Assistance (IPA). The EU Delegation to Bosnia and Herzegovina is responsible for the implementation of financial assistance in the country. The country's authorities have made little progress on setting up the necessary structure for decentralised management of EU funds (DIS). The legal bases for the operating structure, the appointment of the necessary programme officers and the adoption of the roadmap for a decentralised
implementation system have still not been agreed. In its most recent assessment in October 2012, the European Commission judged that Bosnia had made only limited progress in meeting the EU’s core political criteria and that further efforts were needed to establish a functioning market economy. The important remarks given in the progress report for 2012 done by the European Commission are given in further text.

1. Political criteria

This section examines the progress made by Bosnia and Herzegovina towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighborly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

a. Democracy and the rule of law
   - The Federation’s Constitution entails costly and complex governance structures with certain overlapping competences between the Federation, the Cantons and the municipalities.
   - The Constitution of Bosnia and Herzegovina prevents citizens who do not declare themselves as one of the three constituent peoples (Bosniak, Serb and Croat) from standing as candidates for the Presidency and the House of Peoples of the Parliamentary Assembly (Sejdic – Finci case).
   - Little progress has been made in the area of public administration reform.
   - There was limited progress in the area of judicial system reform.
   - Bosnia and Herzegovina has made limited progress in addressing corruption, which continues to remain widespread in the public sector and the public-private interface.

b. Human rights and the protection of minorities
   - The implementation of human rights standards remains uneven and delays in reporting obligations have continued. It remains essential to implement the ECHR (European Court of Human Rights) judgment in the Sejdic–Finci case in order to comply with the ECHR.
   - Intimidation and threats against journalists and editors have continued. Political pressure on the media and the polarisation of the media along political and ethnic lines remain of concern.
   - Ethnically based and divided education systems remain an obstacle to achieving inclusiveness in education and to sustainable returns. The implementation of the anti-discrimination law remains to be stepped up. Discrimination against LGBT persons remains widespread.
   - The Roma continue to be the most vulnerable minority in Bosnia and Herzegovina.

c. Regional issues and international obligations
   - The country has continued to participate actively in regional cooperation and to maintain good neighborly relations. The remaining border and property issues need to be addressed and legal obstacles to extradition with neighboring countries removed.

2. Economic criteria

In examining the economic developments in Bosnia and Herzegovina, the Commission’s approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

a. The existence of a functioning market economy
   - The consensus on economic and fiscal policy essentials has weakened and hampered progress in reforms at country level.
   - Economic recovery gained some momentum in 2011 but this positive trend was reversed in early 2012.
Labour market conditions have remained weak. Unemployment is very high and structural rigidities continue to hamper job creation.

- The currency board has continued to function well and monetary and financial stability have been preserved while inflation has moderated.
- Planned privatisation process has not advanced for the fourth consecutive year.
- Significant administrative barriers remain for private-sector development.
- Weak rule of law, corruption and unreliable contract enforcement continue to impair the business environment.

b. The capacity to cope with competitive pressure and market forces within the Union

- Functioning of market mechanisms remains hampered by the large government sector,
- Characterised by low spending efficiency and sizeable interference in the economy.

3. European Standards
This section examines Bosnia and Herzegovina’s capacity gradually to approximate its legislation and policies with the acquis in the areas of the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement (SAA) and the European Partnership priorities. It also analyses Bosnia and Herzegovina’s administrative capacity.

a. Internal market

- There was some progress on free movement of goods.
- No progress can be reported on movement of persons.
- No progress can be reported on the free movement of capital.
- Little progress can be reported in the field of education.
- Progress was made in the negotiations for accession to the World Trade Organisation (WTO).

b. Sectoral policies

- Little progress in industrial policy, SME policy, agriculture and rural development policy, fishery, area of GMO’s, in the field of environment and climate change, information technologies...

3. Justice, freedom and security

- Progress was made in the areas of visa, border management, asylum and migration.
- Bosnia and Herzegovina is implementing the strategy and action plan for the prevention of money-laundering and financing of terrorist activities.
- Little progress in the fight against drug trafficking.
- Implementation of the police reforms is continuing.
- The country remains a source of arms and ammunition for criminal groups in the EU.
- Organised crime activities are also linked to the transit of drugs on international trafficking routes.
- Preparations for personal data protection are advancing, although still at an early stage.