

VIENNEAST COMPASS

SERBIA/KOSOVO: US ECONOMIC NORMALISATION AGREEMENTS – OUTLOOK

SUMMARY:

- **The US-brokered Economic Normalization agreements seek to increase the incentives for a political settlement between Serbia and Kosovo through providing economic opportunities;**
- **More generally, the agreements seek to align Serbia and Kosovo with US geostrategic objectives, even at the expense of the EU accession process;**
- **The agreements relevance to Serbia and Kosovo are piecemeal, which is likely to undermine their scope to deliver material benefits;**
- **New projects and supply routes will provide opportunities to investors, but the contract and regulatory risks will be high;**
- **Domestic political instability within Kosovo and Serbian foreign policy concerns will increase the risks that the agreements are revised, cancelled, or implemented on a case-by-case basis;**
- **The agreements are unlikely to have a substantive impact in advancing the resolution of the Serbia-Kosovo issue, but they are also unlikely to undermine it.**

CONTEXT

On 4 September 2020, Serbian President Aleksandar Vucic and Kosovan Prime Minister Avdullah Hoti signed **Economic Normalization agreements, which had been brokered by the US government**, with the ceremony personally overseen by US President Donald Trump. The agreements address bilateral issues relevant to Serbia and Kosovo, but also the two countries' foreign policy commitments.

Relations between Serbia and Kosovo have been poor since 1998/99, when they fought a war as the latter sought to secede from the former. Kosovo proceeded to unilaterally declare its independence from Serbia in 2008. The European Union (EU) and US have variously sought to broker a bilateral political settlement since 2011, but progress has been slow.

The EU has been chiefly responsible for mediating the negotiations in recent years, but **the Trump administration has sought to broker its own agreements**, appointing the former ambassador to Germany, Richard Grenell, as a special envoy to this end. Grenell focused on securing economic agreements rather than a comprehensive political settlement, arguing that through facilitating economic opportunities, bilateral interdependence will increase, thereby providing material incentive for a larger settlement.

As such, the bilateral aspects of the agreements seek the restoration or construction of infrastructure links, the exploration or implementation of projects, as well as some regulatory alignment. The agreements commit Serbia and Kosovo to **restoring highway and railway traffic between Belgrade and Pristina**, an initiative that Grenell had brokered in February 2020. **New infrastructure will be (re)built**, connecting Pristina and Nis via a 'Peace Highway' and their pre-war railway line. The US

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International Development Finance Corporation (IDFC) and Export Import Bank (EXIM) will **finance these projects**, in addition to providing loans to small- and medium-sized enterprises (SMEs). The Merdare Common Crossing Point facility will be operationalised by both sides to **facilitate cross-border traffic**.

Joint feasibility studies are also to be conducted by Serbia and Kosovo, specifically on **linking up their shared rail infrastructure with an Adriatic deep seaport**, as well as the shared use of the Gazivode/Ujmani Lake **for the supply of energy and water**. The US Department of Energy would participate in the latter initiative.

Limited regulatory alignment is entailed by a clause committing Serbia and Kosovo to the mutual recognition of diplomas and professional certificates, which will **enable some movement between labour markets**. This could be reinforced by Kosovo's commitment to **accede to the 'mini-Schengen zone,'** which was announced by Serbia, North Macedonia and Albania in October 2019.

There are **only three clauses pertaining to diplomatic issues**, the most notable of which is a commitment by Kosovo to desist in seeking membership of international organisations for one year, in exchange for Serbia desisting from its Kosovo recognition campaign over the same timeframe. Commitments to the protection of religious freedoms and properties (affecting Serbian Orthodox holdings in Kosovo) and to cooperation regarding missing persons are also included.

Additionally, there are several commitments concerning foreign policy. Domestically, Serbia and Kosovo are respectively committed to the **diversification of their energy supply**, as well to **banning 5G equipment that is provided by "untrusted vendors."**

There are also several clauses **ostensibly unrelated to the Serbia-Kosovo issue**. First, both states must commit to designating Lebanese Hezbollah as a terrorist organisation. Second, they must campaign for the decriminalisation of homosexuality in countries where it is illegal. Third, Serbia must move its embassy from Tel Aviv to Jerusalem. Fourth, Kosovo and Israel must commit to mutual recognition.

ANALYSIS

US electoral considerations aside, the agreements represent an attempt by the Trump administration to **align Serbia and Kosovo with its geostrategic objectives**, including on policy issues unrelated to their bilateral conflict. The actual Economic Normalization clauses mainly consolidate commitments to proposals that had already been agreed. The only new proposal, namely the joint feasibility study of the shared usage of the Gazivode/Ujmani Lake, is vague. More generally, absent a comprehensive political settlement, **the agreements are piecemeal in nature**.

The agreements, such as they are, could act as a staging post to deeper bilateral cooperation, with mounting economic initiatives snowballing into providing a solid foundation for a comprehensive settlement. Yet, taken on their own terms, there are two issues with the agreements that are likely to undermine their effectiveness.

First, the Trump administration has likely **underestimated the Serbia-Kosovo issue**, which demonstrably transcends economics. Were this not the case, the Kosovan government would not have imposed 100% tariffs on Serbian and Bosnian imports in 2018 – a policy that made little sense in economic terms. The issue of sovereignty also has a practical dimension, influencing ownership disputes, and also links heavily with underlying nationalisation in both countries.

Second, the projects and initiatives envisaged by the agreements **might not generate their intended multiplier effects**. For example, the restoration of ground infrastructure links is very likely to be undermined by the fact that Serbia does not recognise ID documents issued by Kosovo – for example, Serbia’s nonrecognition of Kosovo-issued license plates – thereby preventing travel. Similarly, foreign nationals who directly enter Kosovo from other countries will have done so via an international border that Serbia does not recognise and will therefore face an obstacle to travel into Serbia.

Elsewhere, although the mutual recognition of diplomas and professional certificates may facilitate some convergence, this is likely to be limited given overall labour market dynamics. The accession of Kosovo into the mini-Schengen zone – the modest provisions of which are not a foregone conclusion – could provide a basis for addressing some of the technicalities outstanding, but **without Serbia’s recognition of Kosovo, a workable solution is unlikely**.

OUTLOOK

Political risks in both Serbia and Kosovo are **likely to result in the revision or cancellation of the Economic Normalization agreements**, assuming they are implemented at all. The EU has brokered dozens of similar agreements since 2011, most of which have either not been observed or even signed – including the 2013 Brussels Agreement, which at least had the force of a multilateral treaty. Indeed, the legal force of the Economic Normalization agreements appears to be weak, as they only amount to a series of commitments. The Serbian and Kosovan governments could simply decide not to act on the clauses. Furthermore, it is not clear whether they have signed the agreements between themselves or with the US.

In the case of Kosovo, **domestic instability is very likely to disrupt implementation of the agreements**. The government that Prime Minister Hoti leads is a five-party coalition that was formed as a last line of defence against Albin Kurti’s Self-Determination Movement (LVV), a nationalist left-wing party that was ousted from office in June. Yet even if LVV is in opposition for the time being, Hoti’s coalition is a fragile one. If the agreements require parliamentary ratification – which is currently not clear – the necessary majority will be difficult to muster, given that the Alliance for the Future of Kosovo (AKK) and elements of Hoti’s Democratic League of Kosovo (LDK) party are strongly opposed to certain provisions.

For Serbia, **the agreements are likely to be unviable for geopolitical reasons**. Over his tenure, President Vucic has leveraged Serbia’s historical “non-aligned” status to cultivate strong relations not only with the EU, but also with Russia, China and Arab states. If the Serbian government proceeds with aligning with US geostrategic interests, it is very likely to undermine its own foreign policy. Through barring “untrusted vendors” from supplying 5G equipment, it will be locking Huawei out of its market – thereby damaging relations with China, which has a systemic presence in the country that goes beyond physical infrastructure to also encompass security cooperation. Through diversifying its energy supply, potentially in favour of US alternatives, it will alienate Russia. And through moving its embassy to Jerusalem, it will damage relations with Arab states, which are a valuable market for its arms exports.

An alternative scenario would be that, absent a legal framework for the Economic Normalization agreements, **Serbia and Kosovo will implement some proposals and ignore others**. The scope for doing so will increase if Trump is defeated in the US presidential election in November. A Biden administration would likely increase cooperation on the Serbia-Kosovo issue with the European Commission, which is already disgruntled at having been side-lined by the US over the geopolitical

clauses. In particular, the Commission condemned the commitment to move the Serbian (and possibly Kosovan) embassies to Jerusalem, stating that it diverged from its common position.

The agreements are unlikely to undermine the Serbia-Kosovo negotiations, but their positive impact is also likely to be very limited. If the energy and infrastructure projects are realised, opportunities for Western direct investment and supply chain optimisation are likely to emerge, but **regulatory and contract risks will be high given the level of exposure of such ventures to geopolitical variables.**

More generally, the prospects for a comprehensive political settlement will remain contingent on the mediation efforts of the EU, which have stalled. Nonetheless, Vucic and Hoti held a joint press conference in Brussels on 7 September to restate their commitment to continuing these negotiations with a view to **fulfilling their obligations within the framework of European integration**, reflecting the structural importance of the EU in the region as a geopolitical actor over even the US.

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