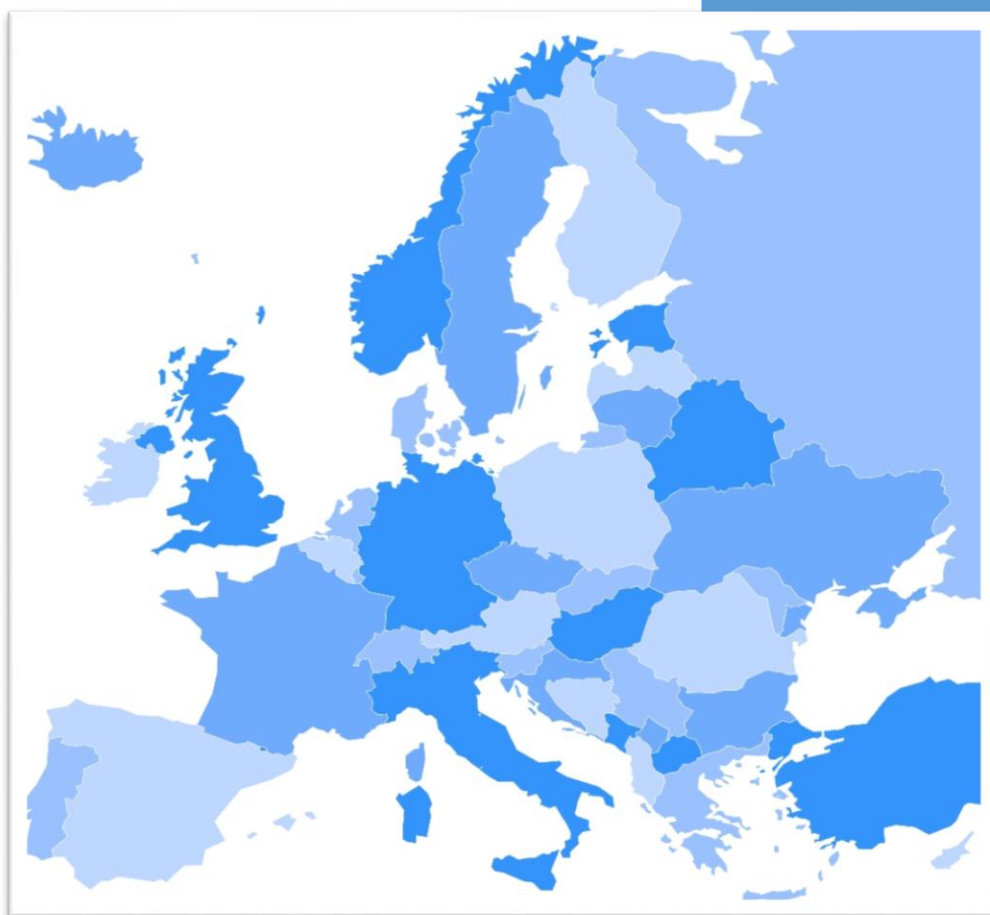


# REGIONAL ECONOMIC COOPERATION IN V4 AND WB6: SHARING EXPERIENCE AND KNOWLEDGE IN THE CONTEXT OF COMMON REGIONAL MARKET AND POST-COVID RECOVERY



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## About the project

**The Project: „V4 support to promote WB6 Common Regional Market: one market for post-COVID recovery”** (01/10/2021 – 30/09/2022) is supported by the International Visegrad Fund an international donor organization, established in 2000 by the governments of the Visegrad Group countries—Czechia, Hungary, Poland and Slovakia, in order to promote regional cooperation in the Visegrad region (V4) as well as between the V4 region and other countries, especially in the Western Balkan and Eastern Partnership regions.

The project focuses on sharing experiences, transferring knowledge and recommending further regional economic integration through development of the WB6 Common Regional Market using experiences from ex-CEFTA and V4 after integration into the EU single market.

The added value of this project is that it has brought together **project partners** from 10 organizations from V4 and WB6:

	Institute for politics and society (IPS), Prague, Czechia
	Union of the Robert Schuman Institute for Developing Democracy in Central-Eastern Europe (RSI), Budapest, Hungary
	Center for Social and Economic Research (CASE) Warsaw, Poland
	Macro-Economic and Social Analyses 10 (MESA 10), Bratislava, Slovakia
	Albanian Centre for Economic Research (ACER), Tirana, Albania
	Foreign Policy Initiative (FPI BH), Sarajevo, Bosnia and Herzegovina
	Institute for development research, RIINVEST, Pristine, Kosovo* <sup>1</sup> ,
	FINANCE THINK – Economic, Research and Policy Institute, Skopje, North Macedonia
	Centre for Foreign Policy (CFP), Belgrade, Serbia
	Montenegrin Pan-European Union (MPEU), Podgorica, Montenegro, as the Grantee – partner coordination organization.

<sup>1</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

This book titled „**Regional economic cooperation in V4 and WB6: sharing experience and knowledge in the context of Common Regional Market and post-COVID recovery**“ is one of key results of the Project. The conducted research is devoted to analysis the difference in economic cooperation before and after entering the EU of V4 economies and how to speed up process of European integration of WB6 economies, with focus on closer economic cooperation between V4 and WB6 in the post-COVID period.

The project has **a regional relevance** since its focus is on regional economic integration through development of the WB6 Common Regional Market using experiences from ex-CEFTA, CEFTA 2006 and V4 experiences after the full-fledged EU membership and integration into the single market (experience of Poland, Hungary, Czech Republic and Slovakia).

This project is focused on the **enhanced regional economic cooperation** on two levels: among Western Balkan countries and between WB6 and V4 region. Special focus is put on implications the CRM action plan can bring to whole region in terms of boosting development and growth through regional cooperation.

Podgorica, May 2022



# INTRODUCTION

# INTRODUCTION

Gordana DJUROVIC<sup>2</sup>

## 1. Rationale for regional integration

Regional integration could be defined as a process by which two or more countries agree to co-operate and work closely together to achieve peace, stability, and wealth<sup>3</sup>. Economic integration is the process by which different countries agree to remove trade barriers between them in order to create some level of regional economic integration and coordination of economic policies.

Regional integration agreements (RTAs) are commonplace in the world today. In the WTO, these refer to reciprocal trade agreements between two or more partners to liberalize tariffs, remove non-tariff barriers and improve and liberalize providing of services<sup>4</sup>. The WTO RTA Database in January 2022 has 353 reciprocal preferential trade agreements between two or more parties<sup>5</sup>. They include free trade areas, customs unions, and economic integration agreements on services.

The meaning and thrust of economic integration have been extensively studied in the academic literature. Writing in 1954, when much of Europe was still recovering from the ravages of World War Two, Jan Tinbergen, the Nobel Prize-winning Dutch economist, argued that 'integration may be said to be the creation of the most desirable structure of international economy, removing artificial hindrances to the optimal operation and introducing deliberately all desirable instruments of co-ordination or unification'<sup>6</sup>.

Jacob Viner introduced the concepts of 'trade creation' and 'trade diversion', showing how countries agreeing to lower trade barriers among themselves would benefit if the new trade created exceeded the trade diverted away from countries outside the arrangement<sup>7</sup>. Similarly, the case for combining currencies flowed from Robert Mundell's seminal article on the optimal currency area<sup>8</sup>. As the many editions of Paul De Grauwe's text have documented, monetary integration has been a staple of European integration for decades<sup>9</sup>.

The theory of integration put forward by Bela Balassa<sup>10</sup> posited five forms of economic integration. These are: free trade areas, enabling unrestricted exports and imports among participants, but allowing them to have their own agreements with non-participants; customs unions, which also allow free trade internally, but impose a common external policy vis-à-vis non-participants; common markets, adding freedom of movements of factors of production and, depending on the nature of the more basic models, trade in services; economics unions in which

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<sup>2</sup> Prof Gordana Djurovic, PhD., Faculty of Economics, University of Montenegro, Podgorica, Montenegro. Project coordinator and editor of the book.

<sup>3</sup> <https://carleton.ca/ces/elearning/introduction/what-is-the-eu/extension-what-is-regional-integration/>

<sup>4</sup> [https://www.wto.org/english/thewto\\_e/glossary\\_e/glossary\\_e.htm](https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm)

<sup>5</sup> <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

<sup>6</sup> Tinbergen, J. (1954). *International Economic Integration*. Elsevier, Amsterdam, p. 95.

<sup>7</sup> Viner, J. (1950). *The Customs Union Issue*, London: Carnegie Endowment for International Peace;

<sup>8</sup> Mundell, R. (1961) 'A Theory of Optimum Currency Areas', *American Economic Review* 51.4, 657-65;

<sup>9</sup> De Grauwe, P., (2020) *Economics of Monetary Union*, 13th Edition, Oxford: OUP;

<sup>10</sup> Ballasa B., (1961). *The Theory of Economic Integration*. Homewood, Illinois: Richard D. Irwin;

there are common rules and more extensive coordination of national economic policies; and total integration, adding a single currency.

Figure 1. Five forms of economic integration (Balassa, 1961)

- 1) Free Trade Area (FTA)**
  - Elimination of tariffs and quotas on intra-regional trade
- 2) Custom Union (CU)**
  - FTA introducing common tariffs and quotas for non-members
  - As European Economic Community
- 3) Common Market (CM)**
  - A CU, plus removing NTBs for trade in goods and services and restrictions on factor movement (labour and capital),
  - EU Common market (today EU27)
- 4) Economic Union (EUN)**
  - A CM with harmonization and coordination of national economic policies and regulations
  - EU19 EMU – EU with single currency (single market)
- 5) Total Economic Policy Integration (TEI)**
  - An economic union plus delegation of economic policies to the supranational level

The European integration efforts have been underway on the European continent for several centuries. The Union, as we know it today, began its journey in the 20th century, more precisely after World War II. As the first steps were taken shortly after World War II to create the European Coal and Steel Community, the 'European integration project' has moved from a limited form of industrial cooperation to the economic and monetary union without parallel. It is, obviously, much more than a trade arrangement as seen in other regional blocs, yet stops well short of being a federation<sup>11</sup>. However, after more than seven decades of the European integration project, no one can seriously question the success of European integration, whether in economic or political terms. European economic integration project is, in fact, the most successful pillar of the EU project is economic integration.

The economic core of the EU is the common market, characterised by the four freedoms of movement: of goods, services, labour and capital. The measures to diminish or eliminate non-tariff barriers in Europe were grouped under three headings. The first was 'physical', consisting mainly of administrative controls at borders, including customs formalities and checks on animal and plant health. The largest set was technical barriers, ranging from harmonising differing standards and regulatory obligations imposed by Member States on economic actors to rules on public procurement. Then there were fiscal barriers arising from disparities in the rates and coverage of indirect taxes such as value-added tax. The Maastricht Treaty then paved the way for the creation of the single currency. Having been established twenty years ago, the euro is now used by 19 of the 27 Member States of the EU. The European single market is one of the EU's greatest achievements.

Today, we can say that the EU is a supranational organization *sui generis* and that the project of European economic integration is being extended over the Member States, to other European countries, many of which are striving to join the EU, as is the case with the economies of the Western Balkans.

<sup>11</sup> Begg I., (2021), The European Union and regional economic integration; Creating collective public goods – Past, present and future, European Parliament Briefing, EPRS\_BRI(2021)689369, pp.1-3; ([https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689369/EPRS\\_BRI\(2021\)689369\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689369/EPRS_BRI(2021)689369_EN.pdf));

## **2. The origins and the evolution of the Visegrad formula for regional co-operation**

The Visegrad Group celebrates its 30<sup>th</sup> anniversary in 2021. The 1991 meeting in the city of Visegrad, old capital of Hungary, provided for a link to a meeting held almost 7 centuries ago at the same place. In 1335, the Visegrad Castle hosted King of Bohemia John of Luxembourg, King of Poland Casimir II, and King of Hungary Charles I of Anjou. The first Visegrad meeting tried to establish closer relationship and cooperation among the three kings and their states. The aim of both were the same – to guarantee peace and facilitate cooperation<sup>12</sup>.

The idea of the Visegrad Group (also known as the Visegrad Four, or simply V4) is the mutual cooperation of Central European countries in various spheres of business, protection and international partnership.

The official beginning of the Visegrad Group is considered to be February 15, 1991 in Visegrad, Hungary, at a meeting of the President of the Czechoslovak Republic Václav Havel, the President of the Republic of Poland Lech Wałęsa, and the Prime Minister of the Republic of Hungary József Antall, by signing a declaration that obliged these countries to cooperate, which was aimed at increasing the level of their integration and further convergence into the developed Europe, and their path to a free and democratic society. As such, the Declaration defined, among other things, the goals of the restoration of each state's independence, democracy and freedom as well as the full integration into the European political, economic, security and legislative order. In October the same year the Visegrad countries met in Krakow, Poland, where they approved projects relating to economic, cultural and scientific co-operation.

With the dissolution of Czechoslovakia, in 1993, into two independent countries - the Czech Republic and the Slovak Republic, the Group grew into four members. From that time, the Group is commonly referred to as the Visegrad Four or V4.

During the past 30 years the V4 cooperation has developed successfully based on ever-growing friendship and good-neighbourly relations between these countries, their shared values and interests<sup>13</sup>.

## **3. Central European Free Trade Agreement (CEFTA)**

The Central European Free Trade Agreement (CEFTA) was established following the Visegrad Declaration of February 1991. In fact, the idea of starting free-trade negotiations had been raised already in February 1991. The Free Trade Agreement<sup>14</sup> was signed in Krakow on 21 December 1992 by ministers responsible for international economic relations from Poland, Hungary and the Czech Republic, and became effective on 1 March 1993<sup>15</sup>. With the breakdown of Czechoslovakia, CEFTA became an association of four Member States: Poland, Hungary, the Czech

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<sup>12</sup> Polok D., et al., (2016). Future of the Visegrad Group, Leslaw A. Paga Foundations, Technical Report; DOI: 10.13140/RG.2.1.3942.7444/[https://www.researchgate.net/publication/303519058\\_Future\\_of\\_the\\_Visegrad\\_Group](https://www.researchgate.net/publication/303519058_Future_of_the_Visegrad_Group)

<sup>13</sup> Declaration of the Prime Ministers of the Czech Republic, Hungary, the Republic of Poland and the Slovak Republic on the occasion of the 30<sup>th</sup> anniversary of the Visegrad Group Krakow, February 17, 2021;

<sup>14</sup> [http://www.cvce.eu/obj/central\\_european\\_free\\_trade\\_agreement\\_krakow\\_21\\_december\\_1992-en-0b71b87b-bdfd-4a9c-a239-aa64cb337dcc.html](http://www.cvce.eu/obj/central_european_free_trade_agreement_krakow_21_december_1992-en-0b71b87b-bdfd-4a9c-a239-aa64cb337dcc.html)
















<sup>15</sup> On 1 March 1993 CEFTA came into effect on the basis of an interim agreement. The Agreement entered into force on 1 July 1994, following ratification by the several signatory states.

Republic and Slovakia (so-called Visegrad Agreement). The first reason for signing the CEFTA was to achieve benefits of trade liberalization in the Region.

The CEFTA agreement deals exclusively with trade in commodities; it does not touch other domains of economic co-operation. However, the signatory states do not exclude the future extension of the Agreement to other areas. Since the major objective is to liberalise intra-regional trade, the treaty envisages the complete dismantling of tariffs, obstacles equivalent to them as well as non-tariff barriers through the gradual introduction of free trade for industrial products by the end of a transition period ending on 1 January 2001. As for agricultural goods, it was decided to grant mutual preferences only for limited quantities of certain products. Full liberalisation in this field is not foreseen in the Treaty. However, already during the first year of the implementation of CEFTA, there was the clear intention to accelerate the liberalisation process, leading to the adoption of additional protocols.

Another reason for signing the CEFTA was that V4 countries concluded the Association Agreement with the EU (bilateral FTAs with political framework) and submitted the application for membership. The first countries which have submitted an application for the EU membership were Poland and Hungary, in April 1994, then Slovakia in July 1995, and Czech Republic in January 1996. In contrast to the Europe Agreements, which are asymmetrical (in the sense that one side may be granted more protection than the other), CEFTA is symmetrical.

Table 1. Dynamic of economic integration of CEFTA members: WTO, AA/SAA with EU and EU membership

PARTIES OF CEFTA AGREEMENT	CEFTA		WTO membership	AA/SAA with EU signed
	JOINED	LEFT CEFTA / EU membership		
 Poland	1992	2004	1995	1991
 Hungary			1995	1991
 Czech Republic			1995	1993
 Slovakia			1995	1993
 Slovenia			1996	1996
 Romania	1997	2007	1995	1993
 Bulgaria	1999		1996	1993
 Croatia	2003	2013	2000	2001
 North Macedonia	2006	—	2003	2001
 Albania	01/01/2007  <b>CEFTA 2006</b>		2000	2006
 Bosnia and Herzegovina			negotiations	2008
 Moldova			2001	2014 (DCFTA <sup>16</sup> )
 Montenegro			2012	2007
 Serbia			negotiations	2008
 UNMIK (on behalf of Kosovo*)			-	2016

<sup>16</sup> The EU and the Republic of Moldova signed an Association Agreement in June 2014 and the agreement has been in full effect since July 2016.

The third impulse toward the establishment of CEFTA came from the EU itself, as it wanted to see the countries of the region co-operate with one another in the first place, test their capacity to work together on the international scene, and to allow them to realise their economic potential. At that time, the idea of many European leaders was that these countries could not be let into the Union before they had learned how to trade with one another and before they had restructured their internal markets into a fully-fledged market economy. The EU, therefore, suggested that they collaborate in the region, parallel to pursuing EU membership<sup>17</sup>.

When establishing the CEFTA, the founding countries did not count on the accession of other states, and for this reason no clause on the subject was included in the treaty. In the meantime, however, the question of enlargement had arisen. In order to meet this challenge, the Agreement had to be modified. The possibility of admitting new countries was enshrined in an Amending Agreement of September 1995 signed in Brno, which was soon followed by the conclusion of a treaty with Slovenia in November 1995. In 1996, Slovenia joins to CEFTA, followed by Romania in 1997, Bulgaria in 1999, Croatia on 2003 and North Macedonia 2006. Their CEFTA memberships ended when they became member states of the European Union.

The CEFTA 1992 was a multilateral commercial agreement and not an international trade institution. Moreover, it does not strive for political or economic integration as such among its Parties. It has no staff of its own and no headquarters. The implementation of the Agreement was the responsibility of a Joint Committee. The Joint Committee was composed of representatives of the Member States. Its permanent members were the Ministers responsible for external economic relations. The Committee meets at least once a year. In the Joint Committee the parties give continuous attention to the fulfilment of the objectives of the Agreement. They evaluate the processes, exchange information, sort out disagreements and examine the possibilities of further dismantling of trade barriers.

The CEFTA owns its relative success in part to the fact that most trade barriers, especially tariffs and quotas have come down considerably or been eliminated altogether. What has also helped is of course that almost all the CEFTA Member States have experienced growth rates significantly higher than the European average. The driving forces have been more stable exchange rates, productivity gains, rising imports as well as macroeconomic stabilisation. Although all CEFTA Member States have increased their trade with their partners in the Agreement, not all have drawn the same benefits from it.

Each year since 1994, Prime Ministers of the Member States have met to establish guidelines for the future development of the CEFTA. In September 1996 in Jasna, Slovakia, they repeated their commitment to further liberalisation and identified areas where deepened co-operation is desirable. They are: further trade liberalisation, also in services and capital flows; mutual recognition of quality certificates and measurements; increasing security of commerce in order to prevent frontier violation and customs fraud; modernising the CEFTA's organisation and working methods.

The gradually growing number of preferences have already started to have a positive impact on intra-regional trade among the CEFTA Member States. Trade among the signatory countries has

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<sup>17</sup> Council of Europe (1998)., The fifth anniversary of the Central European Free Trade Agreement (CEFTA), Resolution, Doc. 8163, 9 July 1998; (<http://assembly.coe.int/nw/xml/XRef/X2H-Xref-ViewHTML.asp?FileID=8604>);

become more dynamic. In most cases it has grown faster than the total foreign trade of the Member States.

**Data on intra-regional trade and trade with other EU countries** (export and import side), and the other countries for selected years are presented in [the ANNEX](#).

Export from Hungary and Poland to other Visegrad countries have been growing since 1993 (14% and 12% respectively in 2019), while export from Slovakia and the Czech Republic have been declining 17% and 25% respectively in 2019). Still, Slovakia has the highest export to Visegrad group countries (25%).

Export of goods to other EU countries was growing in Czech Republic (from 50% to 66%), Slovakia (from 30% to 60%) and Hungary (from 58% to 67%), while export from Poland is almost the same in overall export structure (68%). Export to rest of the world is gradually reducing in each country (16% in CZ and SK, 19% in HU, and 20% in PL in 2019). On the other side, level of openness is high.

**Czech Republic import structure of goods for 1993-2019:**

- Import from Visegrad group is relatively stable, around 15%;
- Import from other EU MS is reducing after 2004 (less than 50% in 2019);
- Import from the rest of the world is growing after 2004 (37% in 2019);

**Hungary imports structure of goods for 1993-2019:**

- Import from Visegrad group is growing, almost tripled in the period 1993-2019 (15% in 2019);
- Import from other EU MS is relatively stable (btw. 55-60%);
- Import from the rest of the world is reducing (26% in 2019);

**Poland imports structure of goods for 1993-2019:**

- Import from Visegrad group is relatively small and stable around (4-7%);
- Import from other EU MS is reducing after 2004 (50% in 2019);
- Import from the rest of the world is growing after 2004 (43% in 2019);

**Slovakia import structure of good for 1993-2019:**

- Import from Visegrad group is reducing (21% in 2019);
- Imports from other EU member states grew until 2004, and have been declining since then (37% in 2019);
- Import from the rest of the world is growing after 2004 (41% in 2019);

The single market is one of the most important assets of the EU and its further deepening is one of the goals of the EU. Intra-EU trade<sup>18</sup> is a good proxy for single market integration. **Slovakia** has the highest trade integration in the single market for goods, and for services, its trade integration is above the EU average. **Hungary** has one of the highest trade integrations in the single market for goods while integration for services is also above the EU average. **Czechia** trade integration in the single market for goods is well above the EU average, while its trade integration in services is only slightly above the EU average. **Poland's** trade integration in the single market for goods is above the EU average, whereas its trade integration for services is just below the EU average.

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<sup>18</sup> EU trade integration indicators: The percentage of a country's GDP that is accounted for by trade with EU countries (imports and exports), in either goods or services. <https://single-market-scoreboard.ec.europa.eu>



Table 2. Intra-EU trade integration indicator as % of GDP in 2019

Country	Goods	Services	Total
Czechia	45.5	7.8	53.3
Hungary	50.1	12.0	62.1
Poland	32.9	6.9	39.8
Slovakia	62.9	8.9	71.8

Source: <https://single-market-scoreboard.ec.europa.eu>

In December 2020, intra-EU trade was 50% higher than extra EU trade. The effect of the COVID-19 crisis was larger on intra-EU trade, but the recovery was also faster<sup>19</sup>.

Interesting explanation for presented trends we can find in the research conducted by Vienna Institute for International Economic Studies in 2011, Results from the gravity modelling conducted by the exercise indicated that there was no significant change in intra-Visegrad trade post-2004 after controlling for typical gravity determinants. Combined with the observed increase in intra-Visegrad trade these results would tend to suggest that the observed increases in trade were largely the result of the relatively strong rates of growth of per capita GDP in Visegrad countries and not due to accession per se.

The results from the gravity exercise further indicate that the changes in intra-Visegrad trade have occurred mainly along the extensive margin, with a greater variety of products traded amongst Visegrad countries.

Services trade was found to be too low to cause any significant productivity changes that would influence merchandise exports dynamics of the Visegrad countries. The prevalence of traditional transport and travel services in the services trade structures also points to a lower importance of services for the countries' economies, in particular for merchandise trade developments. Our results may indicate an insufficient level of development of Visegrad countries yet, which prevents them from using services more efficiently.

**The EU accession did not have a one-time effect on FDI** among the Visegrad countries and also the comparison of the pre- and post-accession periods does not reveal any increase in the importance of mutual investments. This means that it was not mutual FDI that was driving trade. FDI among the Visegrad countries is rather low because there are not many local companies that are able to invest abroad. Those that do invest in the Visegrad area aim at serving mainly the local market of the target country, which has little trade enhancing effect.

There must be, however, a link between mutual trade and FDI from outside the region. Most of the Visegrad countries' exports are generated by foreign subsidiaries of multinationals from the EU-15 and other developed countries. These subsidiaries are linked by intra-company trade, sourcing and selling in the Visegrad region. After EU enlargement, foreign investors have concentrated the production of consumer goods sold in the region in a lower number of locations which also generated trade among the Visegrad countries.

The WIIW analysis has an important message for the Southeast European countries, all aspiring for EU membership and simultaneously participating in the regional free trade agreement CEFTA.

<sup>19</sup> EC SWD (2021) Annual Single Market Report 2021, Brussels, 5.5.2021, (2021)351final, pp. 95-96. [https://ec.europa.eu/info/sites/default/files/swd-annual-single-market-report-2021\\_en.pdf](https://ec.europa.eu/info/sites/default/files/swd-annual-single-market-report-2021_en.pdf)



Facilitating the upturn of mutual trade by the governments concerned has been regarded by the EU as an important step towards membership.

The research results testify that in the process of the intra-bloc trade revival the year of EU accession does not appear in the time series as a major watershed in terms of commodity patterns, intra-industry trade or revealed comparative advantage. The developments, primarily specialization, took place **gradually**, starting prior to and continuing after the accession to the EU. That does not exclude that the removal of administrative and other, mainly invisible obstacles to free trade on the day of accession did not support the upswing of mutual trade, but it could not be the major force behind the phenomenon as it took place in the bilateral Visegrad–EU-15 trade as well, without producing a spectacular upturn in that relation. Our assumption is that the likely driving force of the intra-Visegrad trade expansion has been a **change in the networking strategy of the multinational companies** located in the region around the date of EU accession. This change manifested itself in upgraded intra-firm deliveries among affiliates located in two or more of the four Visegrad countries.

In this sense, **the increasing presence of multinational firms** (more FDI projects and related inflows) is a key to rapid expansion of the intra-CEFTA trade. This is, however, closely related to the prospects of the individual CEFTA members concerning the date of their EU accession. The legal stability provided by the gradual takeover of the *acquis communautaire*, on the one hand, and the prospects of removing all administrative and other, invisible obstacles to trade within the CEFTA region, on the other hand, are the connecting link between FDI, EU accession and an upturn in intra-CEFTA trade. Thus, the summarized policy recommendation from our project for the Southeast European EU aspirants is that good progress in the accession negotiations, professional preparatory work for starting such talks and, further, the creation of an FDI-friendly regulatory environment may become key elements of a policy targeted at the upswing of intra-regional trade<sup>20</sup>.

**The key achievement of CEFTA** could be summarise as follows:

- The main objective of formation of CEFTA – acceleration of accession to the European Union is confirmed;
- Trade volume is raised, as well as level of openness and intra-EU trade; Trade creation and trade diversification effect is recognised;
- The multinational companies located in the CEFTA region, after their joining the EU, upgraded intra-firm deliveries among affiliates located there;
- CEFTA has been for all its members a useful exercise preparing them for entering the common market of the EU and strengthening their administrative capacity;
- For V4 countries, CEFTA was added value and additional confirmation of the strategic partnership started in early '90-ties with the Visegrad Declaration.

On the other side, the main failure of CEFTA itself was the lack of enthusiasm in achieving fast-track trade liberalization. The officials within CEFTA member states seemed to underestimate the political and economic effects from the formation of this new trade block and mutual efforts have not achieved spectacular results. Liberalization of trade on agricultural products was remarkably

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<sup>20</sup> Foster N., Hunya G., Pindyuk O. and Richter S., (2011). Revival of the Visegrad Countries' Mutual Trade after their EU Accession: a Search for Explanation, Vienna Institute for International Economic Studies (WIIW). <https://wiiw.ac.at/revival-of-the-visegrad-countries-mutual-trade-after-their-eu-accession-a-search-for-explanation-dlp-2449.pdf>

slow, which contributed to the perception of CEFTA as a half-success. The reasons for the failure of some of CEFTA objectives can be summarized in the following way:

- Fears within the political elites of allegations with the Council for Mutual Economic Assistance (CMEA);
- Fears that regional economic integration will be one of the reasons for delayed EU membership;
- Fears that scarce administrative resources will be diverted in a less beneficial direction in terms of political and economic outcomes;
- Lack of understanding on the effects of free trade on economic performance on a macro level and the functioning of market economy in transition periods;
- Lack of experience in dealing with trade negotiations in free market conditions<sup>21</sup>

#### **4. CEFTA 2006**

In July 2005, after the signing of the EU Accession Treaty by Bulgaria and Romania, the remaining CEFTA members were only FYROM (North Macedonia) and Croatia. The CEFTA membership criteria were quite high for the Western Balkans countries (signed SAA with EU and the WTO membership). From the other side, more than 30 bilateral trade agreements are signed between economies in the Western Balkans region.

With the support of the EU, decision was made to remove these criteria for CEFTA membership and consolidate all bilateral trade agreements into the regional one. This process became process of amending the CEFTA agreement into the CEFTA 2006. After completion of the negotiations, the CEFTA 2006 is signed on 19 December 2006 by Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo in accordance with the UN Security Council Resolution 1244 - signed an Agreement to amend and enlarge the Central European Free Trade – CEFTA 2006.

Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for five signatories (Albania, Macedonia, Moldova, Montenegro and United Nations Interim Administration Mission in Kosovo on behalf of Kosovo\* in accordance with United Nations Security Council Resolution 1244), for Croatia on 22 August 2007, Serbia on 24 October 2007 and for Bosnia and Herzegovina on 22 November 2007. The speed with which the Parties ratified this ambitious agreement indicates the importance of this Agreement to economic development in the region<sup>22</sup>.

This comprehensive Agreement's main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid. It also includes clear and effective procedures for dispute settlement and facilitates the gradual establishment of the EU-Western Balkan countries zone of diagonal cumulation of origin, as envisaged in the European Commission's Communication of 27 January 2006.

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<sup>21</sup> Ranchev G, (2002). Free Trade Zone in Southeast Europe: Achieving Genuine Regional Economic Integration, Center for Policy Studies, Budapest, pp. 23-24; [http://www.policy.hu/ranchev/reports/FTA\\_ResearchPaper.pdf](http://www.policy.hu/ranchev/reports/FTA_ResearchPaper.pdf)

<sup>22</sup> <https://cefta.int/cefta-parties/>

Table 3. Levels of regional (economic) integrations of the WB6

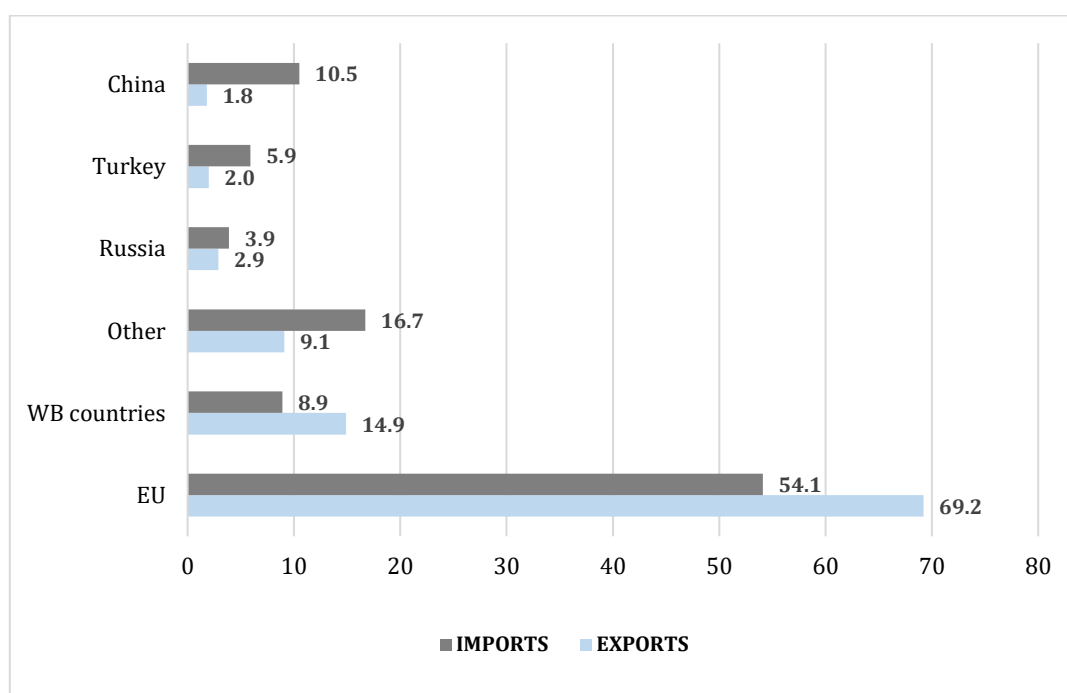
	LEVEL	CHARACTERISTICS
1.	<b>Bilateral free trade agreements in the Region / FTAs</b>	Arrangements in which countries/ autonomous custom territories give each other preferential treatment in trade, such as eliminating tariffs and other barriers on goods. Each party continues its trade policies, such as tariffs with countries outside the bilateral FTA.
2.	<b>EU Autonomous Trade Measures / ATMs</b>	Products originating in the Western Balkan countries benefit since 2000 from ATMs, allowing (with a few exceptions) for their free entry into the EU without customs duties or quantitative restrictions. In most cases, the autonomous trade measures have been superseded by the stabilisation and association agreements / FTA with the EU expanded on political, legal and administrative aspects of integration, which provide for the establishment of free trade on a contractual basis.
3.	<b>SAA with EU / FTA with the EU/</b>	ATMs have been superseded by the stabilisation and association agreements (FTA with the EU expanded on political, legal and administrative aspects of integration), which provide for the establishment of free trade on a contractual basis.
4.	<b>Regional free trade agreements – CEFTA 2006</b>	Modern and comprehensive regional FTA, designed as an integral part of the Parties' pre-accession agenda and in line, where appropriate, with their commitments to the WTO. It provides a strong legal basis for policy formulation and implementation of key areas related to trade and investment. The agreement comprises a main text and series of annexes, as well as a series of additional protocols negotiated by the Parties in different areas. Annex 1 – Consolidated version of the CEFTA 2006 (FTA until 2010) Annex 2 – Bilateral FTAs terminated (their consolidation into the CEFTA 2006) Additional Protocol – Agricultural product (gradual liberalisation), 2011 Protocol 3 – Additional liberalisation, 2013 Protocol 4 – Further liberalisation (agricultural products), 2015 Protocol 5 – Trade facilitation, 2017 Protocol 6 – Services, 2019 Protocol 7 – Dispute settlement, 2021
5.	<b>MAP REA 2017-2020</b>	MAP REA, being the first regional mid-term economic cooperation and integration framework that has been endorsed at the highest level (I. Trade, II. Investment, III. Mobility and IV. Digital integration). The experience stemming from the implementation of the MAP REA served as a useful tool for planning of the future process related to the enhanced REA 2021-2024, i.e., Common Regional Market Action Plan
6.	<b>Common Regional Market</b>	2021-2024

The Agreement fully conforms to the WTO rules and procedures and EU regulations. Effectively implemented, the Agreement provides an **excellent framework for the Parties to prepare for EU accession**, thus continuing the tradition of the original CEFTA, whose founding members are now in the EU.

The important role of CEFTA 2006 in trade promotion between regional economies in the last 15 years (2006-2021) is confirmed with a few studies that “have shown that **contribution of CEFTA to the Parties’ export is estimated between 40% and 80%**”<sup>23</sup>.

<sup>23</sup> <https://cefta.int/news/cefta-15-years-making-trade-happen/>

Figure 2. WB6 trade with main partners in 2020<sup>24</sup>



**The CEFTA economies' total external trade in goods has been steadily increasing** since the beginning. In the period from 2011 to 2020, total exports increased by approx. 40%, while imports rose by only 13.8%. In 2020, exports from CEFTA stood at 34 billion €, whereas imports totalled 53 billion € making the region a **net importer of goods**. North Macedonia was the 2<sup>nd</sup> largest exporter, while Bosnia and Herzegovina was the 3<sup>rd</sup> largest exporter.

However, this increase in trade has not been reflected at **the intra-regional level** with the same proportions (table presented in [the ANNEX](#)):

- **Intra-regional trade** accounted for 9 billion € in 2020, in comparison to 6.2 billion € in 2010, a 45% increase. **CEFTA is the second largest destination for the regions' export and third main source of the region's imports.**
- Intra-regional trade amongst the partners is **relatively limited**, standing at 14.9% of the region's exports and 8.9% of its imports, due to the high degree of integration of CEFTA economies into EU value chains (Eurostat data for 2020).
- **The EU is a major market for all parties**, with a share of 69.2% for CEFTA exports and 54.1% of the region's imports in 2020. Overall, exports to the EU stood at over EUR 52 billion in 2020, increasing from around 31.4 billion € in 2011 (Eurostat data for 2020).
- On the export side, **Montenegro and Kosovo\*** are mostly oriented on the regional market (45% and 47% of total exports), just as on the import side (29% and 19% of imports, respectively).
- On the export side in the region, it is followed by Albania, Serbia, and Bosnia and Herzegovina (16% and 17%), while North Macedonia exports the least in the region than WB6 (11%).

<sup>24</sup> Source: Eurostat (online data code, Cometext data code: DS-056697);

- On the import side, **Montenegro is relatively the biggest importer (29% of total MNE import)**, followed by Kosovo with 19% and BH with 13% of total import. Open Balkan 3 countries imported relatively less than others: North Macedonia, Albania and Serbia – 9,6%, 9.2% and only 3.9% respectively.
- **Montenegro and Kosovo\* have a huge trade deficit** in regional CEFTA trade (CEFTA trade deficit of Montenegro is 57% of total CEFTA trade, and 50% on Kosovo\*). **Bosnia and Herzegovina, North Macedonia, and Albania** are closer to balance (deficit 12%, 7% and 5% respectively in total regional trade). Only Serbia is with trade surplus in comparison with total CEFTA trade. **Serbia has a trade surplus** in trade with neighbours of 1.99 billions EUR, at the level of 52% in total regional trade volume).
- **The region's largest trader is Serbia**, which accounted for around 50% of total WB region export and 44% of regional imports in 2018-2020 period (56% of regional export and 20% in regional import in 2020). Serbia is the most important trading partner of Montenegro, North Macedonia, Bosnia and Herzegovina, and Albania.
- Kosovo\* mostly exports to Albania, while it imports almost equally from Albania, North Macedonia, and Serbia. There is a huge deficit in trade, as in Montenegro's case.
- **High level of trade integration - total data for the EU and WB6: 63% of total imports are imported within EU and WB6 and 84.1% of total exports are exported within the EU and WB6<sup>25</sup>.**

The CEFTA 2006 aims to promote increasing cooperation among its economies, in order to prepare them for the EU membership.

**Overall key achievements of the CEFTA 2006 are as follows:**

- **Trade liberalization and significant reduction of non-tariff barriers:** Since the signing of the CEFTA agreement in 2006, the Free Trade Area has played an important role in promoting international trade in South Eastern Europe. It has contributed to economic integration, trade facilitation, the growth of regional trade flows and created a unified economic space attractive to foreign direct investors and mobility of professional service providers,
- **International agreement with developed institutional structure** and the CEFTA Secretariat in Brussels; gradual liberalization achieved based on international standards of negotiation and WTO rules;
- **The CEFTA made trade easier in challenging times.** Six protocols signed and in force; Dispute settlement protocol is in the process of negotiation;
- **Intra-regional trade has increased substantially** in the fifteen years since the signing of the agreement while the share of trade within the region has also been on the rise;

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<sup>25</sup> Sources of data: Statistical offices of AL, BA, RS, ME, MK and RS, and Custom Office of Kosovo\*; Some data are not the same for bilateral export/import in the Annexe, due to exchange rates calculation and methodologies. However, key conclusions are the same.

[http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat\\_NadvoresnaTrgovija\\_KumulativniPod/125\\_zemii\\_kumulativ\\_ml.px/?rxid=5633d97f-f40e-4ca7-ae3-6eedd176d395](http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_NadvoresnaTrgovija_KumulativniPod/125_zemii_kumulativ_ml.px/?rxid=5633d97f-f40e-4ca7-ae3-6eedd176d395)  
<https://monstat.org/eng/page.php?id=1631&pageid=171%20%20i%20https://monstat.org/eng/page.php?id=460&pageid=171>  
<https://www.stat.gov.rs/en-us/oblasti/spoljna-trgovina/spolnotrgovinski-robni-promet/>  
[http://databaza.instat.gov.al/pxweb/en/DST/START\\_FT\\_FTY/NewFTY004/table/tableViewLayout1/](http://databaza.instat.gov.al/pxweb/en/DST/START_FT_FTY/NewFTY004/table/tableViewLayout1/)  
<https://bhas.gov.ba/Calendar/Category/11>  
<https://dogana.rks-gov.net/sr/per-doganen/statistikat-dhe-arritjet/trgovinski-bilans-zasnovan-na-tarifi/>

- Trade liberalisation within CEFTA has **promoted market competition** and fostered integration across sectors and industries in the region;
- It has also encouraged **FDI flows** both from outside the region and from within;
- Moreover, CEFTA has facilitated **information sharing and collaboration** with regard to customs and trade policies more generally, thus encouraging political dialogue, institutional approximation and capacity building among the Parties of the region;
- As elsewhere, **the COVID-19 pandemic** has adversely affected economic activity and trade in the region. This experience has highlighted the important role of intra-regional trade and the need for further regional cooperation and trade liberalisation;
- Within the proposed **Common Regional Market** new mechanisms to facilitate trade are being developed including mutual recognition of certificates and testing for industrial and agricultural products, Authorised Economic Operators (AEO), professional qualifications and financial services;
- **New initiatives** related to free trade in services, free movement of persons, regional e-commerce, and **Green Lanes**<sup>26</sup> to ensure unimpeded flow of goods during the COVID-19 crisis are being launched;
- Further measures are being taken to remove non-tariff barriers and support competition regulators;
- **Key achievements in 2021** are:
  - Amended rules of origin, making them more flexible for the benefit of economic operators. The updates rules are in line with the process of the revision of the current PEM rules of origin;
  - Decision on facilitation of electronic commerce in CEFTA was finalized;
  - **Decisions on recognition of the AEO programmes and professional qualifications have been agreed on the expert level;**
  - Significant progress has been made in negotiations of Additional **Protocol 7** on Dispute Settlement Mechanism and of **Decision on removal of work permit** obligation for service suppliers and intracompany transfers;
  - **Green lanes** were extended to all BCPs/CCPs in the CEFTA 2006/ WB6 region providing faster and more secure flow of essential goods. A new portal representing data on utilization of the Green lanes initiative and waiting time was published to assist in monitoring of trade policies. Discussions have been initiated to extend it to neighbouring EU Member States;
  - **SEED+ Platform Implementation** has been launched<sup>27</sup>. It will support exchange of certificates necessary for the clearance of goods, including e-certificates aiming to foster paperless trade. It will also support rapid exchange of information on non-compliant consignments for animals and goods with a final goal of protecting our consumers;

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<sup>26</sup> **The Green Corridor initiative** that has been endorsed and implemented by all regional partners represents a concrete example on how a good coordination between the different administrations of the Western Balkan partners could generate a positive effect on the region. The shortage of essential goods (such as food – medicines – animal feed) or the blockage at Western Balkan internal Border and Common crossing points – thanks to the proposed measures of coordination – has been avoided. This achievement is a tangible sign that when common interests prevail with respect to national ones, benefits can be shared all partners without exception. Green lanes BCP/CBC are the following: RS-MK (Presevo/Tabanovce) o RS- ME (Dobrakovo/Gostun) o RS-KS\* (Merdare/Merdare) –in accordance with IBM; Port of Bar (ME); ME-KS\* (Kula/Kulina);o Port of Durres (AL), KS\*-AL (Vermice/Morine); MK-KS\* (Blace/Hani i Elezit); AL-ME (Hani i Hotit/Bozaj); AL-MK (Qafe Thane/Kjafasan); (The Permanent Secretariat of the Transport Community

<sup>27</sup> The first phase only. Still, a lot of jobs should be done for the full functionality of the IT system.



- Piloted three **Joint Customs Actions (JCA)** on empty trucks, illegal trade of tobacco, IPR trademark as a step forward towards implementation of the CEFTA Customs Risk Management Strategy<sup>28</sup>;

#### **The key challenges for future of the CEFTA 2006 as regional trade agreement:**

- Despite the CEFTA parties' convergence towards a tariff-free trade environment amongst themselves since 2010 and having facilitated duty-free trade and made improvements to increase regional trade, a specific scope of non-tariff measures (NTMs) still exists in trade between CEFTA parties<sup>29</sup>. More precisely, **non-tariff barriers (NTBs)** cause a real negative impact on trade<sup>30</sup>;
- **Lack of political will and efforts to improve overall regional cooperation in recent years** has negatively affected the dynamics of negotiations on further liberalization and strengthening regional economic cooperation;
- **Negotiations on additional protocols** are rather slow and slow down further liberalization, especially in the services sector;
- There are **no clear dispute settlement mechanism**. Harmonization of the text of Additional Protocol 7 – Dispute Settlement is very complex;
- **The CEFTA became part of the Common Regional Market action plan** and linked its medium-term work plan in the function of CRM 2021-2024 realization; Efficiency of the CEFTA work directly impacts result of the CRM action plan.
- **The CEFTA Secretariat located in Brussels** (outside the region) is one of the facts that confirm the lack of trust between CEFTA parties;
- The lack of trust between CEFTA parties is related to the overall relations between the parties, where it is especially important to achieve the normalization of relations between Serbia and Kosovo \* (**Belgrade-Pristina dialogue**);
- Party of the CEFTA Agreement is the United Nations Interim Administration Mission in Kosovo on behalf of Kosovo\* in accordance with United Nations Security Council Resolution 1244; This fact cause additional problems in communications, official representation and participation on all events; It is the reason why Kosovo\* recently proposed establishment on a new arrangement – **SEFTA – the South European Free Trade Agreement** where they will be one of signatories, as Kosovo\*;
- Fears that regional economic integration will be one of the reasons for delayed EU membership;
- Lack of understanding on **the effects of free trade** on economic performance on a macro level and the functioning of market economy in the EU pre-accession periods;

<sup>28</sup> <https://cefta.int/news/cefta-15-years-making-trade-happen/>

<sup>29</sup> UNCTAD (2019) defines NTMs as “policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.” Such policy measures can take the form of “technical measures, such as sanitary or environmental protection measures, as well as others traditionally used as instruments of commercial policy, e.g. quotas, price control, exports restrictions, or contingent trade protective measures, and also other measures, such as competition, trade-related investment measures, government procurement or distribution restrictions.” (UNCTAD (2019). International Classification of Non-Tariff Measures – 2019 Version. United Nations, UNCTAD/DITC/TAB/2019/5, New York and Geneva.).

<sup>30</sup> The concept of ‘non-tariff measure, or NTM, is abstract and neutral, englobing a wider set of measures than those contained by the term ‘non-tariff barrier’, or NTB. Thus, NTBs are a specific sub-set of NTMs, characterized by their protectionist intent and their negative impact on trade (i.e. all NTBs are NTMs, but not all NTMs are NTBs). Additionally, NTBs are considered inconsistent with the WTO’s TBT and SPS agreements, which, although not making explicit reference to NTBs, forbid Members to adopt measures that could be considered more trade restrictive than necessary (Beghin, J. C. & Bureau, J. C. (2001). ‘Quantitative Policy Analysis of Sanitary, Phytosanitary and Technical Barriers to Trade’, *Economie internationale*, Vol. 87, p. 109);

- **Competition of a new initiatives, such as the Open Balkans (WB3)**, introduce confusion between economic and political goals of the regional integration;

## 5. Multi-Annual Action Plan for Regional Economic Area 2017 (MAP REA)

The Leaders of Western Balkans endorsed the Multi-annual Action Plan on Regional Economic Area 2017-2020 in the Western Balkans (MAP REA), at the Trieste Summit held on 12 July 2017.

The MAP REA, being the first regional mid-term economic cooperation and integration framework that has been endorsed at the highest level, generated some concrete results in its four areas (trade, investment, digital integration and mobility). Key achievements are as follows:

- The signing of **the Regional Roaming Agreement** on the price reduction of the roaming services in the region,
- Organisation of **the Western Balkans Digital Summit** on an annual basis,
- Endorsing and validating **the Regional Investment Reform Agenda (RIRA)** at the highest level, as the first coordinated regional investment policy and promotion reform framework,
- Agreeing on a creation of a **regional database of Research Infrastructure** to optimize the existing Research Infrastructure and open avenues for interdisciplinary collaboration between researchers, industry and wider society in the region,
- Agreeing on the information and data collection for recognition of **Academic Qualifications protocols** and so forth.
- **Challenges and risks for full implementation of the MAP REA** are related but not limited to the nature and technical feasibility of the measures, capacity of public administration to comply with the manifold and very demanding agendas, coordination amongst relevant institutions at the level of each WB economy and regional level, the lack of dedicated technical assistance and financial instruments to support the implementation of certain parts of measures and so forth.
- **The high-level support from the EU** was yet another factor of success to deliver on commitments within the MAP REA. On the other hand, **existing political sensitivities have affected implementation in some areas** and, thus, hampered the progress in terms of obtaining concrete results.
- Despite challenges and difficulties, it has been also proven that the experience stemming from the implementation of the MAP REA served as a **useful tool for planning of the future action plan** for economic integration<sup>31</sup>.

## 6. Common Regional Market Action Plan 2021-2024 (CRM)

The leaders of the Western Balkans Six, Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia and Serbia, endorsed the Common Regional Market (CRM) 2021-2024 Action Plan at the Berlin Process Summit held on 10 November 2020 in Sofia.

The Action Plan is made up of targeted actions in four key areas:

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<sup>31</sup> RCC (2020). MAP-REA Diagnostic Report, prepared by the WIIW team (Hanzl-Weiss D., Holzner M., Mara I. and Pichler D.); pp. 141-142.



- **Regional trade area:** free movement of goods, services, capital and people, including crosscutting measures, such as the Green Lanes, to align with EU-compliant rules and standards and provide opportunities for companies and citizens;
- **Regional investment area,** to align investment policies with the EU standards and best international practices and promote the region to foreign investors;
- **Regional digital area,** to integrate the Western Balkans into the pan-European digital market; and
- **Regional industrial and innovation area,** to transform the industrial sectors, shape value chains they belong to, and prepare them for the realities of today and challenges of tomorrow.

The implementation of the CRM 2021-2024 Action Plan remains within the realm of responsibility of **public institutions in each of the Western Balkan's economy**, in particular ministries and institutions leading the implementation effort at the economy level.

Table 4. The Common Regional Market Action Plan 2021-2024

I. REGIONAL TRADE AREA BASED ON FOUR FREEDOMS				
1. CROSS-CUTTING TRADE MEASURES	2. GOODS	3. SERVICES	4. CAPITAL	5. PEOPLE
1.1. Maintain the Green Lanes and streamline BCPs/ CCPs controls 1.2. Elimination of Non-Tariff Barriers (NTBs) 1.3. Trade related aspects 1.4. Private sector dialogue 1.5 Reduction of trade costs and transparency	2.1. Mutual Recognition Programmes (MRPs) 2.2. Risk Management 2.3. System of Electronic Exchange of Data SEED+ 2.4. Harmonisation and cooperation with the EU	3.1. Additional Protocol 6 (AP6) on Trade in Services 3.2. Tourism 3.3. Financial services 3.4 Postal services 3.5. Professional qualifications 3.6. Enabling environment 3.7. Electronic commerce	4.1 Development of a modern payment system 4.2.Strengthening regional cooperation and coordination on COVID-19 response as part of relief, recovery and resilience	5.1. Mobility of students, researchers and professors 5.2. Mobility of individuals on the basis of IDs 5.3 Portability of social rights and removal of working permits
II. REGIONAL INVESTMENT AREA		III. REGIONAL DIGITAL AREA		IV. REGIONAL INDUSTRIAL AND INNOVATION AREA
6.1. Regional investment promotion 6.2. Regional investment policy reform 6.3. Regional investment retention and expansion		7.1. Digital infrastructure and connectivity 7.2. Digital skills and competence 7.3. Digital economy in the era of new ICT technologies 7.4. Trust and security		8.1. Regional innovation 8.2. Regional industry development 8.3. Automotive industry value chain 8.4. Green & circular economy value chain 8.5. Agro-food industry development 8.6. Creative industry 8.7. Metal processing industry 8.8. Sustainable tourism

The **RCC and CEFTA Secretariat** are leading regional organisations to facilitate the implementation of the CRM Action Plan, while other regional and/or international structures are included in specific actions in line with their scope of work and programme<sup>32</sup>.

The first concrete result was the **free roaming area** since July 2021.

The RCC should prepare the first report in 2022.

#### **Announced, but still not agreed:**

- Mobility of individuals on the basis of IDs, i.e., Agreement on free movement of people with ID cards (Agreement on Freedom of Movement and Stay );
- Agreement on Freedom of Movement of Third-Party Citizens (coordinated removal of visas or multiple economy visa for long haul visitors);

<sup>32</sup> <https://www.rcc.int/pages/143/common-regional-market>

- Agreements on the mutual recognition of academic and professional qualifications, which will facilitate the movement of professionals throughout the WB;

#### Key challenges:

- Beside the **lack of political will** and efforts to improve overall regional cooperation, and existing political sensitivities, key challenges are emergences of a new regional initiatives such as “**Open Balkan**”<sup>33</sup> which are not supported by all economies in the Region;
- The CRM 2021-2024 is **medium term plan** and needs more time to pass on its implementation in order to concretely criticize it;
- Key barrier for faster regional integration through the CRMP AP are **unsolved relations**<sup>34</sup> between Belgrade and Pristine<sup>35</sup>;

Having in mind the above mentioned, **the CRM AP implementation is blocked** in the first year of its implementation, including all prepared technical documents and valuable platform for further negotiation by the CEFTA Secretariat and joint bodies.

In the meantime, some proposals with cost estimations for that are prepared by **the Transport Community** in May 2020<sup>36</sup>:

1. **Post-Covid-19 Transport Facilitation Measures** proposed for intra Western Balkan Border/Common Crossing points and EU-WB BCPs:
  - a. **Short term measures** - Where possible, maximising the use of the existing infrastructure to give more space to heavy traffic; Remove redundancies (duplications) of controls which unnecessarily create delays; Traffic monitoring should be improved in view to expand the use of e-queuing system at intra-WB and WB-EU borders; Pre-arrival processing and other trade facilitation measures – to speed up its implementations;
  - b. **Long term measures** - Investments in Border Crossing infrastructure (cost estimation around 19 mil euros for road transport); Setting up a monitoring

<sup>33</sup> It should be „The Open Balkans“ initiative, with „s“. „Balkan“ is a possessive adjective, meaning for example “Balkan countries”, while the Balkan Peninsula is “Balkan”. So, the “Open Balkans” is, in fact “open on Balkan way..”. (Bjeletic M., Open Bakan ili otvoreno balkanski, Bilten – Pregovori o pregovorima, 71/2021, pp. 4-7. ([http://eupregovori.bos.rs/progovori-o-pregovorima/uploaded/Bilten%2078%20FINAL%20FINAL.compressed%20\(1\).pdf](http://eupregovori.bos.rs/progovori-o-pregovorima/uploaded/Bilten%2078%20FINAL%20FINAL.compressed%20(1).pdf));

<sup>34</sup> For instance, in December 2006, the CEFTA 2006 agreement is signed by the United Nations Interim Administration Mission in Kosovo on behalf of Kosovo\* in accordance with United Nations Security Council Resolution 1244. Within the dialogue Belgrade Pristine, an agreement regarding regional representation and cooperation is achieved on 24 February 2012, when both parties agreed that „Kosovo\*” is the only denomination to be used within the framework of regional cooperation, with the footnote to be applied to the asterisk: “This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.” Kosovo\* insists on amendments of the CEFTA 2006 agreement regarding the signatory on behalf them, but Serbia rejects to accept it. Consequently, Kosovo\* reject to cooperate and propose to negotiate a new FTA – SEFTA (South European Free Trade Agreement). On the other hand, Kosovo\* is invited to join the Open Balkan initiative to contribute to regional cooperation, as well as Montenegro, and Bosnia and Herzegovina.

<sup>35</sup> Closing benchmark for the negotiating chapter 35 – Other issues for Serbia, that is opened on the second meeting of the accession conference with Serbia at ministerial level on 14 December 2015, is “Normalisation of relations between Serbia and Kosovo”. This chapter is opened even before chapters 23 and 24 (Rule of law chapters are opened in July 2016);

<sup>36</sup> Transport community (2020), Ensuring the fast flow of goods through Green Lanes linking the EU and Western Balkans” A potential contribution of the Transport Community to the conclusions of the EU-Western Balkans Leaders’ summit of 6 May 2020, Working material, Brussels/Belgrade, 8 May 2020 (<https://www.transport-community.org/wp-content/uploads/2020/05/Contribution-of-the-Permanent-Secretariat-to-the-Commission-Communication-on-WB.pdf>);

mechanism for corridor performance to provide real time data on the travel and waiting times at borders, creating a new competition environment in transport in the region that would give the opportunity to rail transport to become a credible alternative to road (cost estimation around 17 mil euros);

2. Opportunities for “**quick-wins**” comprising non-physical measures:
  - a. Streamlining processes at the BCPs by **removing the burden from any controls/activities that are not strictly related to the border crossing**, such as: Road Tax Collection, Check of Transport Licences, Technical Compliance, Weight Limit Compliance and similar tasks that can/should be performed elsewhere - Ideally the BCPs and CCPs should not function as principal customs clearance facilities, but instead should serve as exit and entry registration facilities. To this end, import and export clearance should get carried out at inland clearance depots (ICDs).
  - b. Eliminate system-wide repetitive weighing of trucks (even empty ones) as this creates unnecessary work and delays to freight companies. Moreover, this practice is contrary to the UNECE Convention on Harmonization of Frontier Controls, which entered the EU legal order by the EC Decision 2009/161/EC;
  - c. Uninterruptible Power Supply (UPS) and local data backup and IT system redundancy should be standardised;

The EU's lack of interest in enlargement policy prompted some leaders of the Western Balkan countries to think ahead and seek optimal solutions to that complex situation in the Region. It was the space for a new regional initiative promoted by Serbia, Albania and North Macedonia (WB3). They call all WB6 to join the "Open Balkans" initiative, regardless of all the **differences that exist** on the issue of recognizing Kosovo's\* independence.

At the Economic Forum on Regional Cooperation held in Skopje on **29 June 2021**, leaders of Albania, North Macedonia, and Serbia unveiled a new name for what was colloquially known as Mini-Schengen<sup>37</sup>, which, from now on, will be officially called **the Open Balkan(s) initiative**.

The idea was to speed up economic integration over the CRM AP and to offer real “four economic freedom projects” in the region. They compared this initiative with achievements of **the Visegrad group** of states (V4), which often pursue a common approach within the EU framework with clearly articulated demands and positions.

As it is already mentioned, the CEFTA 2006 Secretariat and its bodies prepared all necessary documents and plans for majority of measures from the CRM AP. It was extremely useful for WB3 initiative of the Open Balkan. Hence, several MoUs and agreements are signed at “Open Balkans” summits in Tirana and Belgrade during 2021:

- Memorandum of understanding on cooperation on facilitation of imports, exports and movement of goods in the Western Balkans (29/07/2021)<sup>38</sup>;
- Memorandum of understanding on cooperation on free access to the labour market in the Western Balkans (29/07/2021)<sup>39</sup>;

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<sup>37</sup> Declaration on intention signed in Novi Sad in October 2019 as WB3 political and economic initiative as response to stagnation in the European integration process.

<sup>38</sup> [http://vlada.mk/sites/default/files/dokumenti/Otvoren Balkan/mou za uvoz izvoz na stoki ang.pdf](http://vlada.mk/sites/default/files/dokumenti/Otvoren%20Balkan/mou%20za%20uvoz%20izvoz%20na%20stoki%20ang.pdf)

<sup>39</sup> [http://vlada.mk/sites/default/files/dokumenti/Otvoren Balkan/mou za sloboden pristap do pazarot na trudot co mpressed.pdf](http://vlada.mk/sites/default/files/dokumenti/Otvoren%20Balkan/mou%20za%20sloboden%20pristap%20do%20pazarot%20na%20trudot%20co%20mpressed.pdf)

- The agreement on cooperation in protection against disasters in the Western Balkans (29/07/2021)<sup>40</sup>;
- The Agreement on conditions for free access to the labour market in the Western Balkans, (21/12/2021);
- The Agreement on interconnection of schemes for electronic identification of the citizens of the Western Balkans (21/12/2021);
- The Agreement on cooperation in the field of veterinary, food and feed safety, and phytosanitary in the Western Balkans (21/12/2021);
- The Agreement between the Serbian government and the Council of Ministers of Albania on mutual recognition of approvals issued by Authorized Economic Operators for Safety and Security (AEOS) (21/12/2021);
- The Agreement on cooperation between accreditation bodies (21/12/2021);

However, actual initiative called **the Open Balkan** (WB3 – RS, AL and MK) introduce confusion between economic and political goals of the proposed model of regional integration.

Four laws ratified inter-state agreements are immediately ratified only in the Parliament of Serbia by urgent procedure. The laws are published in "Official Gazette of RS - International Agreements", no. 27/2021 and entered into force on the day following the day of its publication (31/12/2021).

1. **Open Balkan Identification Number (OB ID):** „The Agreement on interconnection of schemes for electronic identification of the citizens of the Western Balkans” introduces OB ID number and **“federation of electronic identities”** in order to secure transmission of identification, authentication and information for electronic identification of users who are citizens of one of the Contracting Parties and who request the electronic services of another Contracting Party. The purpose of this Agreement is for the Contracting Parties to provide access to their own eGovernment services to the citizens of other Contracting Parties, using the authentication schemes for electronic identification of the Contracting Party to which the citizen who uses eGovernment services belongs<sup>41</sup>.

This means that citizens from other WB country are not treated as foreigners in this area. However, the requirements for entry and control mechanism for “ban on entry”, “threat to the public order, national security, public health or the international relations of the other Contracting Party” are not precisely defined in article 4.

2. **Free access to labour market:** “The Agreement on conditions for free access to the labour market in the Western Balkans”<sup>42</sup> introduces the right to move, stay and work freely within the territory of the Contracting Parties through simplified administrative procedures and equal access to the labour market of the Receiving party; right to entry and residence for work purposes for two years – temporary stay; on line registration with

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<sup>40</sup> [http://vlada.mk/sites/default/files/dokumenti/Otvoren\\_Balkan/dogovor\\_za\\_zashtita\\_od\\_katastrofi-compressed\\_compressed.pdf](http://vlada.mk/sites/default/files/dokumenti/Otvoren_Balkan/dogovor_za_zashtita_od_katastrofi-compressed_compressed.pdf)

<sup>41</sup> This Agreement shall enter into force on the 30<sup>th</sup> (thirtieth) day following the date of the deposit of instruments of ratification by at least two Contracting Parties and shall produce legal effect only between those Contracting Parties (Zakon o potvrđivanju sporazuma o povezivanju šema elektronske identifikacije građana Zapadnog Balkana, Službeni glasnik RS – međunarodni ugovori, br. 27/21).

<sup>42</sup> Zakon o potvrđivanju sporazuma o uslovima za slobodan pristup tržištu rada na Zapadnom Balkanu, Službeni glasnik RS – međunarodni ugovori, br. 27/21.

the OB ID, no later 90 days prior to entering, in compliance with domestic legislation and the Agreement on interconnection of schemes for electronic identification of the citizens of the Western Balkans. After completion of the application procedures, this free access must be approved. Hence, this is not "a single work permit", but separate procedures for free access to labour market of each country separately.

In addition, citizens who are entering or staying in the territory of the other Contracting Party for purposes of tourism are not precluded from making use of this Agreement, should they want to apply for free access to labour market (Article 10). This means that tourist potentially can misuse this agreement to avoid tourist registration and paying tourist tax.

On the other side, recent surveys recognized key labour force flows from the WB6 towards the EU (not within WB6 where a serious labour force deficit is detected in tourism, agriculture, and construction sector). The entry of deficit labour force towards the region is recognized from other countries, such as Turkey, or from some countries from Asia and Africa.

3. **Cooperation in the field of veterinary, food and feed safety, and phytosanitary**<sup>43</sup>: in order "to facilitate trade in such a way that does not pose restriction to mutual trade". The parties agree that the competent authorities of their countries will recognize the reports on testing of other contracting party (country of export). Physical checks only at the final destination point at the customs terminal (in the country of import). This Agreement shall enter into force on the date of the receipt of the last written notification by which the Parties notify each other, through the Depositary, of the completion of the procedures as required by their domestic legislation for the entry into force of this Agreement.

This agreement can be implemented only based on a few additional protocols (to be prepared and concluded through bilateral and regional negotiations), including issue of costs related to import export control. In addition, the Parties agree to apply the transition period for the methods accreditation in food safety and veterinary areas in Albania until the end of November 2022.

The ratification process in the Parliament of North Macedonia has been delayed because it is necessary before that procedure to change certain regulations in the areas of customs, trade, labour market, freedom of movement and e-government. The Open Balkan initiative is not recognized either as free trade regime or a regime of free movement of people in North Macedonia. Beside mentioned reasons, Albania requested for transition period at least by November 2022, in order to improve capacities of its laboratories and to speed up their accreditation process.

There are numerous **OPEN QUESTIONS** as follows:

- In order to facilitate the free movement area, **separate lanes** for citizens and goods coming from the Open Balkan participating countries would be established at border points where **no checks** will be conducted; almost without phyto-sanitary and veterinary inspections control on the Common Border Crossings, or longer control procedures of the customs officers. **Potential risks**: a) important risk is related to **the rule of law and fight against organised crime** - problem of level of control of drug trafficking or various criminal activities; b) **food safety risks** - in a borderless region, it is complicated to keep track of third party citizens' entries and imports of goods from different markets;

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<sup>43</sup> Zakon o potvrđivanju sporazuma o saradnji u veterinarskoj, fitosanitarnoj i u oblasti bezbjednosti hrane i hrane za životinje na Zapadnom Balkanu, Službeni glasnik RS – međunarodni ugovori, br. 27/21.

heterogeneous visa regimes of participating countries; diverse customs policies and import duties; problems with a number on inspectors – not enough administrative capacities to control tracks when they enter in the custom territory; etc.);

- The regime of a separate lanes and free movement of goods, services and persons will **not be fully in line** with national foreign trade and custom legislation and policies (legislation should be changed to allow it);
- Serbia and North Macedonia are implemented the **New Computerized Transit System (NCTS)**<sup>44</sup>, but Albania still not, as other WB administrations. This can cause a problem in transit control;
- Development of a common software and information sharing system and closer cooperation is not enough to prevent all these challenges (**SEED+ programme** still is not fully developed, different level of preparedness in WB6 administrations);
- Even with the common visa regime and strong political support for the benefit “only for business and citizens” – four freedom projects could lead us to the creation of some kind of **common regional institutions** to coordinate policies and control the common external borders, and harmonization of the common tariffs to the third countries. It could be the required action, which raised again the fear of postponement of the EU integration (an issue of concern) and creation of Balkans own integration with own **supra-national level of control and coordination** (institutionalisation of a Balkans Union or “Balkania” as somebody’s call it); in addition, each country has its own custom tariff and different agreements with third countries.
- In the OB initiative as it is in April 2022, there is no “pre-accession” support in Balkan’s integration, whilst the EU pre-accession support<sup>45</sup> will be growing within the European integration process. In addition, there are no EU facilitation for dispute settlement in different matters.
- **Other WB3 remain sceptical and decide not to participate** (for the time being, May 2022) with the explanation that there is “no added value since all are covered by the CRM supported by WB6; it could slow down European integration path” (Montenegro), some politicians from Bosnia and Herzegovina still explain that “regional economic integration endangers Bosnia’s independence” and Kosovo\* continue to argue that it is a political project and yet unsettled relations with Belgrade are an impediment to its commitment to deepen regional integration;
- Albania, Bosnia and Herzegovina and North Macedonia, especially Kosovo\* and Montenegro, already have a **trade deficit in regional trade** (see [ANNEX](#)), and over-liberalization could cause only additional trade deficit and could endanger the existence of small local producers (SMEs and farmers) which are not yet enough competitive. These countries need more time for raising their level of competitiveness. Hence, they have no economic interests in over-liberalization and the creation of “Western Balkans without borders” or borderless Western Balkans project.

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<sup>44</sup> The New Computerised Transit System (NCTS) is a system of electronic declaration and processing that trader must use to submit Common Transit declarations. The NCTS will process the declaration and control the transit movement. It’s used by the UK, all member states of the EU and the signatories of the Common Transit Convention (EU MS, EFTA, UK, RS and MK). [https://ec.europa.eu/taxation\\_customs/business/customs-procedures-import-and-export/what-customs-transit/union-and-common-transit\\_en](https://ec.europa.eu/taxation_customs/business/customs-procedures-import-and-export/what-customs-transit/union-and-common-transit_en)

<sup>45</sup> IPA 2021, for Regional economic integration: 6 mil EUR for CEFTA 2006 implementation and 21 mil EUR for the EU support for Common Regional Market Action Plan (World Bank Group as implementing body). Similar will be from IPA 2022.



- Open Balkan is already taking over the completed CEFTA 2006 tasks (prepared for the CRM AP) and easily **turning them into its own successes**. It should not be forgotten that the EU CRM AP project is supported by all six governments in the region and that the EU has linked to it and implemented an Investment and Development Plan worth 9 billion euros.
- North Macedonia and Albania are the **WTO members** and are obliged to **notify** entering in any new regional trade agreement (RTA). WTO Members entering into RTAs are required to notify such RTA to the WTO, either under Article XXIV of the GATT 1994 or the Enabling Clause (for RTAs covering trade in goods), or under Article V of the GATS (for RTAs covering trade in services). In a case of an RTA covering both goods and services, two notifications are required<sup>46</sup>. **The parties to an RTA can notify several types of RTAs:** 1. A Free Trade Agreement (FTA), as defined in Paragraph 8(b) of Article XXIV of GATT 1994; 2. A Customs Union (CU), as defined in Paragraph 8(a) of Article XXIV of GATT 1994; 3. An Economic Integration Agreement (EIA), as defined in Article V of GATS; or 4. A "Partial Scope" Agreement (PS). Question is: **What is Open Balkan? How to notify it?**
- **The CRM initiative is gradual process of further economic integration** for the benefit of all, with strong political steering of the EU and the pre-accession support. It is a process of further liberalization, but with keeping some levels of control since WB6 is not the custom union, but still the free trade area. **The Open Balkan initiative** offer extremely high level of liberalization for free movement of goods and services, and free movement of persons, with numerous risks of their functionality and respect of the minimum level of control.
- Can WB6 use the **experience of V4 and CEFTA 1992** to overcome these risks and find a solution acceptable to all (gradual liberalization as win-win negotiation process and mutual respect of economic interests of all);
- **The EU itself will soon have to reconsider its views**, whether it will support the Open Balkans initiative and put pressure on the other three parties to join, or insist on unblocking the implementation of the AP CRM under Berlin process which is linked with the EU pre-accession support.

This research aims to share knowledge, experiences, and lessons learned of V4 and WB6 in order to contribute to finding the proper model for future regional economic cooperation within the European integration process of each country specifically.

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<sup>46</sup> When a WTO Member enters into a regional trade agreement (RTA) through which it grants more favourable conditions than for trade with other WTO Members, it departs from the guiding principle of non-discrimination defined in the GATT, and the GATS. WTO Members are however permitted to enter into such arrangements under specific conditions which are spelled out in three sets of rules: [Paragraphs 4 to 10 of Article XXIV of GATT 1994](#) provide for the formation and operation of customs unions and free-trade areas covering trade in goods; Paragraph 2(c) of the so-called [Enabling Clause](#) refers to preferential trade arrangements in trade in goods amongst developing country Members; and [Article V of GATS](#) governs RTAs in the area of trade in services.

In addition, the [Transparency Mechanism](#) provides for the early announcement of any RTA. Each of the above-mentioned sets of rules provide for the notification of RTAs to the WTO; notified RTAs are considered by Members on the basis of a Factual Presentation drafted by the WTO Secretariat in consultation with the parties to the RTA. The consideration of RTAs shall be carried out by the WTO [Committee on Regional Trade Agreements](#) (CRTA). ([https://rtais.wto.org/UserGuide/RTAIS\\_USER\\_GUIDE\\_EN.html](https://rtais.wto.org/UserGuide/RTAIS_USER_GUIDE_EN.html));

## PART I.

# VISEGRAD GROUP: FROM CEFTA TO THE EU SINGLE MARKET AND POST-COVID 19 RECOVERY





## II.1. From the CEFTA to the EU single market: a view from Czech Republic

Šárka SHOUP<sup>47</sup>

Blanka KOVÁČ<sup>48</sup>

### Abstract

The cooperation within the countries of the Visegrad Group (V4) has had major implications for the economies and diplomatic relations between member states as well as the European Union. Similarly, the countries of the Western Balkan Group (WB6) have modelled their cooperation after the example of the V4. This study aims to examine the level to which these groups cooperate and their effectiveness. Through the comparison of regional cooperation within the V4 and that of the WB6, it gives a clearer picture as to how countries within the Central European Region can improve their efforts and take up larger roles within the broader system of the European Union. This analysis begins by looking at how the WB6 has been influenced by the example set by the V4 in terms of cooperation. Joining the Central European Free Trade Agreement (CEFTA) was a step in the right direction for the WB's integration into the EU. Aid from the Czech Republic also assisted in the region's efforts to integrate. With the recent approval of the Common Regional Market plan (CRM), the WB6 is clearly on a path to enter the European Single Market (ESM). While there has been significant progress towards the WB6's integration into the broader economic system of the EU, this analysis finds there are still several challenges that the region faces in its integration efforts. The COVID-19 Pandemic has set back progress, as the crisis had both economic and societal implications. The differences between member states of the WB6 will also be a challenge in efforts to join the ESM. However, leaving out external factors, it can be concluded that the region is on the right path to integration into the broader EU system based on their current cooperation efforts.

**Key words:** V4, WB6, regional economic cooperation, CEFTA, CRM action plan

### 1. Introduction

The purpose of this study is to compare the regional cooperation between the four Visegrad (V4) countries (Poland, Czech Republic, Slovakia, and Hungary) and the six Western Balkan (WB6) countries (Serbia, Montenegro, Kosovo\*, Albania, North Macedonia, and Bosnia and Herzegovina), with specific focus on the relationship between the Czech Republic and the WB6 countries. It includes the two groups' path to EU integration and the V4's efforts to share its experience to accelerate the accession process of the Balkans. The study begins with the experiences in the Central European Free Trade Agreement (CEFTA) and continues with that of the European Single Market (ESM), focusing on the contrasts between the CEFTA and the ESM. Next, the study analyses whether the V4 can serve as a role model for the WB6, considering cooperation within the pact. Finally, it concludes with an analysis of the recently approved

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Common Regional Market (CRM) plan and the assessment of the two regions' experiences with post-COVID recovery.

## 2. The implications of the CEFTA in the V4 and WB6

**The CEFTA** was created by the V4 countries in 1992 to promote their accession to the EU<sup>49</sup>. It was a crucial step since the V4 countries experienced the disruption of their traditional markets after the dissolution of the Council for Mutual Economic Assistance (CMEA) and the Soviet Bloc. In order to realise their ambitions of joining the Western institutions and especially the EU, Visegrád countries needed to re-establish their regional economic cooperation in a different framework – the CEFTA. They also needed each other's support to fulfil the criteria, as it was in their best interest to join the EU at the same time. Thus, the established trade integration aimed to reduce the barriers impeding the flow of goods between the states. On top of this, they also conducted reforms to transform their economic structures to open market economies, took privatisation measures, and built modern institutions. All these actions resulted in stable economic growth of the countries<sup>50</sup>. Their cooperation under the aegis of CEFTA seemed to be successful, as **the intra-regional trade increased faster than the overall foreign trade of these countries**<sup>51</sup>. Within the framework, the members also agreed on joint projects in economy, culture, and science, which aimed to further strengthen cooperation and enhance awareness in civil society.

Since the 2000s, CEFTA had a circulation of members as new countries joined and left the pact after their EU accession, transforming the original institution. Accordingly, the V4 states exited CEFTA in 2004, which was renewed in 2006 when new members joined. For that reason, the institution is often called **the CEFTA 2006** and includes seven states: Moldova and all six Western Balkan countries: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, and Kosovo\*.

Before joining the CEFTA, the WB6 countries' economies were linked by multiple free trade agreements as part of the Stability Pact for South-Eastern Europe's framework launched by the EU to promote democracy, human rights, peace reconciliation, and economic cooperation<sup>52</sup>. However, these agreements were not particularly fruitful. Even though the intra-regional trade increased, the countries could easily impede the free movement of goods mostly by using administrative barriers<sup>53</sup>. The main problem was the lack of political will to cooperate. Therefore, the EU pushed the countries to sign different agreements in the prospect of their accession, pursuing the stabilization of the region.

The EU also established the so-called Stabilization and Association Agreement (SAA), which aimed to enhance the trade between the WB6 countries and the EU. Although the SAA had significant results, it did not improve the cooperation within the region, and there were fears that

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<sup>49</sup> Petreski, M. (2013). Southeastern European Trade Analysis: A Role for Endogenous CEFTA-2006? Emerging Markets Finance and Trade, pp. 26-44.

<sup>50</sup> Jasiecki, K. (2016). Economic Cooperation Among the Visegrad Countries. In J. Pakulski, J. Higley, G. Lengyel, G. Ilonszki, S. Szomolányi, Z. Gál, . . . K. Jasiecki, The Visegrad countries in crisis (pp. 106-121). Warsaw, Collegium Civitas

<sup>51</sup> Dunay, P. (2003). Subregional Co-operation in East-Central Europe: The Visegrád Group and the Central European Free Trade Agreement. Austrian Journal of Political Science, pp. 45-56

<sup>52</sup> Petreski, M. (2013). Southeastern European Trade Analysis: A Role for Endogenous CEFTA-2006? Emerging Markets Finance and Trade, pp. 26-44.

<sup>53</sup> Bjelic, D. P. (2018, July 18). Trade Facilitation in the Central European Free Trade Agreement (CEFTA): an imperative to boost intra-regional trade. Retrieved from <https://unctad.org/news/trade-facilitation-central-european-free-trade-agreement-cefta-imperative-boost-intra-regional>

states would be too dependent on the union<sup>54</sup>. To solve this issue and increase intra-regional trade, the WB6 countries joined the CEFTA in 2006, replacing more than 30 bilateral trade agreements with one. This decision was the first step towards actual cooperation, but its primary motivation was the political aspiration to join the EU. However, from the European perspective, the new CEFTA's main aim was to establish a level of economic dependency among the region's countries to reduce the risk of renewed conflicts<sup>55</sup>.

Comparing the original CEFTA and CEFTA 2006, the latter seems less successful, as in its 15 years of existence it has not yet led to its members' EU accession. The Visegrád Group needed less than 12 years to carry out the criteria required to enter the European Single Market. This difference, however, is hardly the fault of the new CEFTA. Rather it is derived from the characteristics of its member states and their different cooperation models. The fact that CEFTA could significantly increase its trade with the EU, while the intra-regional trade has not seen much development after CEFTA has replaced the bilateral free trade agreements, implies **the lack of motivation** from the countries to further integrate their economies. This is underlined by their export and import structures, as all WB6 countries' biggest trade partner is the EU. In most cases, their trade with each WB6 member is below 10%. Serbia is an exception. It is a more significant import partner to some countries in the region, including Kosovo\* and Montenegro<sup>56</sup>.

### 3. The V4's cooperation model

Looking at the Visegrád Group's cooperation model, it is important to note that it was created through a slow, organic development, incorporating new areas of cooperation over time. Now it "consists of mutual contacts at all levels—from the highest-level political summits to expert and diplomatic meetings, to activities of the non-governmental associations in the region, think-tanks and research bodies, cultural institutions or numerous networks of individuals"<sup>57</sup>. This cooperation started as a loose alliance establishing only one platform, the Ambassador's Council, without constituting any institutional framework. Therefore, it is clear that the Visegrád Group has, since its foundation, sought to be **a political, "top-down" project**, communicating shared values and interests of the four countries<sup>58</sup>.

The main characteristic of the V4 model is the annually rotating presidency, where the countries prepare programmes for one year. This is a useful tool, as having an agenda to follow gives a framework to the cooperation. The non-institutional nature of the V4, however, was highly controversial. Some highlighted that it allowed the cooperation to be very flexible, while others debated that it made the group too exposed to the current political situation in each country<sup>59</sup>. This weakness could be seen when the cooperation slowed down in the period 1993-1998<sup>60</sup>. After this period, however, the Visegrád started its second life. It pursued closer cooperation, marked

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<sup>54</sup> Petreski, M. (2013). Southeastern European Trade Analysis: A Role for Endogenous CEFTA-2006? Emerging Markets Finance and Trade, pp. 26-44.

<sup>55</sup> Mostetschnig, A. M. (2011). CEFTA and the European Single Market: an appropriate preparatory exercise? Warsaw, Poland: College of Europe Natolin Campus

<sup>56</sup> Pistikou, V. (2020). The Impact of CEFTA on Exports, Economic Growth and Development. International Journal of Business and Economic Sciences Applied Research, pp. 15-31.

<sup>57</sup> Visegrad Group (n.d.). Aims and Structure. Retrieved from <https://www.visegradgroup.eu/about/aims-and-structure>

<sup>58</sup> Nagy, D. (2021, March 30). The Institutionalization of the V4. Danube Institute. Retrieved from <https://danubeinstitute.hu/en/geopolitics/the-institutionalization-of-the-v4>

<sup>59</sup> Rošteková, M., & Rouet, G. (2014). The Visegrád Group - A Model to Follow? Księgarnia Akademicka

<sup>60</sup> The Visegrad Group (V4). (2016, June 5). European Council. Retrieved from <https://www.consilium.europa.eu/en/documents-publications/library/library-blog/posts/the-visegrad-group-v4/>

by the establishment of **the International Visegrád Fund (IVF)** in 2000, which is the only established institution of the group. The IVF is funding projects to promote closer cooperation among the civil societies and institutions in the region as well as between V4 and other pacts, such as the Eastern Partnership and the Western Balkan. The IVF's annual budget consists of equal contributions of the V4 governments and other governments and organisations from around the world<sup>61</sup>. On the other hand, the establishment of the IVF did not lead to further institutionalisation of the V4, and the group preserved its loose cooperation.

Although the Visegrád Group served as an inspiration for the Western Balkans, the latter remained even looser regarding its political agenda. One of **the main differences** between the two is that in the V4 case, political cooperation – no matter how loose it may be – was created first, and the countries' leaders only agreed on the economic cooperation afterward. In the WB6, the opposite could be observed, as the WB6 Initiative or Berlin Process were only formally created in 2014<sup>62</sup>, way after the countries acceded to the CEFTA in 2006. This signals that the countries indeed had an economic but zero or little political will in their cooperation during the first years of the CEFTA. Even the Berlin Process was rather created for them and not by them. Although it allows the Western Balkan leaders to meet annually, it is held with the participation of other EU member states, so there is no structured high-level meeting, which would only include the WB6 leaders.

#### 4. The V4 as a role model for WB6

Juzová et al.<sup>63</sup> suggested that the V4 group's EU accession process can serve as a role model for the WB6 countries. There are indeed several **similarities** between the two regions' pre-accession problems, for example, the need to re-establish the traditional economic ties in the region, or the strive to join the western institutions and to transition to open market economies and democratic governments based on the rule of law: as well as the ethnic tensions deriving from the national minorities living mixed in the region. Accordingly, WB6 has followed the V4's path in **establishing regional cooperation**, but with different intensity and motivations. Each group was careful about and made clear at the beginning of their cooperation that they are **not** an alternative to the European Union. Another similarity is joining the CEFTA and aiming to establish free trade among its members. The WB6 also formed similar institutions like the Central-Eastern European countries.

One of the most successful cooperation between the two groups was the establishment of **the Western Balkan Fund (WBF)**, based on the IVF model, aiming to support non-governmental projects which could strengthen the ties in the civil society. The V4 countries contributed to this institution by sharing know-how, sending IVF experts, and supporting it financially. Besides WBF, **Regional Youth Cooperation Office (RYCO)** is one of the most important factors in the reconciliation process, creating a future generation with more solidarity towards each other and more will to cooperate.

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<sup>61</sup> European Centre at the Charles University (n.d.). Visegrad Fund. Retrieved from <https://ec.cuni.cz/ECEN-38.html>.

<sup>62</sup> Western Balkan 6 Initiative (n.d.). Energy Community. Retrieved from <https://www.energy-community.org/regionalinitiatives/WB6.html>.

<sup>63</sup> Juzová, J., Balcer, A., Ziemer, K., Chovancová, T., Garai, N., Strážay, T., Minić, J. (2019). From Warsaw to Tirana: Overcoming the past together. EUROPEUM Institute for European Policy.

On the other hand, there are considerable **differences** between the two regions, meaning that applying the same processes will not necessarily result in the same outcome. There are several reasons why the V4 countries could join the EU relatively quickly while the same process is being protracted in the case of the WB6.

The Visegrád Group presented itself as **a relatively homogenous block** in terms of economic development. The WB, in general, has smaller, less equal, and less stable markets<sup>64</sup>. Additionally, compared to the original CEFTA, where the main goal of the cooperation was the facilitation of future EU accession, the WB6 showed less political will to cooperate. The significance of this factor is pointed out in Pál Dunay's publication where he states that "It is clear from these early statements that there was genuine interest in cooperation inside the region"<sup>65</sup> and that "The relative success of the Visegrád Group can be attributed to **the cohesion** of the four countries forming it"<sup>66</sup>.

Contrastingly, the WB6 has a more difficult case of their cooperation because of **the unresolved and ongoing disputes** among the members. Serbia and the other five EU member states have still not recognised Kosovo\* as an independent state. It was only in 2020 that Serbia and Kosovo\* managed to reach an agreement, which was mediated by the United States. Accordingly, significant differences can be observed in each country's effort to integrate into western institutions regarding their EU, NATO, and WTO membership status.

The V4, being **a prominent supporter of the Western Balkan countries' EU accession**, provides help to the WB6 on many levels. As mentioned, one of the most important gestures was the contribution to the establishment of the WBF. Additionally, V4 governments co-finance projects and research about the region from the International Visegrád Fund.

The creation of **the Berlin Process** is an important EU initiative, providing support to the Western Balkan and strengthening the WB6's EU perspective. Even though the V4 is one of the biggest supporters of the Western Balkan's EU accession, only Poland joined the Process, hosting the 2019 Western Balkan Summit in Poznań<sup>67</sup>. Nevertheless, it is expected that the Western Balkan will be high on the agenda during the European Council's Czech presidency in 2022<sup>68</sup>.

The V4's support for the Western Balkan has its limitations, as there are relatively few direct projects between the two pacts. V4's method of supporting the WB6 is more often bilateral or happens on the EU level. Exceptions are the joint statements of the V4 on the Western Balkan and the occasional meetings of the V4 and WB6 leaders. Regarding bilateral projects, the Czech Republic's considerable business activities in the Western Balkan or the Hungarian-Serbian

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<sup>64</sup> Mostetschnig, A. M. (2011). CEFTA and the European Single Market: an appropriate preparatory exercise? Warsaw, Poland: College of Europe Natolin Campus

<sup>65</sup> Dunay, P. (2003). Subregional Co-operation in East-Central Europe: The Visegrád Group and the Central European Free Trade Agreement. *Austrian Journal of Political Science*, p. 46.

<sup>66</sup> Ibid. p. 54.

<sup>67</sup> Berlin Process (2019). Western Balkans Summit in Poznań: strengthening links within the region and with the EU. Retrieved from <https://berlinprocess.info/western-balkans-summit-in-poznan-strengthening-links-within-the-region-and-with-the-eu/>.

<sup>68</sup> Zachová, A. (2021, June 28). Western Balkans to be a priority of Czech 2022 Council presidency. Euractiv. Retrieved from [https://www.euractiv.com/section/politics/short\\_news/western-balkans-to-be-a-priority-of-czech-2022-council-presidency/](https://www.euractiv.com/section/politics/short_news/western-balkans-to-be-a-priority-of-czech-2022-council-presidency/).

cooperation in joint infrastructure projects through the EU's financial instrument for cross border cooperation (IPA CBC) can be mentioned<sup>69</sup>.

## 5. The Czech Republic and the WB6

The Czech Republic is part of the V4 and a former CEFTA member, however, despite leaving CEFTA they continue to actively empower the WB6 countries. From their expertise in digitalization to public administration they share their knowledge and funds towards vast sectors which include energy, agriculture, and infrastructure. In a study by the European Movement in Montenegro, they found that "The Czech Republic has particularly significant investments in Serbia where it is the fourth biggest foreign investor"<sup>70</sup>. Their projects in Serbia have shown efficiency where the Belgrade centre, a railway in Serbia, was shaped by the AŽD Praha that modernized their transportation. On top of that, an ongoing contract with another Czech company aims to similarly ensure North Macedonia towards establishing a railway container and also a terminal railway infrastructure in Albania. Furthermore, Montenegro had immensely benefited from the Czech field of digitalization where the Czech Neutral Interconnection Node brought out access to high-quality internet with lower costs. The Czech Republic had also donated on projects that encouraged sustainability and environment protection to equip Serbia for the Green Climate Fund while also being part of the development of Serbia's flood protection system. It doesn't stop there; in Bosnia and Herzegovina they were favoured the most in the environment area because of the Czech Republic's priority to this nation. For instance, the reconstruction of the wastewater treatment plant in Gradačac helped enhance and improve clean water sources<sup>71</sup>. The migration crisis in 2015 is also a highlight within the WB6 relations, the Czech Republic financially supported Serbia, North Macedonia, and Bosnia and Herzegovina while also working with the Balkan route. Nevertheless, these examples are not limited to the entire provision and strategies of assistance by the Czech Republic to the WB6.

Taking the Czech Republic's initiatives into account, the V4 group's key mission is to advance ideas for **sustainable regional cooperation** in Central Europe and **transferring knowledge** to advance the WB6. The birth of the International Visegrád Fund (IVF) even created a positive nuance in their cooperation.

However, in light of the COVID-19 crisis, the Czech economy was strongly affected at the beginning of 2021 where they experienced a soaring number of infections and recorded one of the highest excess death rates with 320 deaths per 100,000 inhabitants<sup>72</sup>. Because of this, lockdowns and strict regulations were enforced. The Czech government introduced a generous package of emergency support measures, including job retention schemes, income support to the self-employed and parents that had to stay at home, and a tax stimulus package. Eventually, after a few months, the massive vaccination campaign began which led to 53.4% of the Czech population is fully vaccinated to fight against the virus. For the Czech Republic, the policies implemented aided with the people which enabled quicker recovery for their population although its economic position is still striving to seek revival.

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<sup>69</sup> Juzová, J., Németh, F., Orosz, A., Lachert, J., & Strážay, T. (n.d.). V4 Countries in the Process of the EU integration of the WB6 and Implementation of Berlin Process. Podgorica: European Movement in Montenegro

<sup>70</sup> Juzová, J., Németh, F., Orosz, A., Lachert, J., & Strážay, T. (n.d.). V4 Countries in the Process of the EU integration of the WB6 and Implementation of Berlin Process. Podgorica: European Movement in Montenegro

<sup>71</sup> Available online at: <http://www.czechaid.cz/en/project-of-czechaid-in-bosnian-gradacac-received-significant-award/>

<sup>72</sup> Walsh, D. (2021, August 6). What's the true Covid death toll in Europe? euronews



## 6. A journey towards the European Single Market

Even though the original CEFTA was transformed in 2006, the main profile of the cooperation remained the same: a preparatory exercise leading to the eventual integration into the EU single market<sup>73</sup>.

In 2011, Anna Maria Mostetschnig analysed whether CEFTA 2006 was appropriate for the future member states' preparation for the single market. She concluded that while it enabled the full liberalisation of the movement of goods, it lagged behind the EU regarding the free movement of capital, workers, and services, which are cornerstones of the single market. The study also found that the CEFTA's institutional structure is relatively simple, which implies its approach of negative integration. It means that it aims to remove and reduce trade barriers but not establish protecting or enforcing cooperation mechanisms. On the other hand, **harmonisation** would be essential for certain fields of cooperation as well, which can be observed in more complex institutions such as the EU itself<sup>74</sup>.

Other studies suggest that the CEFTA 2006 had **a positive effect** on the intra-regional trade between the countries, which by 2010 increased nearly six times relative to the 1990s<sup>75</sup>. On the other hand, this can be largely attributed to the re-establishment of the former market relations of the successor states of Yugoslavia. Additionally, a more recent study found that CEFTA had no significant change in growth rates until today. However, it positively affected the GDP per capita, the reduction of inequality and the HDI in the countries<sup>76</sup>. The agreement was also beneficial for the countries' cooperation regarding the movement of goods, public procurement, competition policy and intellectual property rights<sup>77</sup>. On the other hand, being a preparatory institution, the CEFTA 2006 presents a lower level of economic integration than the European Single Market, including motives of market integration but a considerably smaller amount of policy integration as the latter requires political will, which the WB countries lack<sup>78</sup>.

## 7. The stepping-stone to the EU – the new CRM plan

Massive progress in the integration of the WB6 states has been experienced in the last decade. On the political side, one of the biggest achievements was the creation of **the Berlin Process** in 2014, which provides a platform for the EU accession of the Western Balkans by hosting annual high-level summits with the participation of the leaders of some EU member states and the WB6. The initiative aims to achieve reconciliation within the societies in the region and enhance “regional economic cooperation and lay the foundations for sustainable growth”<sup>79</sup>. The Process's connectivity agenda aims to create and strengthen social, economic, and political links between

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<sup>73</sup> Mostetschnig, A. M. (2011). CEFTA and the European Single Market: an appropriate preparatory exercise? Warsaw, Poland: College of Europe Natolin Campus

<sup>74</sup> Ibid.

<sup>75</sup> Petreski, M. (2013). Southeastern European Trade Analysis: A Role for Endogenous CEFTA-2006? Emerging Markets Finance and Trade, pp. 26-44.

<sup>76</sup> Pistikou, V. (2020). The Impact of CEFTA on Exports, Economic Growth and Development. International Journal of Business and Economic Sciences Applied Research, pp. 15-31.

<sup>77</sup> Ibid.

<sup>78</sup> Mostetschnig, A. M. (2011). CEFTA and the European Single Market: an appropriate preparatory exercise? Warsaw, Poland: College of Europe Natolin Campus

<sup>79</sup> See: Berlin Process (n.d.). Retrieved from <https://berlinprocess.info/about/>

the states through enhancing the physical connectivity of the countries by building new roads and making border procedures easier<sup>80</sup>.

Other critical initiatives are the forum for youth cooperation (the Regional Youth Cooperation Office, RYCO) and the cooperation among businesses (Western Balkan Chamber Investment Forum, WBCIF). These have the real potential for reconciliation by creating platforms that directly connect the civil societies of the Western Balkans<sup>81</sup>.

The most recent cornerstone of the cooperation was **the 2021-2024 Common Regional Market (CRM) plan** accepted at the 2020 Berlin Process Summit. This initiative is closely linked to the Regional Cooperation Council and sets out the steps to establish the Common Regional Market ("CEFTA region becomes one market", n.d.). Following years of stagnation in the economic integration process of the WB6 and the COVID-19 pandemic hitting the region's economies hard, the CRM was established as **a transformative tool** to increase the attractiveness and competitiveness of the region and to bring the region closer to the EU markets<sup>82</sup>. The CRM plan was welcomed by the CEFTA, which will play a crucial role in putting the plan's key provisions into action ("CEFTA region becomes one market", n.d.). The CRM will be built on the achievements of the Regional Economic Area and the Energy Community, and the Western Balkans Transport Community will play a prominent role in the coordination of the project<sup>83</sup>.

The action plan for a Common Regional Market (CRM) is made up of **four key areas** the regional trade area, the regional investment area, the regional digital area, and the regional industrial and innovation area<sup>84</sup>. While the Western Balkan 6 Chamber Investment Forum reported that the **CRM's goals** are to:

- Strengthened competitiveness of WB6 companies in the European and global markets
- The integrated market of 18 million people
- Better integration of WB6 economy in the European value chains
- Potential for additional GDP growth of 6.7%
- Spotlight on WB6 for foreign investors seeking to reduce the distance to EU markets and diversifying their suppliers
- Swifter recovery for the WB economies from the COVID-19 Pandemic

The new CRM action plan will relaunch the digital sector for the WB6 nations. Part of their goal will enhance the trade exchanges through the internet which will reduce transaction costs.

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<sup>80</sup> Regional Cooperation Council. (2020, November 9). Common Regional Market Action Plan; A catalyst for deeper regional economic integration and a stepping stone towards EU Single Market. Retrieved from <https://www.rcc.int/docs/543/common-regional-market-action-plan>.

<sup>81</sup> Juzová, J., Németh, F., Orosz, A., Lachert, J., & Strážay, T. (n.d.). V4 Countries in the Process of the EU integration of the WB6 and Implementation of Berlin Process. Podgorica: European Movement in Montenegro

<sup>82</sup> Regional Cooperation Council. (2020, November 9). Common Regional Market Action Plan; A catalyst for deeper regional economic integration and a stepping stone towards EU Single Market. Retrieved from <https://www.rcc.int/docs/543/common-regional-market-action-plan>

<sup>83</sup> European Commission (n.d.). The Western Balkans Common Regional Market – a catalyst for deeper regional economic integration and a steppingstone towards EU Single Market. Retrieved from [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/policy-highlights/common-regional-market\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/policy-highlights/common-regional-market_en)

<sup>84</sup> Regional Cooperation Council. (2020, November 9). Common Regional Market Action Plan; A catalyst for deeper regional economic integration and a stepping stone towards EU Single Market. Retrieved from <https://www.rcc.int/docs/543/common-regional-market-action-plan>.



The CRM Action Plan further discusses the fields where significant work must be done in the coming three years to finish the implementation process by 2024. In the areas of full trade liberalization, regional investment, regional digitalization, regional industrialization and innovation, the countries agreed on a very ambitious agenda<sup>85</sup>. Hence, they will undoubtedly have a difficult task in the next three years.

The most important commitments in the CRM plan and their feasibility:

Firstly, achieving **the free movement of persons**, which means that all WB6 citizens need only an identity card to cross the border, is a challenging task. Among others, the countries must seek mutual recognition of professional qualifications, decide on the issues of taxes and pensions, and create a body that can protect the workers' rights if violated. This topic is also very sensitive because as the WB countries are not equal in economic development and income levels, such a situation can occur where there is an uneven distribution of labour force – including that of the skilled workforce<sup>86</sup>. The success and speed of the implementation are also controversial. On one hand, the fact that five of the six countries used to form one state for more than 50 years has a positive effect on this matter, resulting from the common language, culture, and consumer preferences. On the other hand, animosities still exist in the region's societies among different ethnic or religious groups, which could present an obstacle because it can lead to discrimination in the workplace.

Another important undertaking in the CRM plan is reducing **the costs of regional payments** and preparation for joining the Single Euro Payment Area. This topic is interesting because two of the six Western Balkan states, Kosovo\*, and Montenegro, have already unilaterally adopted the Euro and have been using it as a de facto currency since 2002. This could pose a problem in the future, as Montenegro and Kosovo\* are not bound by convergence criteria, so they might have to change to another currency before joining the EU<sup>87</sup>. Consequently, a more complex underlying problem still needs to be solved jointly by the countries.

As the CRM is being carried out by **the CEFTA and the Regional Cooperation Council (RCC)**, institutions already existing for more than 15 years, they need to make their methods more efficient in order to deliver tangible results in the next three years. They must harmonize their functioning with each other and with other bodies and institutions involved in the CRM plan process. The plan is very ambitious and includes complex unresolved matters within the region and with the EU. However, the 2021-2024 CRM plan seems to be a serious intention from both parties and will most certainly build the basis for the countries' future EU integration.

There are significant **prospects and potential in the region's cooperation**. However, this depends on the effectiveness of the institutions conducting the reforms and on the political will for closer integration. The EU membership is an effective tool in motivating reforms and development in member states. However, nationalist politics and the underlying social and historical tensions can further impede the processes. This is not only a possible danger among the WB6 countries. It can be observed that tensions are rising between WB6 countries and EU

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<sup>85</sup> Ibid.

<sup>86</sup> Mostetschnig, A. M. (2011). CEFTA and the European Single Market: an appropriate preparatory exercise? Warsaw, Poland: College of Europe Natolin Campus

<sup>87</sup> Nikolova, M. (2021, September 1). Will Montenegro have to drop the euro to join the EU? Emerging Europe. Retrieved from <https://emerging-europe.com/news/will-montenegro-have-to-drop-the-euro-to-join-the-eu/>.

member states. For instance, Bulgaria threatened to veto North Macedonia EU accession talks before the creation of the CRM plan<sup>88</sup>.

## 8. Post-COVID recovery in the WB6 and V4

The outbreak of the COVID-19 pandemic in late 2019 and early 2020 presented a unique challenge for the global community. For the governments, crisis management at first seemed like a trade-off between health and economy. If they decided to restrict the austerity measures in order to reduce the spread of the virus, they needed to expect more severe economic disruption. On the other hand, this was not entirely true, as neglecting containment measures and letting the virus spread meant a more severe health crisis and the collapse of health care. More sick people also led to labour shortages and economic disruption<sup>89</sup>. How well could the V4 and the WB6 countries' governments balance the two factors, and how will they recover?

Comparing the two regions, **the cumulative confirmed cases** per million were similar in the V4 and the WB6. This number was very high in Czechia, Montenegro, and Serbia. It should be noted that this has been dependent on the number of tests carried out in each country. Regarding the cumulative number of deaths in the V4, the highest number is seen in Hungary. While in the WB6, Montenegro and North Macedonia stand out<sup>90</sup>.

Regarding **vaccination**, the Western Balkans are well behind compared to the EU and the V4. Serbia performs the best, having around 44% of its population received at least one vaccine. On the other hand, the similar rate of Slovakia in this sense (45%) counts as the worst in the V4 countries. Hence, three out of the four have successfully vaccinated more than half of its population. The comparison of Bosnia and Herzegovina and Hungary is especially contrasting: the former having only 22% and the latter more than 60% of its population vaccinated<sup>91</sup>. Accordingly, we could see some cooperation between the V4 and the WB6, as Hungary provided medical equipment and financial support to the Western Balkan, helping to ease their problems<sup>92</sup>. As in every country, **the restrictions** that followed the spreading of the virus led to an economic downturn, severely affecting both regional cooperation. As the V4 group's economies are generally very open, except for Poland, they are prone to external changes. Therefore, the disruption of supply chains resulted in a significant decrease in their GDPs in 2020: -5% in Hungary, -4.8% in Slovakia, -5.6% in Czechia, and -2.7% in Poland<sup>93</sup>.

Regarding the WB6, the COVID-19 pandemic hit them at a time of reaccelerating economic growth and promising economic outlook for 2020 ("The Covid-19 crisis in the Western Balkans", n.d.). Similarly, to the V4 countries, the governments introduced restrictions, travel bans, and curfews to reduce the number of infections. They worried that their weak and underfinanced healthcare

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<sup>88</sup> Barigazzi, J. (2020, October 21). Bulgaria threatens to veto North Macedonia's EU talks. Retrieved from <https://www.politico.eu/article/bulgaria-threatens-veto-on-north-macedonia-accession/>.

<sup>89</sup> Carrieri, V., De Paola, M., & Gioia, F. (2021). The health-economy trade-off during the Covid-19 pandemic: Communication matters. Retrieved from: <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0256103>

<sup>90</sup> Ritchie, H., Mathieu, E., Rod s-Guirao, L., Appel, C., Giattino, C., Ortiz-Ospina, E., Roser, M. (2020). Coronavirus Pandemic (COVID-19). Retrieved from <https://ourworldindata.org/coronavirus>.

<sup>91</sup> Ibid.

<sup>92</sup> Shehaj, A. (2020, April 20). After the Pandemic: Perils and Promise for Western Balkans. Balkan Insight. Retrieved from <https://balkaninsight.com/2020/04/20/after-the-pandemic-perils-and-promise-for-western-balkans/>.

<sup>93</sup> Clark, D. (2021). Annual gross domestic product growth rates in selected European countries in 2020. Retrieved from <https://www.statista.com/statistics/686147/gdp-growth-europe/>.

systems would collapse if the cases were to rise further. On average, the Balkan countries' GDPs decreased by an estimated 3.4% in 2020, Serbia being the least and Montenegro the worst affected, their GDPs contracting by 1% and 15.2%<sup>94</sup>.

The drop in domestic and foreign demand and the disruptions in the supply chains affected both regions badly, but the economic situation in the WB6 was presented with greater difficulties in several respects. Firstly, because of the fact that tourism directly contributes 15% to the overall GDP of the Western Balkans, the lack of tourists during the summer season threatened hundreds of thousands of jobs. In both the V4 and the WB6, the majority of businesses are Small and Medium Enterprises (SMEs), which do not have the financial assets to tackle the problems caused by the pandemic. The increasing number of bankruptcies and job losses in the WB6 meant that the governments needed to react quickly. They had to introduce support packages and work out efficient social safety nets with regards to the already high rates of unemployment and shadow economies in their societies.

In this respect, the V4 countries were in a better situation. As EU members, they had greater resources at their disposal. The economic impact of the second wave has been less severe, not least because the manufacturing sector has performed well this time. However, the governments had to resort to fiscal stimulus packages and the easing of the macroeconomic policies. Such transfers would stimulate their economies by at least 2.1% in Slovakia and 1% in Czechia per year. According to these measurements, the GDP growth of the second quarter of 2021 compared to the same quarter of the previous year was 17.7% in Hungary, 10.7% in Poland, 10.2% in Slovakia and 7.8% in the Czech Republic<sup>95</sup>.

Even higher figures can be seen in the Western Balkans in the second quarter of 2021, as Albania's GDP expanded by 17.9 %, Macedonia's 13.1%, Montenegro's 19%, Bosnia's 11.6%, Serbia's 13.4%, and Kosovo's 16.3% ("Albania GDP Annual Growth Rate", n.d.; "Macedonia GDP Annual Growth Rate"<sup>96</sup>; "Kosovo's economic growth speeds up to 16.3% y/y in 2Q21", 2021). Following the record falls in the GDP in the first year of the pandemic, the WB6 countries managed to produce all-time high growth rates in the second quarter of 2021, compared to the previous quarter, thanks to intensive government spending. However, the introduced support packages in WB6 will undoubtedly result in increasing government debts and fiscal deficit, which the countries need to manage carefully if they want to continue their individual economic growth.

In the work of Organisation for Economic Co-operation and Development (OECD) (2020), they have analysed the position of the WB6 nations and had risen policy suggestions in regard to its post-COVID recovery. Therefore, comparing the new CRM plan and finding whether it had missed out on methods it could further tackle to advance these nations.

The similarities that the OECD and the CRM plan are stepping up the efforts on **SMEs digital transformation** and assisting to embed **the green agenda to the region**. The CRM plan focuses

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<sup>94</sup> Ritchie, H., Mathieu, E., Rod s-Guirao, L., Appel, C., Giattino, C., Ortiz-Ospina, E., Roser, M. (2020). Coronavirus Pandemic (COVID-19). Retrieved from <https://ourworldindata.org/coronavirus>.

<sup>95</sup> O'Neill, A. (2021). Growth of real gross domestic product (GDP) in EU member states in the 2nd quarter 2021 (compared to the same quarter of the previous year). Statista. Retrieved from <https://www.statista.com/statistics/263008/gdp-growth-in-eu-countries-compared-to-same-quarter-previous-year/>.

<sup>96</sup> Ralev, R. (2021, September 24). Montenegro's real GDP rises 19.0% y/y in Q2 - table. SeeNews. Retrieved from <https://seenews.com/news/montenegros-real-gdp-rises-190-yy-in-q2-table-755084>.

mostly on trade and services however the treatment towards the labour market should not be given a blind eye. OECD's (2020) major suggestions were extending and simplifying access to unemployment support, providing income replacement to quarantined workers who cannot work from home, and tailoring support to the needs of women and youth. The Czech Republic, a V4 nation, took this similar step in focusing on the people which enabled their cases to eventually slow down. However, returning to the suggestions. Within the impact on trade, the CRM plan provides solutions to the concerns of OECD where redoubling efforts are needed to overcome tariff barriers. OECD (2020) also raised that the COVID-19 pandemic will change the way people travel as well as the tourists' expectations. One can expect a shift from mass tourism to a more individual, personal/tailored experience. Developing sustainable tourism will be a key to the post-COVID-19 recovery.

Most of the policy recommendations by the OECD and the EU are very costly, which makes them challenging to implement due to the relatively poor countries in the region and limited financial resources. However, the new CRM plan accepted in 2020 adopted these directions, including green transition, digitalisation, and innovation. A lot of support can be expected from the EU, one of the biggest advocates of the plan.

## 9. Conclusions

Comparing the experience of the Visegrád Group with the Western Balkan 6 in terms of developing their regional cooperation offers deeper insight into the protracted EU accession negotiations of the latter. **The WB followed the path of the V4**, starting in the CEFTA and working its way up to the new CRM plan, which can be the final steppingstone toward the EU Single Market.

Institutions like the International Visegrád Fund and the Visegrád Youth Forum were also replicated in the WB6, signalling that behind the success of the Visegrád countries, there is **genuine and voluntary cooperation** not just in an economic sense but also in the civil society. In this sense, a collaboration between the V4 and the WB6 can be observed in funding joint projects through the IVF.

The ongoing COVID-19 pandemic had adverse effects on both regions, but there are already plans to "not waste a good crisis". This means that both the V4 and WB6 plan to incorporate **green transition and digitalisation into the process of rebuilding their economies**, which is another potential field for their cooperation ("Mayors of V4 capitals: 'Recovery from the pandemic must be green. We are asking the EU for partnership'", 2020).

The realisation of the projects outlined in **the CRM plan** will, without a doubt, be very beneficial for the region's societies. It is also likely that progress in the region's EU integration will occur, partly because **the 2022 Czech EU Council presidency** has the Western Balkan among its key priorities. However, it should be noted that after the countries manage to restart their economies, there will be an end to generous government subsidies and support as the governments will need to find a way to catch up with the intensive spending of the previous years.

Overall, **the V4 group has been an instrument in supporting the development of WB6**. Taking upon previous strategies that ex-CEFTA members have taken could provide an overlook on how the WB6 could adjust it with their country. Commitment towards the CRM, an action plan will be up to the West Balkans (WB6) and how they will come across to the fresh opportunities from the European integration.

The success of the WB6's leading to the entry to the European Union is still questionable. It is not only dependent on the countries themselves but also on the political environment in the EU. In either case, it can be concluded that **the cooperation between the V4 and the WB6** during the last 20 years is a very exemplary and fruitful one with tremendous potential.

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## II.2. From the CEFTA to the EU single market: a view from Hungary

Árva LÁSZLÓ<sup>97</sup>,

Pásztor SZABOLCS<sup>98</sup>

### 1. Introduction

The European Commission stated on 19<sup>th</sup> October 2021, that “the EC adopted its 2021 Enlargement Package, providing a detailed assessment of the state of play and the progress made by the Western Balkans and Turkey on their respective paths towards the EU, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. The EU High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission, Josep Borrell, said “With today's report, we provide a detailed assessment of the progress made in the Western Balkans and Turkey, and where work remains to be done. We have to maintain a credible enlargement process. This is a two-way street: The new methodology is a merit-based approach. It puts a stronger focus on fundamental reforms, such as rule of law, fundamental freedoms, economy and functioning of democratic institutions. Our partners need to address them, in the interest of their citizens and to advance on the EU path. And they need put aside their differences. On the EU side, we need to deliver on our commitments. The EU is not complete without the Western Balkans. It's time we come together and unite in building a stronger Europe” (European Commission, 19 October 2021).

In Hungary entrepreneurs, organizations of entrepreneurs (as the Chamber of Commerce) and the government are all maintaining that EU adhesion of the WB6 countries is imminent, and they are ready to work on this purpose, and especially the entrepreneurs are eager to find lucrative markets in the West Balkan countries.

### 2. Level of development of the WB6 countries

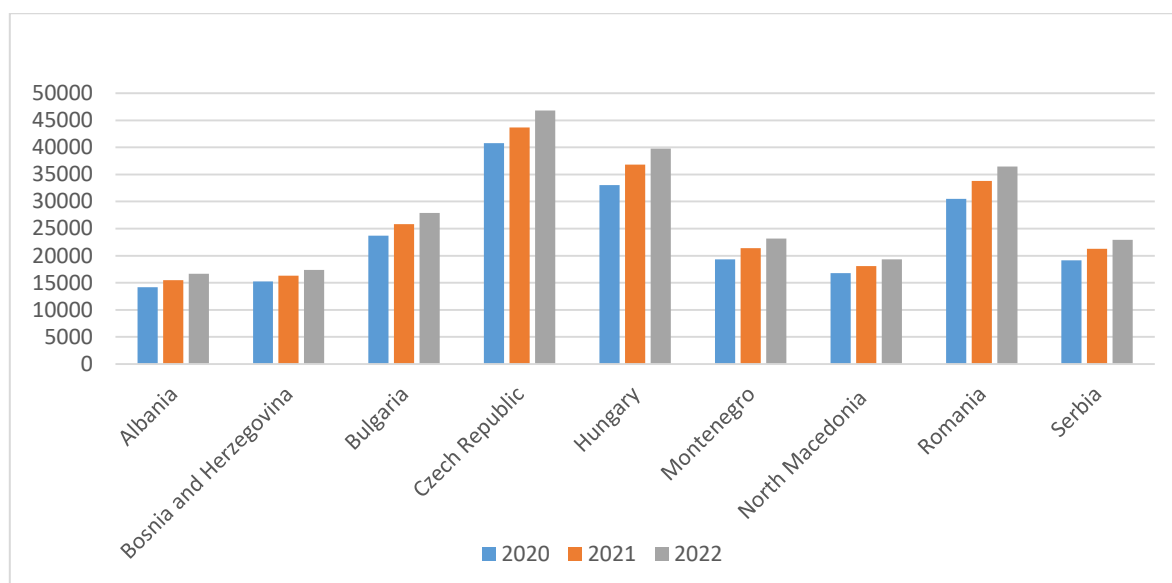
**The WB6 countries** are rather underdeveloped compared even to V4 or the average EU countries and this backwardness is much bigger compared to Austria, Germany and France, or other more developed EU countries. From the IMF Data it can be seen that the Eastern EU Countries, including the former socialist countries as well (Czech Republic, Hungary, Romania and Bulgaria) are much more developed by the per capita GDP than the West Balkan 6 countries. This underdeveloped status of these countries is especially due to the fact that those countries were the less developed parts of the Balkan area before the economic and social transition in 1991-92 (as Albania, and some parts of the former Yugoslavia), plus the ravages of the Balkan war in the 90s largely contributed to this backwardness.

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<sup>97</sup> Dr. Laszlo Arva is a retired professor of ESSCA (École supérieure des sciences commerciales d'Angers).

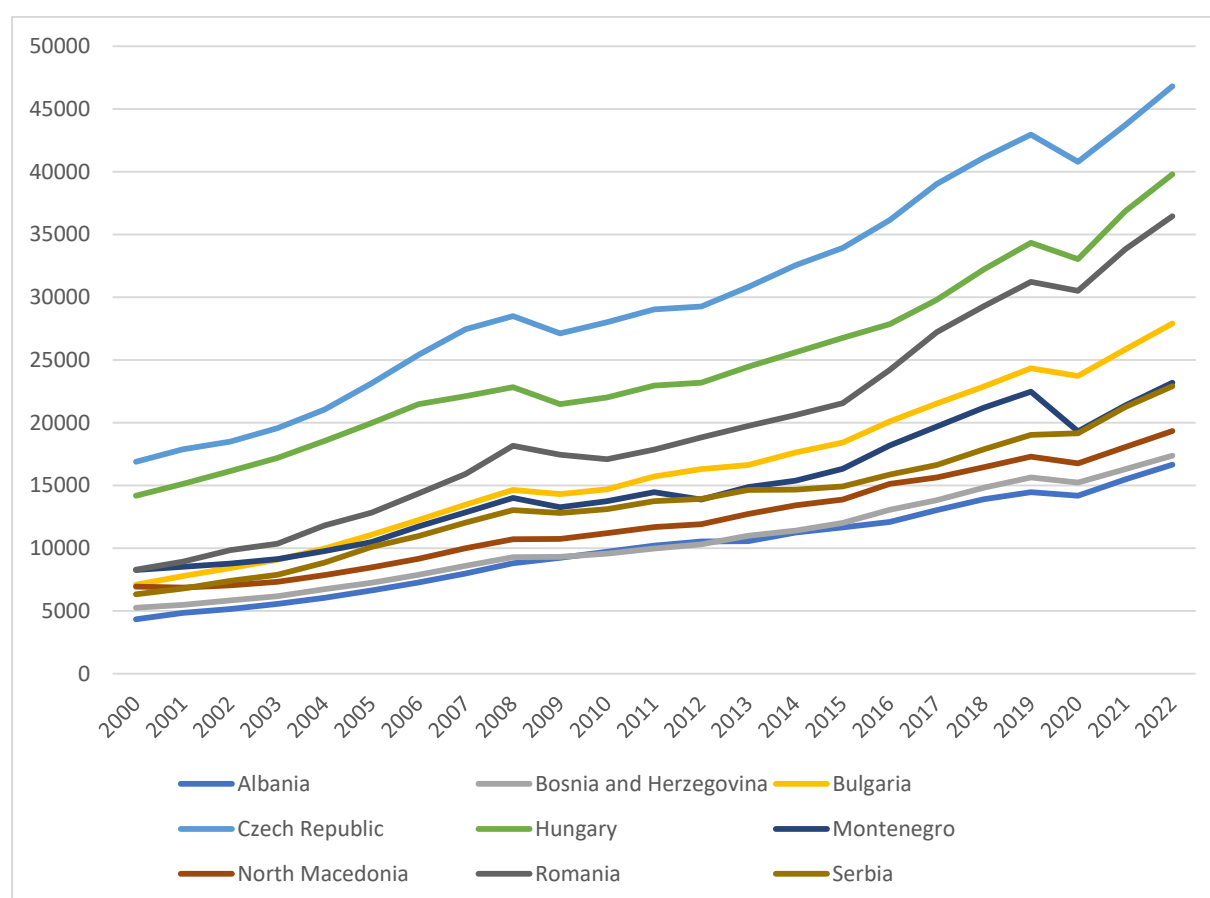
<sup>98</sup> Dr. Szabolcs Pásztor is an associate professor of the National University of Public Service, Faculty of Public Governance and International Studies, Department of Economics and International Economics.

Figure 3. GDP per capita of Albania, Bosnia and Hercegovina, Bulgaria, Czech Republic, Hungary, Montenegro, North Macedonia, Romania, and Serbia (PPP, international \$ per capita)



Source: IMF Data mapper, 2022.

Figure 4. GDP per capita of Albania, Bosnia and Hercegovina, Bulgaria, Czech Republic, Hungary, Montenegro, North Macedonia, Romania, and Serbia, 2000-2021(international dollar)



Source: IMF Datamapper, 2022.

It is interesting to look at the causes of **the backwardness of WB6 countries** according to other researchers. Engjell Pere<sup>99</sup> from the University of Tirana in his article has analysed these questions in the following countries:

1. Albania,
2. Bosnia & Herzegovina,
3. Croatia,
4. Kosovo,
5. Macedonia (FYROM),
6. Montenegro and
7. Serbia.

This country list includes not only the WB6 countries, but also Croatia, which is a West Balkan country only by using the geographical definition, but is not part of the official WB6 country group. Engjell Pere has stated in his article, that there are statistically significant connections between **the indicators of “good governance” and the “economic growth”**, so he has maintained that the underdevelopment of some West Balkan countries is the consequence of their insufficient governmental activities.

Elements of “good governance” according to Engjell Pere contained the following:

1. Accountability of Governance.
2. Political stability and lack of violence.
3. Governance efficiency.
4. Legal framework.
5. Law enforcement.
6. Corruption control”.

According to him the “bad governance” has largely contributed to the disappointing growth of the WB6 countries compared to other ex-socialist countries.

Another researcher, the Hungarian Beáta Farkas has not accepted the conclusion of Engjell Pere. She argued<sup>100</sup> that “there are many similarities between the institutional arrangements of the two regions (V4 and WR6), and the differences seem to be a consequence of the delayed reforms rather than of an alternative model. However, the question of whether the current differences will be institutionalized or whether they will create a new normality—a new, distinct model of capitalism—remains open.”<sup>101</sup>

She had the conclusion that “the comparison of institutional systems does not provide an unambiguous answer to the question of whether the Western Balkan market economies fit the capitalism model of the CEE EU members. **The FDI inflows** have not modernized the economies of Western Balkans to the extent seen in the CEE EU members. These economies have remained less open and with weaker competition. However, this can partly be explained by the delayed and unfinished reforms and the differences between the two regions’ product markets, which seem to be structural rather than the consequence of an alternative institutional arrangement. The delayed and unfinished product market reforms entail the poorer development level of the

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<sup>99</sup> Engjell Pere (2015): The impact of good governance in the economic development of Western Balkan countries, European Journal of Government and Economics, Volume 4, Number 1 (June 2015), ISSN: 2254-7088

<sup>99</sup> Farkas, B. (2017): Market Economies of the Western Balkans Compared to the Central and Eastern European Model of Capitalism Croatian Economic Survey: Vol. 19: No. 1: June 2017: pp. 5-36

<sup>100</sup> Ibid, pp. 5-36

<sup>101</sup> Ibid, p. 5.

innovation systems especially in the smaller WB countries. **The financial systems** in the WB countries are strongly bank-based, dominantly foreign-owned, and the institutional difference in comparison with the CEE EU members is seen in some uncompleted regulation reforms. In addition, we can find more pronounced differences in institutional areas related to **human capital**. The extremely low formal employment, the extended informal employment, and the large share of remittances in personal incomes highlight not only parametric but institutional differences between the CEE EU members and the WB countries, which can, in turn, lead to different rules in the actors' behaviour on labour markets. In contrast to labour markets, **industrial relations** follow basically similar patterns in the two regions. In the majority of WB countries, the basic elements of the social protection system, that is, the social insurance scheme with the—in European terms—low level of social expenditures, comply with the CEE model, but, as we have seen, there are unique features in the region. The available data does not allow an assessment of whether the differences in **educational systems** between the two regions are quantitative or qualitative, and the differences seem to be substantial even among the WB countries. Differences in **good governance** are worrying, especially between the Baltics, CEE5 countries and the WB countries, because the achievement of all the above-mentioned reforms depends on the administration capacities of the states. The reform policy agendas in the WB countries—partly induced by international and EU institutions—set the target for the achievement of further reforms, which would result in **the CEE model of capitalism**. Will such a model be realized or will the current differences be institutionalized, creating thereby a new normality, a new and a distinct model of capitalism, remains an open question.”<sup>102</sup>

The analysis of Engjell Pere and Beáta Farkas are interesting, but they have not taken into account the destruction of the Balkan civil war in the 90s, though it is clear that these destructions have largely contributed to the recent backwardness of the WB6 countries. See the scientific papers on the civil war in the former Yugoslavia by Milica Uvalić, professor at the University of Perugia, Italy. She is convinced that the civil war was an important cause of the economic backwardness of the WB6 countries of the former Yugoslavia<sup>103</sup>.

### 3. Present picture of the WB6 countries from Hungary

- **Hungarian foreign trade with the WB6 countries**

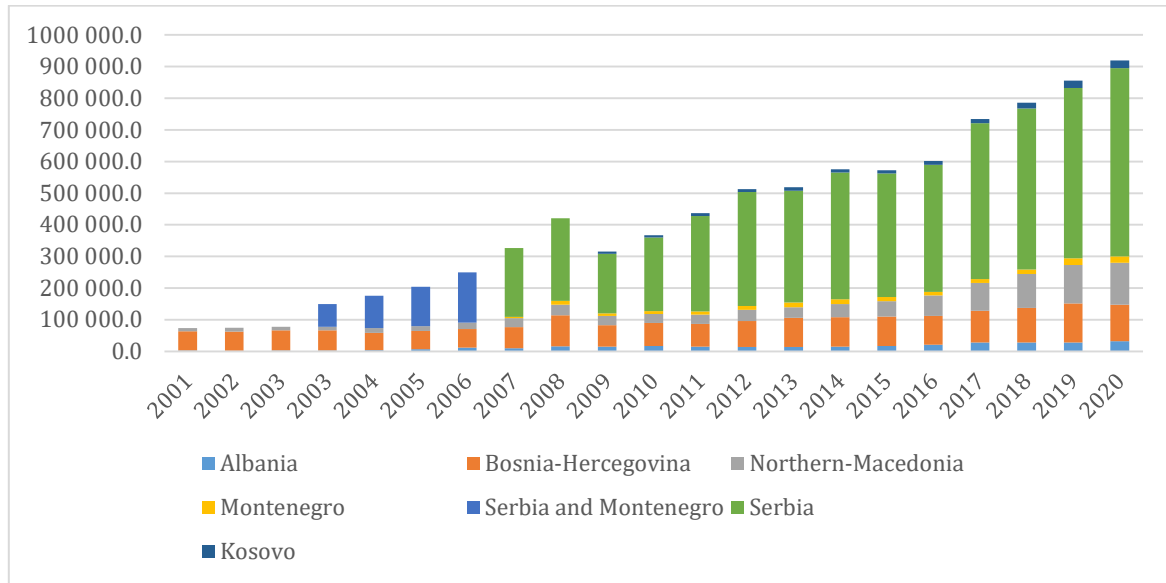
Hungarian foreign trade with the West Balkan countries – after a sharp downturn, following the Yugoslavian times, started to develop only not long time ago. Taking into account that some of these countries have been created after the deadly civil war in the 21st century it is not surprising at all. Serbia and Montenegro have been separated only after 2006, and before that time Serbia and Montenegro were measured as a common entity in the statistics (Serbia and Montenegro), but after that time these two countries appeared as two separate entries in the statistics. Naturally, the changing territories and the changing names, (as the name of FYRoM – North Macedonia) have not made easy the analysis of the trade and development statistics.

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<sup>102</sup> Ibid, p. 28-29

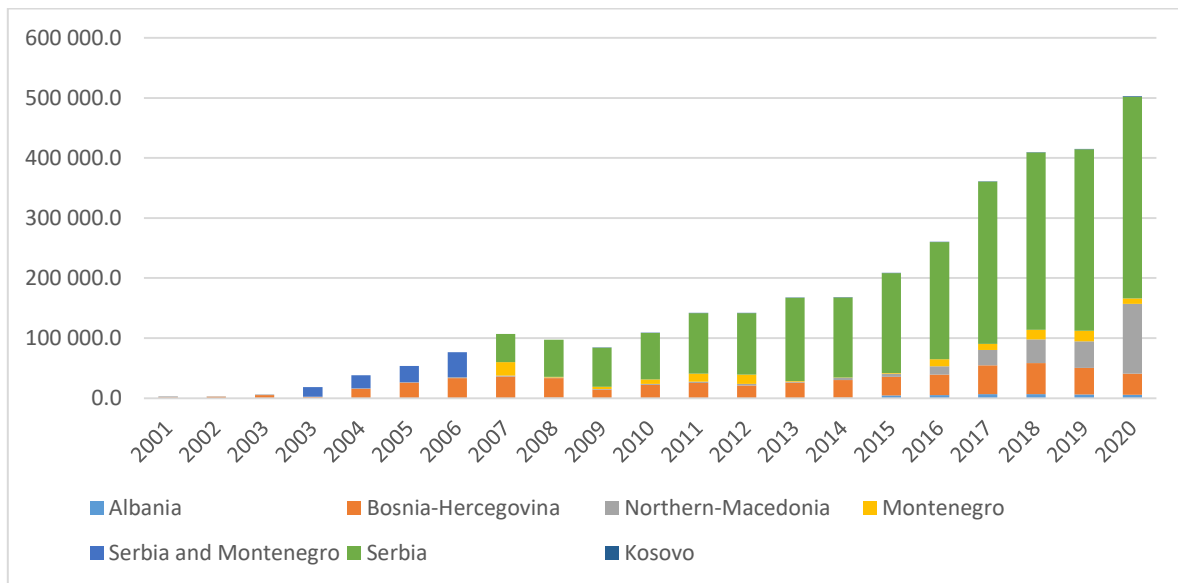
<sup>103</sup> Uvalic, M. (2018): The rise and fall of market socialism in Yugoslavia, DOC Research Institute;

Figure 5. Hungarian export to the WB6 countries



Source: KSH, 2022, STADAT

Figure 6. Hungarian import from the WB6 countries



Source: KSH, 2022, STADAT

Today the Hungarian foreign trade with the WB6 countries has a relatively **important export surplus**, which is perhaps mainly due to the Hungarian presence of the EU origin Trans National Companies, which are dominating the Hungarian foreign trade and sell their products from Hungary to the WB6 countries<sup>104</sup>. This is perhaps due to the important intra-company trade of the TNCs in Hungary<sup>105</sup>. Unfortunately, from the official trade statistics it is not easy to determine the final country origins of the exportation and importation.

<sup>104</sup> According to the foreign trade statistics and some similar analysis more than 60 % of Hungarian export is coming from Trans National Companies originated from the European Union, and those companies are selling lots of high-end products in the WB6 countries...See: KSH Database

<sup>105</sup> See UNCTAD World Investment Reports, different years.

#### 4. Economic perspectives of the cooperation with the WB6 countries of Hungary, the V4 and the EU27 countries today

- **Present State and Perspectives of Cooperation between WB6 countries and Hungary**

In order to help the WB6 region to start integration to the European Union and to properly recover from the COVID-19 crisis, which has largely destroyed the WB6 economies as well, important contributions from the V4 countries including Hungary and from the European Union are needed. On one hand, V4 countries might provide the knowledge related to EU integration, and the economic cooperation of the WB6 countries with the local V4 SMEs, and, on the other hand, the European Union can also provide knowledge for institutional reforms and EU funds to start economic recovery and infrastructural development in the WB6 region.

In the V4 countries and especially in Hungary there have already been rather robust organization systems that could help WB6 countries with proposals and even with economic contacts and cooperation. As the economies of the V4 countries are mainly based on large EU-based TNCs and also a large number of smaller, weaker local SMEs, it is important to mention that V4-WB6 cooperation should be based on the cooperation between V4-WB6 SMEs as well. Fortunately, the Chamber of Commerce of the V4 Countries and especially in Hungary started this cooperation a long time ago.

In **Hungary** (beside of other SME organizations) for example there is a **Western Balkan Economic Section** in the Hungarian Chamber of Commerce (MKIK). In the following the activity of this organization is briefly described.

- **Best Practices: Western Balkan Economic Section (WBES) of the Hungarian Chamber of Commerce (MKIK)**

This **Western Balkan Economic Section of the MKIK** was founded in 2012. By the end of 2021 it had already had 86 Hungarian member enterprises, and the aim of this West Balkan Economic Section is to help Hungarian Small Enterprises to enter the markets of the WB6 region. The countries of the West Balkan region, namely Albania, Bosnia-Herzegovina, Kosovo, Northern-Macedonia, Montenegro and Serbia are important export targets of the Hungarian enterprises. The Western Balkan Economic Section (MKIK) has made lots of efforts in order to help the Hungarian enterprises to enter these markets. In 2020 due to the COVID-19 pandemics this activity could only be organized online. Similarly, information for the Hungarian enterprises on this West Balkan Economic Region were also provided mainly online.

Every 2<sup>nd</sup> week member enterprises of the Western Balkan Special Economic Section received **Electronic Newsletters** about the most important news of the Western Balkan Region and the political, economic and social effects of the COVID-19 pandemics and about the relevant measures in the region. Beside that, in May and June 2020, the Country Analyses of the WB6 countries were completely renewed and the staff of the Western Balkan Economic Section had intensive online relations with their members.

##### **Major Western Balkan Economic Section Activities in 2020:**

Attila Galambos, president of and Anna Szekeres, secretary of the organized lots of activities for the members.

- 25<sup>th</sup> November, 2020: Presentation on the possibilities to enter the market in Albania and Serbia, information on the possible financial backings.
- 10<sup>th</sup> December, 2020, Digital Integration of Western Balkan.

Beside those events, according to their report published on the homepage of the MKIK, “approximately 7-8 further events and bilateral meetings were organized by the staff of the West Balkan Economic Section for the member entrepreneurs. During the summer publication of the Country Profiles of the West Balkan Countries have been renewed and actualized.”

#### **Major Western Balkan Economic Section Activities in 2021:**

- 6<sup>th</sup> July 2021, “Climate protection project preparations in Western Balkan”. The online forum was organized by the “Green Centre of Western Balkan”, with the online participation of 50 persons. The participants received information on the general questions of the economy, as well as the environment protection aims and actions of Serbia, with the possible participations of the Hungarian enterprises in it. Participants have also received information on the services of the Hungarian Export Promotion Agency, HEPA and the available backing provided by the state and the European Union.
- 4<sup>th</sup> October 2021. Delegation from the ministries from Kosovo in the Hungarian Ministry of Foreign Affairs and Foreign Trade in the frame of the “Think Visegrad Civil Servants Mobility Program”. Representatives of the Hungarian Chamber of Commerce have also participated on these meetings.
- 3<sup>rd</sup> November 2021, “V4 and WB6 Cooperation Round Table”, with the participation of 20 persons. As Hungary was the president of the V4 group, with the participation of the Chamber of Commerce of the V4 countries, together with the WB6 Chamber Investment Forum. This event was organized with the participation of Dr. Laszlo Parragh, president of the Hungarian Chamber of Commerce. From the Hungarian Ministry of Foreign Affairs and Foreign Trade, István Joo, adjoint state secretary, responsible for the Hungarian export made an exposé...On behalf of the WB6 countries, Ahmet Egrlić, President of the Chamber of Foreign Trades of Bosnia and Hercegovina gave an opening speech.

Beside those events “approximately 8-9 further events and bilateral meetings were organized by the staff of the West Balkan Economic Section for the member entrepreneurs. During the year of the publication of the Country Profiles of the West Balkan Countries have been renewed and actualized.”<sup>106</sup>

### **5. Proposals for further cooperation between the EU, the V4 countries and the WB6 countries with special attention on the post-COVID recovery**

It is important to see that the recovery from COVID-19 pandemics can be successful and long lasting in the WB6 countries only if the EU, the V4 and the WB6 economies could change their economic philosophy profoundly.

The major problems of the World Economy today are the too long **Global Value Chains (GVCs) of the TNCs**, and the other is the **too many long-hauls air travels of tourism** with high level of CO<sub>2</sub> emissions. In order to help the recovery from the COVID-19 crisis in the WB6 countries there

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<sup>106</sup> See: MKIK, <https://mkik.hu/a-nyugat-balkani-tagozat-bemutakozasa>



should be found special solutions which can be advantageous not only for the WB6 countries but for the EU and the V4 countries as well. One of the solutions is to **redesign the geographical structure** of the European Trans National Companies and instead of delocalizing some of their activities to the far away countries in South Asia, perhaps its activities could be brought back to the vicinity, to the WB6 countries. In the following some of its possibilities will be presented.

It is clear that for the WB6 countries foreign-owned TNCs might bring lots of advantages, as increasing employment, provision of technology transfers, increasing productivity. And this rescheduling can be advantageous for the TNCs as well, as by shortening the GVCs transportation costs can be reduced and procurements would be more secure, what is rather important in the COVID-19 pandemic times.

Both of these problems of the too long GVCs could be at least partially rectified by **incorporating WB6 countries into the European Union economic cooperation space** more efficiently, plus it might help to reduce GVC problems all over the World by reducing global CO2 emission as well. It is an important phenomenon of the World Economy that TNCs have already built-up GVCs all over the World. Unfortunately, those long GVCs are not only expensive, but highly unreliable at the same time, especially during pandemic times. In case of partial or complete close down of some countries complete industries might suffer a lot, as it has happened in the case of car industry due to the lack of microchips. This was the case in 2021 when long transport routes were endangered by the quarantines, official close-downs and by the lack of adequate transportation potentials due to the COVID-19 infected airplane staffs.

This problem could be rectified by bringing at least some of these GVC elements back to the vicinity of Europe. As for the efficient functioning of GVCs it is primordial that **wages** should be low enough in the countries where some parts of GVCs are outsourced, fortunately the WB6 countries are ideal places in this respect too. Unfortunately for the time being the proper **infrastructural capacities** are largely missing in the WB6 countries, so it would be important to create those capacities as soon as possible. In order to facilitate these FDIs it would be important to create adequate **legal systems** in the WB6 countries as well, which are helping and protecting FDIs and are reducing customs duties between the EU and the WB6 countries. It would be also important to create favorable economic conditions in the WB6 countries for **the FDIs from the EU**. These kinds of legal steps could help to prepare economic integration of the WB6 countries to the EU and as in the 90s the Western European countries provided valuable technical assistance to the Eastern European countries, similar help should be given to the WB6 countries as well, and the V4 member countries can contribute to this technical assistance.

As the WIIW has stated in its report<sup>107</sup> the main result would be that the Western Balkan economies can indeed benefit from **the near-shoring trends in the post-pandemic world**, but their governments will have to take a very active role and will have to use available policy levers in a sensible way to achieve it<sup>108</sup>.

As WIIW papers have stated today FDI inflow to the WB6 countries is not very important yet: "Looking at the four European countries where most FDI in the Western Balkans originates (the Netherlands, Switzerland, Austria and Germany), one can note that the Western Balkan economies take up a minor share of their total outward FDI.... For the Netherlands, Switzerland and Germany, the share of outward FDI that goes to the WB6 is less than 1%. Only for Austria is

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<sup>107</sup> WIIW, (2021a): Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans., May, 2021

<sup>108</sup> Ibid., page 5

the share of WB FDI more significant at 4.8%. Since the WB6 economies are relatively smaller than other CESEE countries, their share in FDI originated in other countries is relatively smaller.”<sup>109</sup>

It is also very important that **local governments** and even municipalities should help the economic activities (let it be activities of the FDIs or of the local partners) in the WB6 countries. As WIIW has stated in their paper<sup>110</sup>, “The government should cater to the competitiveness of domestic companies by providing reasonable credit lines, supporting new employment, and supporting the development of companies. The most serious problem of domestic companies is old and obsolete machinery. Renewing machinery is in many cases impossible due to insufficient funds, while one of the priority activities for becoming a supplier of foreign companies is exactly that (new and competitive technologies).”<sup>111</sup> To enjoy the benefits of the FDIs development of the local subcontractors is also very important.

- **FDI inflow between V4, EU and WB6 Companies**

FDI inflow to WB6 countries can increase employment and important technological development can arrive in the WB6 countries as well. This can be effectively done only if a well-designed “**subcontracting system**”, can be applied, just as in Hungary. In the last 30 years we have had very efficient “subcontracting backing system”, experiences of this system could be applied in the WB6 countries. The Hungarian government and the Hungarian Chamber of Commerce can transfer Hungarian experiences to the WB6 countries on the “subcontracting system”.

Not only **the EU based TNCs** can participate in economic development of WB6 countries, but even **SMEs** as well. The Hungarian Chamber of Commerce (MKIK) has already done a lot in this field, but in order to make this cooperation more efficient it can be useful **to establish Joint Chambers of Commerce, between WB6 and V4 countries**, as Hungary has very good results with Joint Chamber of Commerce. Hungary has long history of the Joint Chamber of Commerce, as for e.g.:

- American Chamber of Commerce in Hungary
- British Chamber of Commerce in Hungary
- Hungarian-Canadian Chamber of Commerce in Hungary
- Hungarian-French Chamber of Commerce and Industry
- German-Hungarian Chamber of Industry and Commerce
- Italian-Hungarian Chamber of Commerce
- Netherlands-Hungarian Chamber of Commerce
- Swedish Chamber of Commerce in Hungary
- Swiss Chamber of Commerce in Hungary
- Joint-Venture Association

These Joint Chambers of Commerce play an important role in the Hungarian economic development and in the arrival of TNCs in Hungary. These experiences can be transferred to the WB6 countries.

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<sup>109</sup> Ibid., page 23.

<sup>110</sup> Ibid.

<sup>111</sup> Ibid. page 91

The Austrian WIIW institute has made very good analysis on **the development and investment possibilities in the WB6 countries**. As they have underlined, infrastructure can be the most important investment target which might help with the development of the economy of the WB6 countries. This infrastructural development would be important for manufacturing and tourism activities as well. As it is stated in their paper published at the end of 2018 “Two important regional infrastructure investment initiatives are active in the Western Balkans: The European Western Balkans Investment Framework **WBIF** and the Chinese Belt and Road Initiative **BRI**. Both are focusing on traditional infrastructure such as energy and transport and both come with a volume of about EUR 8 billion in loans. The European initiative has in addition provided for some EUR 800 million in grants and has an emphasis on Green Economy projects. Overall infrastructure investment needs in the region are huge. Lower bound estimates of additional investment need only in alternative infrastructure investment for the next five years are at around EUR 800 million.”<sup>112</sup>

- **Examples of SME cooperation between V4 and WB6 countries**

Tough it would be extremely useful for the WB6 countries and for the European Union as well to **shorten GVCs by bringing subsidiary companies to the WB6** countries which are much closer to Western Europe than their subsidiaries in the Far East or other far-away places, but generally it is rather difficult to influence big TNCs in redrawing their GVC networks. Consequently, it is extremely difficult to influence the foreign trade of the V4 countries, as (according to the Central Statistical System information) nearly 70 % of Hungarian export is coming from great Trans National Companies<sup>113</sup>. It is logical that instead of or besides urging big European TNCs to have cooperation with WB6 countries, it might be easier to urge and often similarly useful to **help local SMEs from the V4 countries to establish cooperation with WB6** based local small and medium enterprises. This activity has already started by the West Balkan Economic Section (WBES) of the Hungarian Chamber of Commerce (MKIK) and by other SME organizations in Hungary, but naturally it should be strengthened and enlarged in the future.

At the same time fortunately, there are some innovative SMEs in Hungary. They have already started to look for market opportunities in the West Balkan countries.

Some examples of **the innovative Hungarian SMEs** that would like to work in the WB6 countries<sup>114</sup>:

- **Water and sewage management:** VIKUV Kft. in Cegléd and Aquaprofit in Budapest and in Nagykanizsa;
- **Innovative renewable energy production**, as geo-thermic energy for public heating, and for sport and tourism facilities, agriculture as the Árpád T.Sz. in Szentes, Solar Energy Production, as STS Kft. in Győr;
- **Traditional renewable energy**, as wind or solar energy as the IBERDOLA S.A, which is a Spanish company, having a Hungarian subsidiary in Budapest, of Solar Energy utilization, as the STS Kft. in Győr;

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<sup>112</sup> WIIW, (2018): Investment in the Western Balkans: New Directions and Financial Constraints in Infrastructure Investment, November, 2018. p. 5

<sup>113</sup> See: KSH (2021): Külföldi irányítású vállalkozások Magyarországon, 2020, retrieved: [https://www.ksh.hu/apps/shop.kiadvany?p\\_kiadvany\\_id=1069440&p\\_temakor\\_kod=KSH&p\\_lang=HU](https://www.ksh.hu/apps/shop.kiadvany?p_kiadvany_id=1069440&p_temakor_kod=KSH&p_lang=HU)

<sup>114</sup> Information is from the Chamber of Commerce of Budapest.

- **Smart city projects:** intelligent city lighting, with LED bulbs and computer aided projects, (LED bulbs can be obtained from Tungsram Co, which today is 50 % German, 50 % Hungarian owned company;
- **Passive houses,** for those projects' consortiums can be organized, as like the Archenerg Cluster in Szeged, (Co-President is Lakatosné Nemes Sarolta);
- **Traffic organization, electric buses and other vehicles,** for those projects' consortiums can be organized with the participation of Technical Universities in Hungary, or special clusters;
- **Education projects:** can also be initiated in Western Balkan, in Hungary there is already a relatively strong Association (MOTE) which tries to help foreign students in Hungary, and they would open in West Balkan direction. Hungarian higher educational institutes are eager to start cooperation with similar institutes around Hungary.

These companies have already started to take steps either through Chambers of Commerce (MKIK, or local organizations) to contact markets in the WB6 countries.

- **Tourism Development in the WB6 Countries in order to Reduce Greenhouse Generating Gas Emissions of Tourism**

As it is rather clear that long-haul airplane transported tourism is very polluting due to the high CO<sub>2</sub> emissions of the airplanes, which is rather difficult to reduce for the time being (electric driven airplanes have not been ready yet)<sup>115</sup>. But as WB6 countries could be reached much more easily by **(electric driven) trains**, these destinations could be regarded as alternative places of tourism from the EU region. It is also important to note that former Yugoslavia was always a popular **tourism destination** in Hungary and in the other V4 countries before 1990, consequently it will not be difficult to build back the popularity of these tourism destinations in the WB6 countries.

It would be important to identify **the target groups** which might find tourism in the WB6 countries attractive. It is clear that well off, high-income people in the EU who would like to present their wealth and importance for their neighbors by boasting their expensive holidays in the Pacific Ocean or elsewhere will not go to an affordable holiday in the WB6 countries, but middle-class tourists or even students from the USA, or India, China and other European Countries who have higher environment consciousness can be attracted to these countries.

Naturally for tourism activities important **tourism marketing** is needed in the western parts of the EU, in the USA and in other sender markets, where Balkan countries have not been as popular as in the V4 countries. Some tourism experts have already urged **the development of common tourism strategies for the WB6 countries**<sup>116</sup>, and it would be important for the WB6 countries to start joint, harmonized tourism marketing action.

It would be important to **have EU and V4 contributions to this tourism marketing actions**. It is also extremely important that besides tourism marketing, tourism infrastructure also should be developed, mainly **the transportation infrastructure** which could propose carbon neutral alternatives for air travel. In the WB6 countries it would be important to develop the following:

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<sup>115</sup> See: Várhelyi, T., Árvai, L. (2020): Toward Complex and Sustainable Tourism in Hungary. Polgári Szemle/Civic Review, Vol. 16, Special Issue.

<sup>116</sup> see: Porfido, E., 2020

- the railway systems, mainly the rail infrastructure systems to make possible higher speeds;
- the electrification of the railway lines in order to propose carbon neutral alternatives for the air travel;
- tourism marketing activities in the Western EU countries and in other sender markets, in order to convince peoples, there that the WB6 countries might be attractive alternatives for far away destinations, like Thailand, Bali, or Latin America.

It would also be important to develop tourism attractions in the WB6 countries, to develop local accommodations for the need of European well-off tourists and also to work on tourism marketing, as visitors from the Western European countries should be informed of the attractions in these countries and also should be convinced to go there.

To these developments it would be important to get monetary and technical supports of the European Union, and this might be easily available, as reduction of CO<sub>2</sub> is in the interest of Western Europe as well.

- **One of the most important preconditions of any meaningful development in the Balkan region: Development of High-Speed Railways**

**The high-speed railways** are the future of the Western Balkans, has been announced by the Ministers of Infrastructure lately. “The future lies in modern railways, in a digital environment, on which high-speed trains run connecting the cities of the Western Balkans”. That was the vision that the ministers of transport of the region stood for at the Western Balkans Rail Summit held on 13<sup>th</sup> September, 2021<sup>117</sup>. At the same event the Serbian Prime Minister, Ms. Ana Brnabic, said “her country’s goal was to completely modernize its rail network and connect with its neighboring countries and the wider EU by rail. Brnabic said Serbia has more than €6bn in rail projects planned on top of the more than €600m spent on rail since 2014, and added that the country aims to promote rail as the primary mode of transport for both passengers and freight.”<sup>118</sup>

Those are good, monumental, and perhaps palatial plans but it is not clear yet, when and how they could be realized and how they would be financed. At the same time, it is clear that for the attraction of TNCs, SME cooperation and large-scale tourism those infrastructure development plans are unavoidable, and without that speeding up economic development in the West Balkan region would be impossible. At the same time there were some doubts on the availability of **financial resources** needed for railway development in the Balkan region, but later on more optimist opinions have emerged, and several experts have referred to Chinese resources and the possible developments in the frame of Silk Road initiative. As BalkanInsights remarked in 2021, “BIRN (i.e.: Balkan Investigative Reporting Network) has identified **135 Chinese-linked projects** in the Balkans worth more than 32 billion euros. Few have come without controversy.” It is interesting, that though Peoples’ Republic of China has mobilized lots of financial resources to develop harbors, railways and even higher educational institutes, on the other hand there were also lots of critics of Chinese activities in the Balkan region. As it was mentioned in the Journal of Contemporary European Studies in 2020 by Nina Markovic Khaze and Xiwen Wang: “The simultaneous goals of following EU regulations, meeting membership conditions (for the candidate countries) and achieving speedy economic development may clash if the latter is based

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<sup>117</sup> See: <https://europa.rs/high-speed-railways-are-the-future-of-the-western-balkans/?lang=en>

<sup>118</sup> International Railway Journal, Sep 22, 202

on extensive cooperation with China that is at odds with EU technical standards and political requirements.”. In daily newspapers and online sites there have been harsh critical voices on the Chinese investments lately, but on the other side at the same time some other newspapers or online publications strongly defended Chinese investments in the region. For example, the Voice of America/Radio Liberty has attacked Chinese activity in the region, writing that “A new report has found a correlation between the influx of Chinese capital into a country and a negative impact on its environment and the quality of governance. The study published by the Bulgarian-based Center for the Study of Democracy on September 9, 2021, says Beijing’s growing economic footprint in Central and Eastern Europe over the last decade has coincided with a drop in legal and governance standards and raises concerns about the environment and rising debt levels in the region”<sup>119</sup>. But at the other side other sources have praised Chinese actions in the region.

It is difficult to decide who is right and who is wrong in this debate, but it is clear that there are strong political interests for and against of Chinese presence in the economy in the Balkan region. But anyhow, if there are too strong political involvements in some economic projects, it might have dangers for the future. That is why it might be more secure for the economic development of the West Balkan countries to rely on the help of the V4 countries, even if it might perhaps be less strong and rapid.

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## II.3. From the CEFTA to the EU single market: a view from Poland

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### Abstract

The signing of the Central European Free Trade Agreement (CEFTA) on December 21, 1992 in Krakow, Poland by four countries of the Central European Free Trade Agreement (the Czech Republic, Hungary, Poland and the Slovak Republic) allowed to lift some trade barriers and increase trade flows between partners, which in turn accelerated the process of integration of these countries with the European Union. After the founding countries of the original CEFTA agreement joined the European Union, Western Balkan countries continued their cooperation under the modified CEFTA 2006 agreement. The goal of the present chapter is sharing the experience of Poland in removing trade barriers and improvement of business environment with Western Balkan countries. It contains analysis of trade relations between Poland and WB6 countries, the impact of COVID-19 on economic relations, as well as discusses recovery and resilience perspectives. Also, it provides some recommendations for straightening regional cooperation as well as process of integration of the Western Balkan countries into the EU.

**Key words:** CEFTA, Poland, WB6, V4, trade, COVID-19 impact

### 1. Introduction - V4 role to strengthened European integration – a view from Poland (political and economic aspects)

According to the Eurobarometer survey published in October 2018<sup>122</sup>, more than **65% of Poles supported the enlargement of the European Union (EU)**, while fewer than 25% were against it. In comparison, in the EU, 43% of those surveyed were in favour of accepting new member states (MS), with 45% - against it. The integration of the Western Balkans (WB6) into the EU is of special importance for Poland in terms of enforcement of regional platforms for cooperation (e.g., Visegrad Group, V4, Three Seas initiative, and Berlin process). Since 2009, V4 foreign ministers have been organising **regular summits with partners from the Western Balkans**, attended by representatives of the European institutions and the EU Member States. On the initiative of the Polish presidency in 2016-2017, the Visegrad Network of Experts on the Rule of Law and Fundamental Rights for the Western Balkans was established. The main aim of the network is to support transformation processes in the region and help Western Balkan countries with their accession negotiations with the EU.

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<sup>122</sup> See Parlemeter 2018 – Taking up the challenge: From (silent) support to actual vote, European Parliament, available at <https://www.europarl.europa.eu/at-your-service/en/be-heard/eurobarometer/parlemeter-2018-taking-up-the-challenge>

**The Three Seas Initiative** was established in 2016 on the initiative of Poland (it was formally proposed by Poland and Croatia) gathering 12 EU Member States located between the Adriatic, Baltic and Black Seas. It includes neighbouring countries of the Western Balkans, namely Bulgaria, Romania, Austria, Croatia, Hungary, and Slovenia. The parties directly confirmed their openness to partnership with the Western Balkans in the final declaration of the Three Seas Summit, held at the beginning of June 2019 in Ljubljana, Slovenia.<sup>123</sup>

Another platform where the Western Balkan (WB) countries can cooperate with the V4 group is **the Berlin Process**, an intergovernmental cooperation initiative that includes a coalition of ten EU countries working together with WB countries for their development. The V4 group is represented only by Poland (since 2018). The platform was established by Austria, Croatia, Germany and Slovenia at the Conference of Western Balkan States in Berlin in 2014. Subsequently, France, Italy, UK, Poland, Greece and Bulgaria joined the initiative.<sup>124</sup>

Initially, the Berlin process was limited to economic and social areas of cooperation as well as bilateral disputes, but later the agenda was broadened. Currently, the EU Connectivity Agenda (within Western Balkans Investment Framework) is the key pillar of the cooperation that includes mutual initiatives on the reconstruction of seaports, renovation of railway lines and highways, construction of gas interconnectors, and development of digital infrastructure.<sup>125</sup>

At the 2017 summit in Trieste, the prime ministers of the Western Balkans adopted the **Multiannual Action Plan for the Regional Economic Area (MAP REA)**<sup>126</sup>, the aim of which was to gradually increase the free movement of goods, services, investments and workers in the region. In November 2020, at the summit in Sofia, a very ambitious Action Plan for the construction of a Common Regional Market Action Plan in the Western Balkans (CRM AP) was adopted as a continuation of efforts to even better integrate WB markets in line with the EU criteria. The implementation of the assumptions of CRM AP takes into account plans of serious financial support for the region from the EU in the coming years.

The program of the Polish presidency of the Berlin Process in 2019, adopted by the Council of Ministers, covered four pillars: **economy, connectivity, civic dimension (civil society, think tanks, youth, science, culture) and security**. Support for the young generation was a horizontal priority for the Polish presidency. A culmination of the Polish presidency was the Western Balkans Summit organized in Poznań on 3-5 July 2019.

**The Western Balkans Summit in Poznań** brought quite tangible results, specifically a connectivity package for the Western Balkans, worth over EUR 180 million, supporting key infrastructure projects in the region. The European Commission has signed letters of intent with financial institutions to provide support of EUR 20 million to small and medium-sized enterprises in the Western Balkans region. The countries of the South-East Europe have signed a Memorandum of Understanding to establish a Regional Institute for Sustainable Technologies

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<sup>123</sup> See Joint Declaration of the Fourth Summit of the Three Seas Initiative, [Three Seas Initiative, available at https://www.three.si/joint-declaration](https://www.three.si/joint-declaration)

<sup>124</sup> For more details see: <https://berlinprocess.info/>

<sup>125</sup> For more details see: <https://www.wbif.eu/sectors/connectivity-agenda>

<sup>126</sup> See: [https://www.rcc.int/priority\\_areas/39/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans--map](https://www.rcc.int/priority_areas/39/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans--map)

based in Montenegro. Moreover, a plan to develop a Regional Railway Strategy and support for the Declaration on Roma Inclusion was announced.<sup>127</sup>

Within the Program adopted by the Council of Ministers, **the Polish presidency** set itself ten goals. Some of them corresponded with four selected priorities, and some were of a cross-cutting nature, such as the aforementioned support to young people and the strengthening of civil society in the Western Balkans region. The distinguishing feature of the Polish presidency was the achievement of goals not only at the political but also cultural and economic level. Poland did not limit itself to organizing the Western Balkans summit, but was active throughout the year, undertaking projects in the area of development aid and promotion, as well as organizing large cultural events promoting the region.<sup>128</sup>

**Poland** contributed over EUR 1.5 million to infrastructure projects under the Western Balkans Investment Fund (WBIF), and offered students from the region scholarships at the European College in Natolin as well as within the Scholarship Program Banach.<sup>129</sup> Moreover, it provided significant financial support to the Regional Youth Cooperation Office (RYCO), which works for the benefit of the young generation, as well as to institutions supporting the fight against corruption and illegal arms trade.

Finally, Poland's activities in the Balkans have focused on supporting the aspirations of the countries in the region to the EU membership, also by means of **bilateral instruments**, such as the Skopje, Belgrade and Tiran Conferences and the Enlargement Academy. In addition, the Think Tank Forum initiated by Poland could become a permanent element of the Berlin process and involve WB6 countries, among others, in a comprehensive evaluation of economic relations at regional and trans-regional level.

## 2. CEFTA lessons learned and importance of regional trade and economic cooperation for European integration

The Central Europe Free Trade Agreement entered into force on 1 January 1993, Poland as one of the signatory states was given the unique opportunity to sustain and develop the intraregional trade with the Czech Republic, Hungary and Slovakia. The gradual elimination of trade barriers between CEFTA members resulted in free trade zone for industrial products and reduced tariffs on agricultural goods.

After the dissolution of the Council for Mutual Economic Assistance<sup>130</sup> in 1991, Poland along with other Eastern Europe countries was not a member of any regional trade organization, its role in the international trade was weak, and the stage of economic development as well as structural

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<sup>127</sup> See Ministry of Foreign Affairs of Poland, W Poznaniu o europejskiej perspektywie dla Bałkanów Zachodnich, 2019, available at <https://www.gov.pl/web/dyplomacja/w-poznaniu-o-europejskiej-perspektywie-dla-balkanow-zachodnich>

<sup>128</sup> See Western Balkans Summit Poznań. Chair's conclusions, available at <https://www.gov.pl/attachment/939f617f-daa7-4eac-afea-4c8a825e95d5>

<sup>129</sup> For more details see: <https://www.gov.pl/web/dyplomacja/polska-w-procesie-berlinskim>

<sup>130</sup> Council for Mutual Economic Assistance, also known as CMEA or Comecon, was an organization established in January 1949 to facilitate and coordinate the economic development of the eastern European countries belonging to the Soviet bloc. Comecon's original members were the Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. After the democratic revolutions in Eastern Europe in 1989, the organization largely lost its purpose and power, and as a result it was dissolved in 1991.

problems posed a significant challenge to the Polish authorities<sup>131</sup>. As a result, from this disruption in previous economic relations, the bilateral transfer of goods between countries of the region declined considerably. The Visegrad summit, taking place in 1991, and the cooperation within Visegrad structures more broadly, laid the groundwork for strengthening economic ties and formulating common approach towards the EU. The signing of a free trade agreement (FTA) was considered as a ground-breaking, since it was concluded in a region where self-reliance and the natural formation of economic links with neighbours had long been suppressed<sup>132</sup>. The first effects of the implemented liberalization rules were observable already in 1993, which had been the first year for several years<sup>133</sup> in which trade flows between Poland and other CEFTA founding countries did not decrease<sup>134</sup>.

The long-term outcomes of the provisions that were coming into force between 1993 and 2002<sup>135</sup> may be observed in the subsequent growth of trade volume between the countries in question (see Table 5 and Table 6). In 1993, Visegrad countries accounted for 4,8% of Polish exports and 3,7% of Polish imports, while ten years later in 2003, when all the provisions eliminating/reducing customs were in force, the share of Visegrad countries in total export and import increased up to 8% and 6,7%, respectively. The increase in significance of bilateral trade flows with CEFTA Visegrad countries occurred as a result of decreasing significance of other trade partners. Indeed, during those years, the Visegrad countries increased their importance in Polish imports at the cost of EU-15, which share decreased from 64.7% to 61.1%. In case of exports, the geographical distribution was more volatile, while the share of CEFTA countries was constantly expanding, the EU-15 share and rest of the world share alternately increased and decreased, eventually resulting in a decline of 0.4 percentage points and 2.8 percentage points for the EU-15 and rest of the world, respectively.

The dominant partner country among CEFTA founding members was the Czech Republic, which constituted half of total CEFTA share in Polish trade flows over the whole decade. Molendowski<sup>136</sup> underlines that when we take into consideration trade flows with other, non Visegrad, CEFTA members<sup>137</sup>, the dominant role of the Czech Republic is preserved. He states that the geographical distribution of Polish trade with CEFTA countries was primarily shaped by historical relations, short geographical distance and the year of joining CEFTA<sup>138</sup>. The countries that joined CEFTA in later years, such as Bulgaria and Romania, did not constitute a major role in Polish trade flows; the volume of traded goods did not increase to the same degree as in case of the Czech Republic

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<sup>131</sup> Dziuba, R. CEFTA as a proven path to accession to the European Union. Comparative Economic Research. Central and Eastern Europe, 16(2), 63–78, 2013, available at <https://doi.org/10.2478/cer-2013-0012>

<sup>132</sup> Council of Europe Committee on Economic Affairs and Development, Doc. 8163 Central European Free Trade Agreement (CEFTA) Report, 9 July 1998, available at <http://assembly.coe.int/nw/xml/XRef/X2H-Xref-ViewHTML.asp?FileID=8604>

<sup>133</sup> Since 1989, when communist rule in Poland ended.

<sup>134</sup> Molendowski, E., Proces tworzenia strefy wolnego handlu w ramach Środkowoeuropejskiej umowy o wolnym handlu (CEFTA) - najważniejsze skutki dla Polski. Zeszyty Naukowe / Akademia Ekonomiczna w Krakowie, (nr 721), 2006, pp. 67–84

<sup>135</sup> The provisions reducing tariffs were implemented in several steps for particular groups of goods.

<sup>136</sup> Molendowski, E., Proces tworzenia strefy wolnego handlu w ramach Środkowoeuropejskiej umowy o wolnym handlu (CEFTA) - najważniejsze skutki dla Polski. Zeszyty Naukowe / Akademia Ekonomiczna w Krakowie, (nr 721), 2006, pp. 67–84

<sup>137</sup> Three countries joined CEFTA at later stage: Slovenia (1 January 1996), Romania (1 July 1997), Bulgaria (1 January 1999).

<sup>138</sup> Molendowski, E., Proces tworzenia strefy wolnego handlu w ramach Środkowoeuropejskiej umowy o wolnym handlu (CEFTA) - najważniejsze skutki dla Polski. Zeszyty Naukowe / Akademia Ekonomiczna w Krakowie, (nr 721), 2006, pp. 67–84

or Hungary. The highest dynamics of bilateral trade growth was reported for founding members of CEFTA.

Table 5. Geographical distribution of the Polish export in selected years (%)

Partner	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	2,4	3,55	3,8	4	4,3	5,5	5,8	6,52	6,16
Hungary	1,2	1,49	2,1	2,4	2,6	2,9	2,7	2,66	2,77
Slovakia	1,2	1,22	1,4	1,6	1,8	2,2	2,3	2,52	2,61
<b>CEFTA V4</b>	<b>4,8</b>	<b>6,26</b>	<b>7,3</b>	<b>8</b>	<b>8,7</b>	<b>10,6</b>	<b>10,8</b>	<b>11,7</b>	<b>11,54</b>
EU-15 <sup>139</sup>	69,2	64,31	69,9	68,8	67,3	62,9	64	67,12	68,12
Rest of the world	26	29,43	22,8	23,2	24	26,5	25,2	21,18	20,34

Source: World Bank, UN Comtrade database, National Statistical Yearbooks.

Table 6. Geographical distribution of the Polish import in selected years (%)

Partner	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	1,9	3,12	3,2	3,4	3,8	3,9	4	3,35	3,39
Hungary	0,9	1,36	1,6	1,8	2	2,2	1,9	1,64	1,64
Slovakia	0,9	1,23	1,5	1,5	1,6	1,9	2,4	1,79	1,83
<b>CEFTA V4</b>	<b>3,7</b>	<b>5,71</b>	<b>6,3</b>	<b>6,7</b>	<b>7,4</b>	<b>8</b>	<b>8,3</b>	<b>6,78</b>	<b>6,86</b>
EU-15 <sup>140</sup>	64,7	63,88	61,1	61,1	65,6	63,3	61,8	51,89	50,04
Rest of the world	31,6	30,41	32,6	32,2	27	28,7	29,9	41,33	43,1

Source: World Bank, UN Comtrade database, National Statistical Yearbooks.

As shown in Table 7, in 2003 the highest value of traded goods was exported to the Czech Republic, 5 times more than in 1994. Although, the highest value of traded goods was accounted for the Czech Republic, the most dynamic upsurge was noted for Hungary. Between 1994 and 2003, the value of exported goods increased over 7 times. Similar dynamics characterized value of imported goods, with the highest increase for Hungary, but the difference between countries were less pronounced (4.8 times more for Czech Republic and 5.7 times more for Hungary). However, the steep increase in the value of traded goods with Hungary was not high enough to take a place of Czech Republic as a dominant partner. Overall, the value of intra-CEFTA V4 trade was 5 times higher in 2003 than in 1994.

Table 7. Trade flows between Poland and V4 CEFTA members in 1994 and 2003, (mln \$)

Partner	Export		Import	
	1994	2003	1994	2003
Czech Republic	429,4	2136,3	474,5	2300,7
Hungary	169,2	846,7	185,3	1028,5
Slovakia	172,5	1270,9	210,4	1199,7
<b>CEFTA V4</b>	<b>771,1</b>	<b>4253,9</b>	<b>870,2</b>	<b>4528,9</b>

Source: UN Comtrade database

CEFTA was signed with the intention to eliminate trade barriers and intensify trade links between signatory countries, and eventually facilitate their integration with EU countries. Brief analysis of statistical data proves that the first goal was achieved, since the trade cooperation between CEFTA founding countries increased significantly. The empirical studies also support this

<sup>139</sup>EU-24 (2019).

<sup>140</sup>EU-24 (2019).

conclusion, Adam et al. finds that in the first years of operation<sup>141</sup> CEFTA was effective in stimulating trade between its members, and it sustained and developed intraregional trade<sup>142</sup>. Cieřlik and Hagemeyer analysed the whole period<sup>143</sup> during which the agreement had been into force. They estimated two sets of models; for the whole group of Central and Eastern Europe countries, and for given CEE countries, among which Poland<sup>144</sup>. The estimation results for the whole CEE group indicated that **CEFTA**, as well as the bilateral agreement signed by CEFTA and other sub-regional intra-CEE organisation – **BAFTA**<sup>145</sup>, contributed to **the stimulation of both exports and imports** of Central and Eastern Europe. It shows that beneficial economic impacts of CEFTA for signatories lay not only in the participation in the intra-CEFTA trade, but also in the intra-organisational trade agreements that were signed by CEFTA. The estimation results of country-specific models show that the CEFTA agreement contributed to the expansion of both imports and exports in Poland. However, that was not the case for all V4 countries. **The liberalization** implemented with the CEFTA agreement contributed to the increased volume of exports in Czech Republic and Hungary, while in case of imports the volume increased only in Slovak Republic. Despite this uneven impact of CEFTA on trade flows of V4 countries, researchers concluded that institutionalized trade liberalization on average had been more effective in stimulating trade than bilateral free trade agreements.

The empirical results of both abovementioned studies present the robust evidence that the **CEFTA succeeded in trade liberalization in line with its goals**. Moreover, the still growing share of the Polish trade flows (specifically Polish exports) with V4 countries (See **Table 5**– in 2015 and 2019 it exceeded 10% of total Polish export) allows to conclude that trade ties established during CEFTA, now developed in the framework of EU free movement of goods stemming from the Treaty on the Functioning of the European Union, stood the test of time.

When it comes to more complex expected consequences of CEFTA, namely facilitated integration with EU countries, several studies were carried out to find the beneficial effects of CEFTA for the subsequent accession to the European Union. Dziuba states that “CEFTA had a great influence in strengthening the overall trust and cooperation between its members and in contributing to the socio-political stabilization of the region, which was a significant aid in helping the CEFTA countries realize their fundamental aim – preparing for accession to the European Union.”<sup>146</sup>. WIIW finds that the post-EU accession acceleration of trade (see **Table 5** – ex-CEFTA V4 share of Polish exports continued increasing after 2004) cannot be explained by the removal of trade barriers after 2004, since most of them were eliminated earlier<sup>147</sup>, but rather by the gradual

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<sup>141</sup>Data used in the analysis covered the period of 1996–2000.

<sup>142</sup> Adam, A., Kosma, T.S., and McHugh, J., Trade Liberalization Strategies: What Could Southeastern Europe Learn from CEFTA and BFTA. IMF Working Paper 239, Washington, DC: IMF, 2003. Central European Free Trade Agreement. Available at <https://cefta.int/>

<sup>143</sup>Data used in the analysis covered the period of 1993–2004.

<sup>144</sup> Cieřlik, A., Hagemeyer, J., The Effectiveness of Preferential Trade Liberalization in Central and Eastern Europe, *The International Trade Journal*, 25:5, 516-538, 2011, available at <http://dx.doi.org/10.1080/08853908.2011.604298>

<sup>145</sup> The Baltic Free Trade Agreement (BFTA or BAFTA) was a trilateral agreement on trade between Estonia, Latvia and Lithuania signed in 1994. In June 1996, the BFTA was extended to include agricultural trade, with effect from 1 January 1997. The agreement permits the removal of tariffs on all agricultural and food products of Baltic origin. The Baltic Free Trade Agreement ceased to exist in 2004, when all three states became members of the European Union. Source: <https://stats.oecd.org/glossary/detail.asp?ID=174>.

<sup>146</sup> Dziuba, R. CEFTA as a proven path to accession to the European Union. *Comparative Economic Research. Central and Eastern Europe*, 16(2), 63–78, 2013, available at <https://doi.org/10.2478/cer-2013-0012>

<sup>147</sup> The customs on industrial products were liberalized within CEFTA, but the tariffs on agricultural products were eliminated completely on the accession to the EU in 2004.



process that took place during the CEFTA period<sup>148</sup>. During these several years, the companies operating in intra-CEFTA trade may have developed more geographically diversified sales and procurement strategies that later contributed to the impetus that was given to new EU MS after the accession. The researchers underlined that “the important developments, primarily **specialization**, took place gradually, starting prior to and continuing after the EU accession. That does not exclude that the removal of administrative and other, mainly invisible obstacles to free trade on the day of accession did not support the upswing of mutual trade, but it could not be the major force behind the phenomenon as it took place in bilateral Visegrad–EU-15 trade as well, without producing a spectacular upturn in that relation.”. Hence, it may be concluded that if not for the liberalization rules introduced with CEFTA in pre-accession period, **the integration with old EU MS** would not be as smooth.

The conclusions stemming from this short overview of the Polish perspective on the profits of participation in CEFTA, may suggest that the example of successful cooperation of Visegrad countries under CEFTA can potentially reflect the opportunities waiting for the Western Balkan countries in their intraregional free trade agreement, namely establishing **the Common Regional Market** building on EU rules and standards. The CEFTA for V4 had demonstrated that this kind of integration may become a permanent part of multilateral cooperation, not only in trade, but also as a stabilizing economic factor<sup>149</sup>. The history of the countries that were part of the former Yugoslavia, which was dissolved and the newly independent countries had to face the **challenges of forming new international trade ties** and undertake the structural reforms, resembles to some extent, as stated by WIIW “the ambivalent mutual relations of the Visegrad Group countries after the political changes in 1989/1990 and the dissolution of Czechoslovakia in 1993<sup>150</sup>. Another similarity is the simultaneous liberalization of trade with the EU and within the old and new CEFTA, respectively.” **The historic relations and the geographical proximity** (common borders), according to Molendowski, may pose a key success factor for all free trade agreements, which applies also to WB case<sup>151</sup>.

The results from the study conducted by Cieřlik and Hagemeyer show that on average **institutionalized trade liberalization** had been more effective in stimulating trade than bilateral free trade agreements<sup>152</sup>. Moreover, small countries are likely to expand trade through liberalization towards larger trade partners, which might be a case also for institutionalized trade agreements between WB and larger partners, such as the EU.

The effects of trade liberalization agreement were also analysed in the study commissioned by the European Commission (DG Trade, 2021)<sup>153</sup>. The analysis underlined the importance of **non-trade barriers (NTB)** as a factor impeding regional trade integration. While they have not been

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<sup>148</sup> WIIW: Foster, N., Hunya, G., Pindyuk, O., Richter, S., Revival of the Visegrad Countries’ Mutual Trade after their EU Accession: a Search for Explanation. wiiw Research Report No. 372, July 2011, available at <https://wiiw.ac.at/revival-of-the-visegrad-countries-mutual-trade-after-their-eu-accession-a-search-for-explanation-p-2449.html>

<sup>149</sup> Dziuba, R. CEFTA as a proven path to accession to the European Union. Comparative Economic Research. Central and Eastern Europe, 16(2), 63–78, 2013, available at <https://doi.org/10.2478/cer-2013-0012>

<sup>150</sup> WIIW: Foster, N., Hunya, G., Pindyuk, O., Richter, S., Revival of the Visegrad Countries’ Mutual Trade after their EU Accession: a Search for Explanation. wiiw Research Report No. 372, July 2011, available at <https://wiiw.ac.at/revival-of-the-visegrad-countries-mutual-trade-after-their-eu-accession-a-search-for-explanation-p-2449.html>

<sup>151</sup> Molendowski, E., Proces tworzenia strefy wolnego handlu w ramach Środkowoeuropejskiej umowy o wolnym handlu (CEFTA) - najważniejsze skutki dla Polski. Zeszyty Naukowe / Akademia Ekonomiczna w Krakowie, (nr 721), 2006, pp. 67–84

<sup>152</sup> Cieřlik, A., Hagemeyer, J., The Effectiveness of Preferential Trade Liberalization in Central and Eastern Europe, The International Trade Journal, 25:5, 516–538, 2011, available at <http://dx.doi.org/10.1080/08853908.2011.604298>

<sup>153</sup> [https://trade.ec.europa.eu/doclib/docs/2021/september/tradoc\\_159794.pdf](https://trade.ec.europa.eu/doclib/docs/2021/september/tradoc_159794.pdf)



addressed extensively in the present chapter, it is important to note that NTB may pose a challenge to implementation of FTAs between WB and the EU, Poland or any other partner as well. On the whole, NTB are taken into account in FTAs to a limited extent, even though not addressing them may reduce the added value stemming from the FTA in the long-term. The authors of the abovementioned report recommend to focus on the most pressing NTB (for example, non-automatic import licences; un-notified technical regulations) and decreasing the trade-distorting nature of the NTB. That would mean, for example, simplification of procedures, agreeing on internationally recognised standards and avoiding unnecessary duplication of conformity assessments or other administrative procedures. The support for those type of provisions should be promoted also among WB to maximize the opportunities of FTAs, preceded by the identification of specific NTB present in the region.

The proven successful path of Polish accession to the EU through, *inter alia*, joining CEFTA and sustaining significant trade flows with V4 countries even after becoming an EU MS, allow to conclude that the trade ties formed by current CEFTA signatories<sup>154</sup> with Poland in the long run may form the important step in the accession process to the EU of all Western Balkan countries.<sup>155</sup>

**The current bilateral trade relations between Poland and CEFTA countries** differ in terms of volume, type and value of traded goods. The highest trade turnover in recent 5 years was reported for Serbia (see Table 13), also the value of both exported and imported goods in the whole 5-year period exceeded the values reported for other WB countries. In 2020, effects of slowing down induced by the Covid-19 pandemic are visible in the slight decrease of Polish trade turnover with Bosnia and Herzegovina, Montenegro and Serbia, however, the trends observable for previous years suggested the increasing importance of all CEFTA countries in Polish trade flows (see Tables 4-9 below).

Table 8. Poland and Albania trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	45,6	51,3	56,3	66,5	62,8
Import	71,2	128,1	261,9	261,9	35,8
Turnover	55,2	68,9	73,7	92,1	98,6
Balance	36,1	33,7	39,1	40,9	62,8

Source: data according to the Central Statistical Office, Poland (GUS)

In 2020, Polish exports to Albania amounted to EUR 62.8 million, which means a decrease by 6.6% compared to 2019. Imports from Albania amounted to EUR 35.8 million, which means its increase by 39.9%. The trade turnover in 2020, according to GUS data, amounted to EUR 107.1 million, which means that it increased by 7.1% compared to 2019. Commodity structure of Polish exports to Albania in 2020 was the following cigarettes (19.2%), sanitary napkins, diapers (7.7%), sugar (4.8%), chocolate and other cocoa-containing products (4.3%), refrigerator-freezers (4%), washing machines (3.1%), car parts and accessories (3%), frames, mattresses (1.8%). Commodity structure of Polish imports from Albania in 2020 was the following footwear (44.9%), clothing (17.5%), frozen fish (3.6%), plants used in cosmetics and pharmacy (2.8%), fresh fish (1.7%), AC motors (1.6%).<sup>156</sup>

<sup>154</sup> The current CEFTA signatories include Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia and Kosovo. Source: <https://cefta.int/>.

<sup>155</sup> European Commission, 2021 *Enlargement package: European Commission assesses and sets out reform priorities for the Western Balkans and Turkey*. Source: <https://ec.europa.eu/neighbourhood-enlargement/news/2021-enlargement-package-european-commission-assesses-and-sets-out-reform-priorities-western-en>.

<sup>156</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with Albania, 2021, available at <https://www.gov.pl/attachment/bb9f0bb1-d450-4622-bb05-6781c16ac8e3>

Table 9. Poland and Bosnia and Herzegovina trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	199,7	243,6	240,1	239,6	188,5
Import	48,5	62,3	71,1	79,7	89
Turnover	248,3	305,95	311,2	319,4	277,5
Balance	151,2	181,3	169,1	159,9	99,5

Source: data of the Central Statistical Office, Poland (GUS)

The statistics for 2020 indicate a decrease in the mutual exchange of goods. Mutual turnover amounted to EUR 277.5 million (decrease by 13% compared to 2019). Polish exports amounted to EUR 188.5 million (decrease by 21%), while imports from BiH - EUR 89 million (increase by 11.7%) compared to 2019). The main commodity items in Polish exports were furniture (4.6%), textiles (3.8%), sanitary napkins (3.7%), coke and semi-coke (3%), beef (2.5%), copper wire (3.1%), natural gas (2.5%), chocolate (2.1%). The main commodity items in Polish imports were chemical industry products (20.1%), mineral products (13.1%), non-precious products (12.4%), textiles (11%), mechanical and electrical equipment (7.5%), and wood with a thickness of more than 6 mm (5.5%).<sup>157</sup>

Table 10. Poland and Kosovo trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	57,0	57,0	64,6	76,6	76,6
Import	2,3	10,1	10,1	10,1	5,2
Turnover	59,3	59,3	59,3	86,6	86,6
Balance	86,6	86,6	86,6	86,6	86,6

Source: data of the Central Statistical Office, Poland (GUS)

In 2020, mutual trade turnover reached EUR 80 million, including Polish exports to Kosovo - EUR 74,8 million (a decrease by 2,7% compared to 2019). Imports from Kosovo, on the other hand, reached the value of EUR 5.2 million (a decrease of 48.3% compared to 2019). In 2020, Polish exports were dominated by cigarettes (20.1%), plastics (5.5%), track construction material (4.3%), sugar (4.2%), poultry meat (3.8%), beef (3.7%), and chocolate (3.4%). Whereas, Polish imports were dominated by zinc ores and concentrates (80.1%), footwear (9.9%), frozen fruit (5.8%), plastic boards and sheets (1.5%).<sup>158</sup>

Table 11. Poland and Montenegro trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	46,7	46,7	30,0	46,7	33,6
Import	12,0	16,8	22,5	16,6	14,1
Turnover	54,0	62,0	52,5	63,3	47,7
Balance	30,0	28,4	7,4	30	19,5

Source: data of the Central Statistical Office, Poland (GUS)

The statistics for 2020 indicate a significant decrease in the exchange of goods. Mutual turnover amounted to EUR 47.7 million (a decrease of 14.7% compared to 2019). Polish exports amounted to 33.6 EUR million (decrease by 28% compared to 2019), while imports from Montenegro - EUR 14.1 million (decrease by 15.4 compared to 2019). In 2020, Polish exports were dominated by

<sup>157</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with Bosnia and Herzegovina, 2021, available at <https://www.gov.pl/attachment/74ff91c0-26c6-4e6f-b320-f0adec83897e>

<sup>158</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with Kosovo, 2021, available at <https://www.gov.pl/attachment/a7a264f6-0ccd-4cf5-8efa-56766a521648>

yachts (19.5%), sanitary napkins (4.6%), processed food (3.7%), trucks (3.6%), furniture (3.4%), chocolate (2.6%), and telephone equipment (2.3%). In 2020, imports from Montenegro were dominated by zinc ores and concentrates (79.4%), aluminium ores and concentrates (9.5%), electric lighting equipment (5%), bombs, grenades, torpedoes (1.7%), aluminium waste and scrap (1.4%).<sup>159</sup>

Table 12. Poland and North Macedonia trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	71,6	123,1	110,4	110,4	110,8
Import	71,2	128,1	261,9	261,9	285,9
Turnover	142,8	251,2	303,2	376,7	396,8
Balance	0,4	-5,0	-82,3	-146,94	-175,1

Source: data of the Central Statistical Office, Poland (GUS)

Exports to North Macedonia were EUR 110.8 million in 2020, a decrease of 4 points compared to 2019. Imports from Macedonia increased by 9% and amounted to EUR 285.9 million. Trade turnover in 2020 amounted to EUR 396.8 million, which means that they increased by 5.3% compared to 2019, in which they amounted to EUR 376.8 million. In 2020 the following groups of goods had the highest share in Polish exports to Macedonia, namely meat and poultry offal (6%), air-conditioning equipment (4.9%), sugar (4.8%), beef (3. %), textiles (2.5%), tobacco (2.5%). Commodity structure of Polish imports from Macedonia in 2020 were the following catalysts based on noble metals (63.5%), zinc ores and concentrates (9.2%), unprocessed tobacco (6.5%), furniture (2.4%), cabbage, cauliflower (2.1%), glass fibers (1%).<sup>160</sup>

Table 13. Poland and Serbia trade relations, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	698,3	807,3	821,8	833	780,9
Import	254,2	330,7	381,3	486	525,4
Turnover	952,5	1 138,0	1 203,1	1 319	1 306,3
Balance	441,1	476,5	440,5	346,5	255,4

Source: data of the Central Statistical Office, Poland (GUS)

The data for 2020 shows a slight decrease in Polish-Serbian trade by 0.5% compared to 2019. Mutual trade turnover reached the value of EUR 1 306.3 million. Polish exports amounted to EUR 780.9 million (a decrease by 5.7% compared to 2019). Imports - EUR 525.4 million (an increase by 8.3% compared to 2019). The most important items of Polish exports in 2020 were paper and cardboard (3.3%), car parts and accessories (3.3%), sanitary napkins (3%), other furniture (2.3%), self-ignition (2.1%), coke and semi-coke (1.8%). The most important items of Polish imports in 2020 were electrical apparatus (11.8%), insulated wires, electric cables (9.6%), new pneumatic rubber tires (5.7%), rolled products (5.1%), for washing (4.2%), paper (3.9%), frozen fruit (3.2%).<sup>161</sup>

<sup>159</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with Montenegro, 2021, available at <https://www.gov.pl/attachment/2dc8d44c-9467-4743-9076-6b8e14dd036a>

<sup>160</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with North Macedonia, 2021, available at <https://www.gov.pl/attachment/607e4973-12aa-4d39-bd6f-04e1777d22e5>

<sup>161</sup> Ministry of Development, Labour and Technology of Poland, Economic cooperation with Serbia, 2021, available at <https://www.gov.pl/attachment/6486d8e7-13f5-4acd-aa7d-25ba91568d6c>

### 3. V4, EU27 and economic perspective today (post COVID 19 recovery and resilience plan, sense of belonging, challenges of solidarity)

**The COVID-19 pandemic** has sharply highlighted the need to rethink EU's participation in the global value chains, mostly in terms of the geographic location of its suppliers, as the main prerequisite for sustainability and resilience (closely related to the question of EU's Open Strategic Autonomy). The pandemic showed a high level of economic and trade interconnectivities between the WB and EU countries. The European Union remains a leading trade partner for all Western Balkan countries, accounting for about 70% of WB total trade. However, this relationship is not a balanced one, with WB constituting just 1.4% of EU's trade. As it is shown in the table below, COVID-19 pandemic adversely affected the trade flow between the EU and WB countries, which in 2020 experienced a 7.8% decline y/y. That year, the European Union imported from the Western Balkans mainly machinery and appliances (24.9%), metals (11.4%), and chemicals (10%). The EU exported machinery and appliances (21.9%), chemicals (11.5%), metals (9.3%).<sup>162</sup>

Table 14. EU trade flows and balance with Western Balkan countries, annual data 2016-2020 (EUR mln.)

	2016	2017	2018	2019	2020
Export	24 896	28 089	30 604	31 902	29 263
Import	17 419	19 885	22 271	22 981	21 318
Turnover	42 315	47 947	52 875	54 883	50 581
Balance	8 204	8 204	8 333	8 921	7 945

Source: Eurostat and Directorate-General for Trade, available at [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_western-balkans-6\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf)

Regional organisations such as the Central European Free Trade Area, Regional Cooperation Council, and Energy Community and Transport Community play an important role in strengthening regional economic integration and development of a single regional market. In addition, EU funded projects positively affect the quality of the EU-WB relations. An illustrative example of such project can be **the System for Exchange of Excise Data**<sup>163</sup>, which was updated in order to provide an early identification of trucks carrying goods and let them cross the border faster via the green lanes.

**The green lanes** were established at the early stage of the COVID-19 pandemic in order to prevent shortage of medical supplies and goods, and mitigate distortions to trade caused by various measures taken to restrain COVID-19 outbreak. On 25 March 2020, the Permanent Secretariat of the Transport Community and CEFTA approved a joint proposal to extend the concept of "green lanes" to the Western Balkans in order to ensure the fast flow of goods in the region.<sup>164</sup> The European Commission intends to include the region into implementation of its

<sup>162</sup> <https://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/>

<sup>163</sup> See SEED (System for Exchange of Excise Data), available at <https://data.europa.eu/data/datasets/seed-system-for-exchange-of-excise-data?locale=en>.

<sup>164</sup> See Joint proposal prepared by the Permanent Secretariat of the Transport Community and the CEFTA Secretariat to facilitate the transport and trade of essential goods within the Western Balkans, available at <https://www.transport-community.org/wp-content/uploads/2020/03/Joint-TCT-CEFTA-proposal-green-corridors.pdf>.

“Joint European Roadmap towards lifting COVID-19 containment measures”<sup>165</sup>. Beyond the pandemic emergency and its related restrictions, the Commission is committed to address the structural bottlenecks at the borders between WB and EU countries. It is estimated that approximately 80% of trucks are using CEFTA green corridors and that 20% of essential goods is being carried through green lanes (in 2020, about 500 000 trucks benefited from the green routes).<sup>166</sup>

As the key achievements of the recent years, **CEFTA green lanes have been extended** to all road Border Crossing Points/Common Crossing Points (BCPs/CCPs) and the process of extending them to rail BCPs/CCPs in the region is ongoing (for specific group of products). As a result of Sofia Summit in 2020, CEFTA countries expressed strong interest in extending the green lanes with all neighbouring EU countries. It is estimated that both parties to CEFTA and the EU member states will benefit from this initiative by reducing waiting time of trucks at border points (presently, the average waiting time at some points exceeds 2 hours). At the Berlin Summit in 2021, Greece Prime Minister Kyriakos Mitsotakis stated that the green lanes will be extended to include Greece, a move which will be considered a pilot before including other Member States as well. A possibility to apply the same concept between WB and Italy will be further examined.<sup>167</sup>

Another contribution to COVID-19 recovery is an **e-commerce platform for CEFTA countries**, which will be launched with the support of German development agency Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH<sup>168</sup>. The platform has already been launched in North Macedonia in 2020 and will be expanded in near future to Albania, Bosnia and Herzegovina, Moldova, Montenegro, Serbia and Kosovo. Thanks to the platform, one set of rules will be established for all markets, effectively ensuring that no country-specific authorisation will be needed for digital businesses, and thus costs related to compliance, regulations, courts and enforcement will be reduced.

An additional tool that promotes regional trade and provides new opportunities for economic operators in the region is a **system of diagonal cumulation**<sup>169</sup> of origin between the EU and WB countries. The system provides opportunities for participating states to use materials originating in one or several partners of the zone for manufacturing of final goods and export them to any member state (the EU, WB and Turkey) under benefited conditions.

**The mutual recognition of AEO (Authorised Economic Operator) programs** in CEFTA will foster cooperation between WB countries and other international partners. As of January 2022, North Macedonia and Serbia are in the process of validation of their AEO programs. Once validations are adopted, the AEO programs of these two countries will be mutually recognized by all CEFTA Parties. The recognition of AEO within the CEFTA will provide easier custom clearance procedures and strengthen security of supply chains. Other WB countries are also encouraged to

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<sup>165</sup> See Joint European Roadmap towards lifting COVID-19 containment measures 2020/C 126/01, available at <https://op.europa.eu/pl/publication-detail/-/publication/14188cd6-809f-11ea-bf12-01aa75ed71a1/language-en>.

<sup>166</sup> See CEFTA takes part in Western Balkans Summit in Berlin, available at <https://cefta.int/news/cefta-takes-part-in-western-balkans-summit-in-berlin/>.

<sup>167</sup> *Ibidem*

<sup>168</sup> See GIZ: Improved implementation of the reform agenda for trade and competitiveness in South-East Europe, available at <https://www.giz.de/en/worldwide/20321.html>.

<sup>169</sup> See Commission notice concerning the date of application of the protocols on rules of origin providing for diagonal cumulation of origin between the European Union, Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia (1) and Turkey, available at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:215:0027:0028:EN:PDF>



go through the validation process, as mutual recognition will boost economic cooperation and provide benefits for all CEFTA countries.

**The integration of WB countries into the EU** is a slow process that requires profound efforts from all parties. The Berlin process offers the possibility of fostering the EU's relations with the Western Balkans, as well as deepening economic ties between the countries of the region for its development. So far, it has achieved results in some areas of regional cooperation (for instance, RYCO), although there are still a number of initiatives that should be implemented (for example, AOE certifications, e-commerce platform, RECOM<sup>170</sup>). However, unfortunately, the expected **indirect effect** of the process, which was to accelerate European integration, has still not materialized.

The above-mentioned measures are primarily aimed at transforming the WB countries into effective market economies, which are able to integrate into the EU's single market. Moreover, these steps will improve the business climate and contribute to increasing trade flows within the region and with the European Union. To support the WB countries' intentions towards the EU integration, the European Commission proposed to extend for additional 5 years the Autonomous Trade Measures granted by the EU to Western Balkans countries until 2025.

#### **4. V4 to WB6 – recommendations for regional cooperation within European integration process**

- **Engage more actively in regional initiatives**, such as Berlin Process and Three Seas Initiative, and intensify collaboration with **V4 countries** in wide range of areas.
- **Make better use of the EU programs** aimed at developing regional infrastructure (e.g., expanding green lanes) and improving digital tools (launching the e-commerce platform for CEFTA countries).
- Mutually recognise Authorized Economics Operators (**AEOs**);
- **Strengthening cooperation between the Western Balkans and EU bodies**, for example, within the Regional Cooperation Council that is to negotiate the inclusion of the Central European Free Trade Agreement (CEFTA) in the area of European free trade agreements with other parts of the world.
- **Focus on non-trade barriers within existing free trade agreements** and take appropriate step to reduce their impact on trade flows between WB and other partners. Identify and develop a common approach towards the most pressing types of NTB.
- Take appropriate steps towards **inclusion of the region into the common area of competition policy**, after the adoption of an appropriate section of the EU law by all Western Balkan countries. This will enable the protection of European companies in the CEFTA area and will enable the regulation of the activities of companies from the Western Balkans group in the EU + CEFTA area.

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## II.4. From the CEFTA to the EU single market: a view from Slovak Republic

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**Karol MORVAY<sup>172</sup>**

### Abstract

We present an analysis of the Slovak experience with the integration path of the Slovak economy from Central Europe Free Trade Area (CEFTA) to the EU and subsequent operation in the EU. The integration process was more turbulent than in the other V4 countries. The case of Slovakia shows how important it is not only to "train" the economy for free trade but also to set boundaries for policymakers in the pre-accession phase. The creation of a quality institutional framework must not remain in the shadow of trade liberalization. Eventually, the story of Slovakia also shows that after years of being integrated into the EU, the competitive advantage on which the economy relied at the time of its accession may abruptly disappear.

**Keywords:** Economic integration, the Slovak economy, external imbalance, openness, competitiveness

### 1. Introduction

In certain stages, the development of the Slovak economy was specific - different from the development in other V4 countries. Slovakia was in the position of integration outsider for some time. On the contrary, later on, it was also considered a reform leader. Successful integration gave the economy significant growth stimulus. Approximately 10-15 years after EU accession, problems emerged with further competitiveness and further catching up with more advanced economies. Several phenomena emerge from these transitions that are worth noting for the correction of integration strategies in other former transition countries. Given the focus of this publication, we do not address here the full scope of integration issues but rather pay attention mainly to phenomena related to the international movement of goods (and factors of production) and competitiveness.

### 2. Lessons from the preparatory phase: Slovakia's turbulent journey from CEFTA to the EU

The progress in the preparatory phase was different from the other V4 countries. It was less straightforward with dramatic twists and turns. It can be divided into two phases - qualitatively distinctly different. The breakpoint between them was formed by the change of the political elite after the dramatic parliamentary elections of 1998.

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### *Phase 1: Slovakia as a "problematic element" in the integration process in Central Europe*

Especially in the second half of the 1990s, under the influence of authoritarian tendencies, Slovakia was developing into a rather hybrid economy with a hardly identifiable direction. The intertwining of political and economic power significantly distorted the economy. Social and economic reforms stalled. This placed the country outside the mainstream of integration for a time. Although Slovakia was a **member of CEFTA** and was formally preparing to join the EU, in practice it lagged behind. It was already evident that membership of a free trade area alone (such as CEFTA) is not and cannot be sufficient preparation for accession to a mature integration entity such as the EU. It was necessary to put barriers to political manipulation of the economy - to avoid the kind of distortions that have complicated Slovakia's progress.

The Slovak economy had already a **relatively low level of international trade protection** at the beginning of the integration process. Removing trade barriers was not a major issue. Rather, currency devaluations, import surcharges and non-tariff restrictions (so-called import certificates – rather an administrative obstruction for imports) were used to temporarily boost competitiveness at this stage. These instruments were repeatedly implemented due to chronic external imbalance problems.

In the pre-accession phase, Slovakia had significant problems with a trade or **current account deficits (Error! Reference source not found.)**. These problems reached their peak in the period 1996-1998. The government stimulated the growth of the economy by promoting internal demand, which, with the supply side of the economy still underperforming, inevitably led to a prime example of a double deficit: both a deficit in the public budgets and a current account deficit. In response to large current account deficits, the government and the central bank introduced corrective measures mentioned above, but these had only a limited and short-term impact<sup>173</sup>. No other impacts could be expected: such measures could not have solved the deeper cause of the problems.

The corrective foreign trade policy measures were implemented on an ad hoc basis in situations where external imbalances were too pronounced. Trade policy instruments could not be sufficient as the problem was deeper - it was in **the insufficiently competitive corporate sector**. At that time, the sector had undergone only partial restructuring; often the enterprises lacked a strategic owner, modern technologies, or prospective production programs. In such a situation, it could not be expected that trade policy instruments alone would produce a satisfactory result for a longer period. And when the government has promoted the growth of internal (domestic) demand, it has inevitably led to a widening of the current account deficit. This created a difficult trade-off for policymakers in the years before EU accession: the perceived promotion of economic growth through increased demand led to unsustainable external imbalances and pressure on the currency. And rebalancing meant weakening the demand and economic growth. With these difficulties - **chronic imbalances and problems achieving healthy sustainable growth** - Slovakia entered the peak phase of preparations for EU accession. The way out of the emergency was through economic reforms and restructuring of the economy, which took place just before accession and even relatively shortly after EU accession (i.e., in the period from 2000 to the onset of the 2008/2009 crisis).

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<sup>173</sup> See Morvay, K. a kol. (2005): Transformácia ekonomiky: Skúsenosti Slovenska. Ústav slovenskej a svetovej ekonomiky SAV, Bratislava. ISBN 80-7144-143-0.

## Phase 2: Catching up in the integration process

The pursuit of a hybrid, politically dominated economy has temporarily excluded the country from EU integration. Subsequently, however, after the change of the ruling political forces (after the 1998 elections), it was possible to catch up with the backlog with great effort.

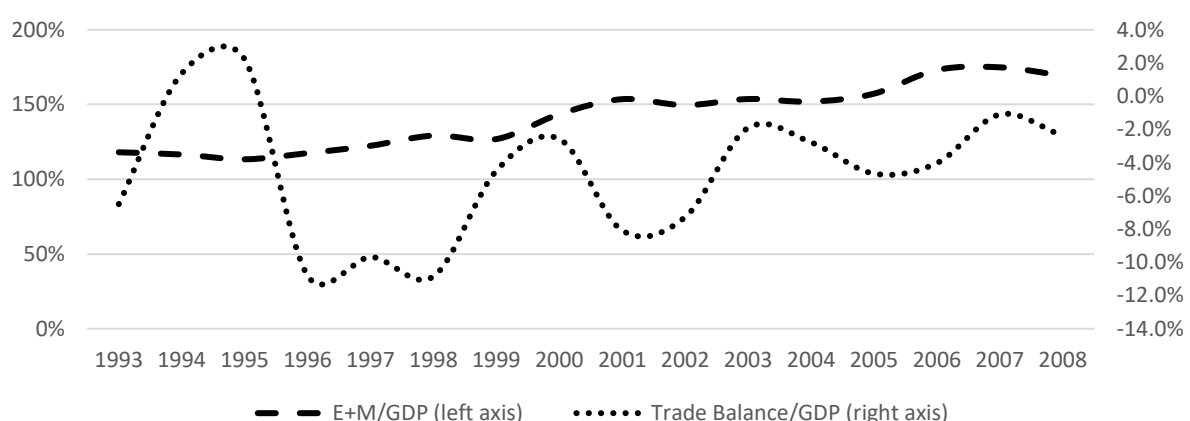
And it was the integration efforts, the strong pressure to catch up with the neighbours in the integration process that helped to "clear the table", fundamentally reform the economy or open it up to investors. The opportunity to join the EU (and the strong preference of the population to join the EU) allowed economic policymakers to push for change. Thus, Slovakia has moved from the position of a lagging economy to the position of a **reform leader**. Macroeconomic stability and the quality of the economic environment improved substantially and given the time – progressive economic reforms were adopted. The economy was given a new regulatory framework, less politically influenced.

Functioning in **CEFTA was a "training ground" for foreign trade**, but not only was this decisive for the development of Slovakia's foreign trade. The structure of the economy predetermined the development of foreign trade during this period:

- 1) extremely strong trade ties with the Czech Republic given by the former common economy,
- 2) the Slovak economy was at the beginning of its transformation oriented towards the production of goods that served as industrial intermediates in other countries (the direction of such production is determined by international production chains; cannot be easily shifted),
- 3) later on, after the arrival of large FDI, the direction of trade was determined by the activity of these large investors on global markets.

The economy's **external imbalances** have already eased in this pre-accession phase (**Error! eference source not found.**), no longer reaching the dramatic levels of 1996-1998. However, it ceased to be a problem definitively only in the post-accession period.

Figure 7. Economy Openness and Trade Balance Development in Slovakia (% , 1993 – 2008)



Note: E- Export of goods and services, M – Import of goods and services

1999- Change in economic strategy and policy, widespread macroeconomic stabilization measures.

2004 – Accession to the EU.

Source: Czech Statistical Office (2022), own calculations and design.

It was not the protective measures in foreign trade, but the restructuring of the economy supported by massive FDI inflows that brought relief from this problem. The export performance of the economy has risen significantly, and external imbalances have ceased to be a hot topic. Since the country dropped its own currency and adopted Euro (2009), there was no further deterioration in the current account balance.

The years 1999 and 2000 can be considered as a **turning point** in the development of international trade when the country's orientation towards the EU was finally confirmed and accession negotiations began. After the disappearance of traditional trade flows, CEFTA thus served as a suitable instrument for rebuilding and finding new sales countries for production from and to Slovakia. Therefore, the index of physical volume of exports and imports also grew at a high rate during this period. However, as already mentioned, it was not so much the barriers to international trade but rather the structure of the economy that determined the country's position in it. If we also use the valuation of goods and services by market prices to observe the development of international trade, we find that the openness of the economy grew faster only after the integration orientation was confirmed.

The average growth rate of the openness of the economy almost doubled (Table 155). This is related to the arrival of foreign investors who have integrated their products into their value chains, creating the conditions for an even more open economy.

Table 15: Average Growth Rate of Economic Openness and Physical Volume of Export and Import in Selected Periods

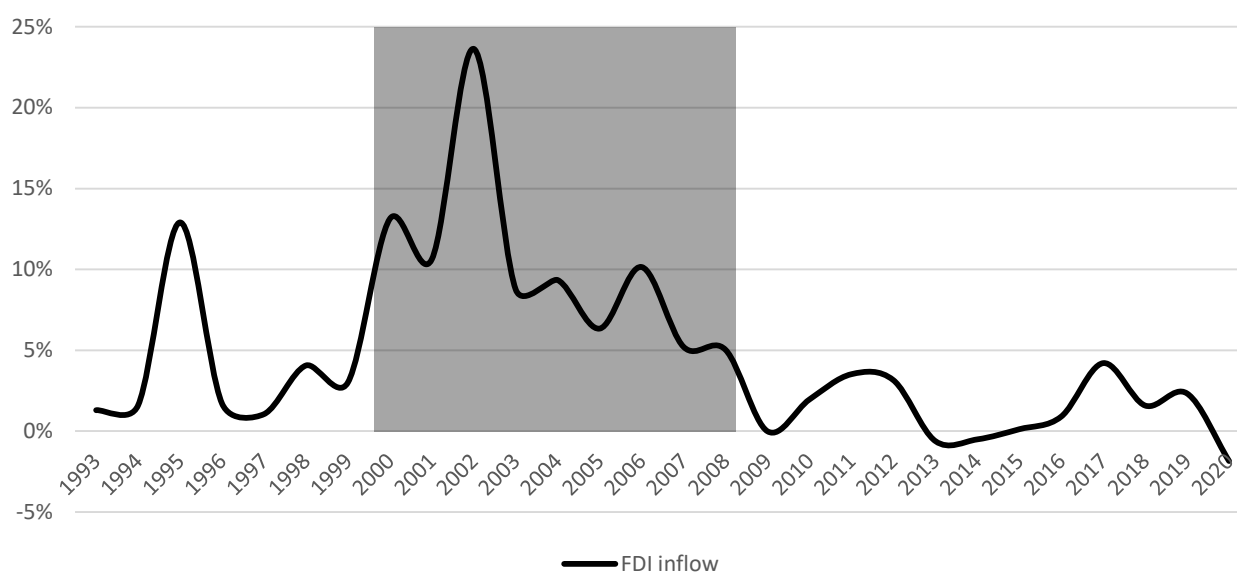
	1993 – 1999	2000 - 2008
<b>Economy openness (E+M/GDP)</b>	1.0 %	1.9 %
<b>Export - physical volume</b>	6.9 %	4.4 %
<b>Import - physical volume</b>	5.9 %	4.3 %

Source: Czech Statistical Office (2022). Authors' calculations.

It was the increase in **foreign investment** that created a unique stimulus for the development of international trade and definitively anchored the orientation of the Slovak economy towards the EU Member States. The confirmation of the country's EU orientation in 1999 was followed by a period characterised by massive inflows of FDI, which was only ended by the economic crisis in 2008.

This period was characterised by **deepening economic integration** with a positive impact on both international trade and economic performance and overall macroeconomic development. However, after the outbreak of the crisis, this mode of capital inflows and a tool for catching up with Western economies faded away and the chances of its repetition on a similar scale are minimal. It represented a unique opportunity to restructure an economy that had long been a problem in the previous decade.

Figure 8. FDI Inflow in Slovakia (% of GDP, 1993 – 2020)

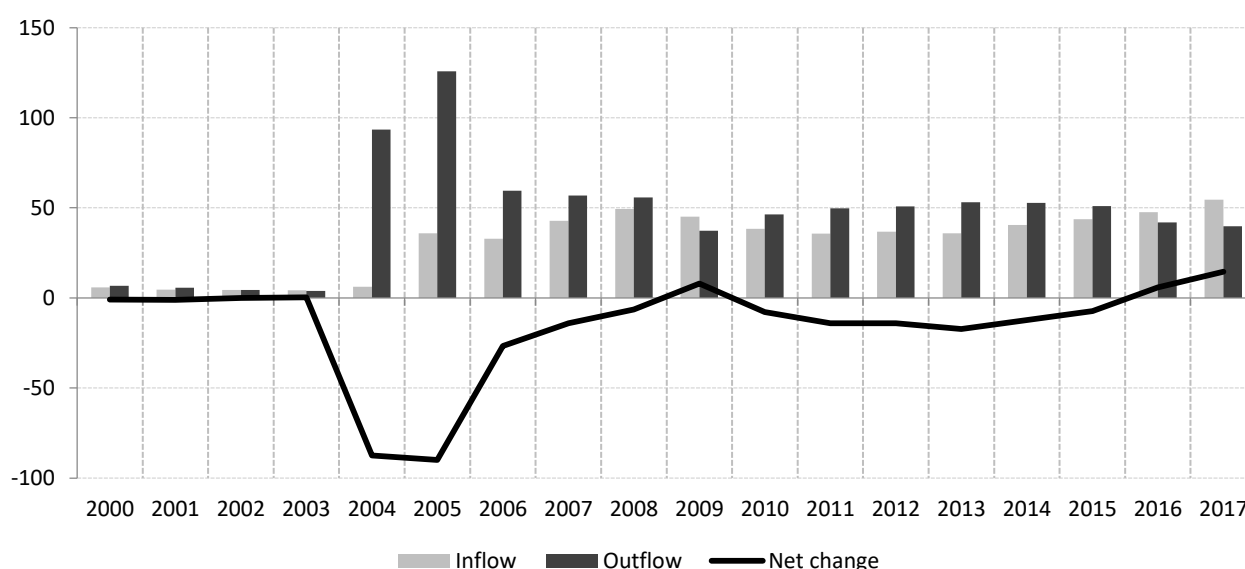


Note: The highlighted period between 2000 and 2008 represents the period from the positive turnaround in integration efforts (and the revival of the chances of EU accession in the "first wave") to the onset of the global financial crash (2008/2009). FDI inflows accelerated sharply just at the beginning of this period. Another explanation is that in the earlier period (pre-1999), even the then government did not have a favourable attitude towards foreign investors and FDI inflows were related to privatization rather than to the establishment of new businesses. Domestic capital was preferred by the government, but it was scarce, and its owners were often linked to the political elite.

Source: UNCTAD (2022), own design.

**The accession of Slovakia to the EU in 2004** meant a new opportunity for many people to find a job on foreign labour markets (although in the first years after accession some countries still applied restrictions on the free movement of labour, especially important for the case of Slovakia was Austria and Germany).

Figure 9. Labour Migration Balance According to Health Insurance Data (in thousands of persons)



Source: IFP based on Central Register of Public Insurance Participants data (2018).

The previously strict conditions for obtaining a work permit abroad have been radically simplified, leading to a **massive increase in labour (e) migration**. In the period 2004-2009, there was a massive outflow of young people abroad, with one in seven of those born in 1981-1983 leaving the country. The second wave of massive labour emigration occurred after the expiry of the protection period applied to labour markets in the remaining EU countries (especially Austria and Germany) when the migration balance in Slovakia temporarily turned negative. However, compared to the initial outflow of labour to the UK and Ireland, it was far from similar in size. The first wave was massive, with more than 220,000 people leaving. The second one was "only" about a quarter the size. This does not change the fact that the working-age population shrunk by almost 300,000 people through integration into the EU. It later created another phenomenon that started to manifest itself in 2015 onwards - the labour shortage.

In particular, the "second phase" of preparations for integration (the final phase of preparations since 1999, including the participation in CEFTA) has had the benefit of setting boundaries for governments. It forced economic policymakers to emulate the rules of a standard Western European-style market economy. It limited the room for the arbitrariness of political elites, the room for hybrid economics and distortions (which the relevant political forces tended to do in the 1990s, in the "first phase"). Since Slovakia was already an open economy anyway, the main benefit of integration was not in its opening. Rather, it was in the inclusion in more promising production chains and in the pressure to adopt standard rules.

### 3. A fully integrated Slovakia with new pressing challenges

As the previous section has shown, there has already been an improvement in the parameters of the international movement of goods and capital in the last years before accession (Figure 7 and Figure 8). After accession, the trend has further improved and has been accompanied by a recovery in international labour movements (Figure 9 **Error! Reference source not found.**).

In the period immediately after accession (2004-2008), it was necessary to demonstrate a sufficient degree of macroeconomic stability to be able to adopt the common currency. The emphasis on macro-stability has borne fruit, and the Euro could be adopted in 2009.

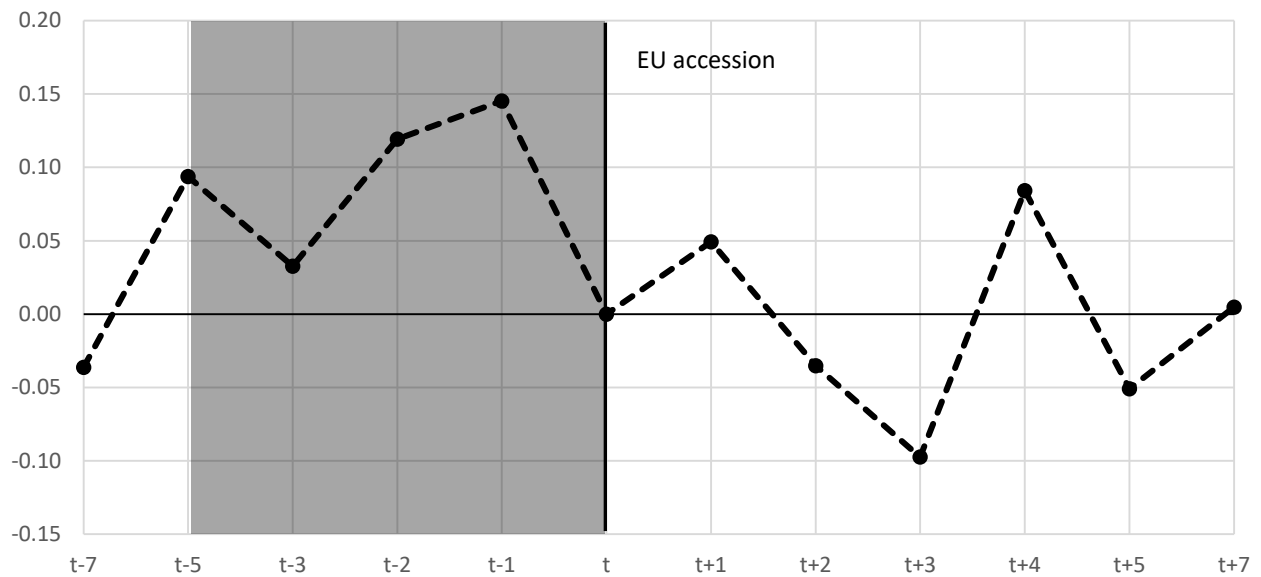
However, after EU accession, **the incentive to further improve the economic environment**, to improve the institutional framework and to undertake further reforms has gradually weakened<sup>174</sup>. There has even been a deterioration in some areas (e.g., quality of the business environment, transparency and corruption, law enforcement – see Figure 10, which compares seven pre-accession and seven post-accession years).

In retrospect, the pre-accession period (including the CEFTA training process) and the accession period it can thus be seen as a period of **opportunity to push through changes** that would have been more difficult to enforce in another era. Shortly before accession, it was possible to use the argument of the need for change to successfully join the EU.

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<sup>174</sup> For reform dynamics problems see: Aslund, A. – Djankov, S. (2014): The Great Rebirth. Lessons from the Victory of Capitalism over Communism. Peterson Institute for International Economics, ISBN: 9780881326970.

Figure 10. Average Annual Change in the Worldwide Governance Indicators (delivery index) in Slovakia relative to the year of EU accession



Note: The WGI index is a simple average of the regulatory quality, government effectiveness, and control of corruption and rule of law sub-indicators. A higher index implies a better relative performance in Institutional quality.

Source: WGI (2022), own calculations and design.

Approximately **10 to 15 years after accession**, several other issues have emerged that pose a challenge for the post-COVID period and should be considered by countries working on their integration:

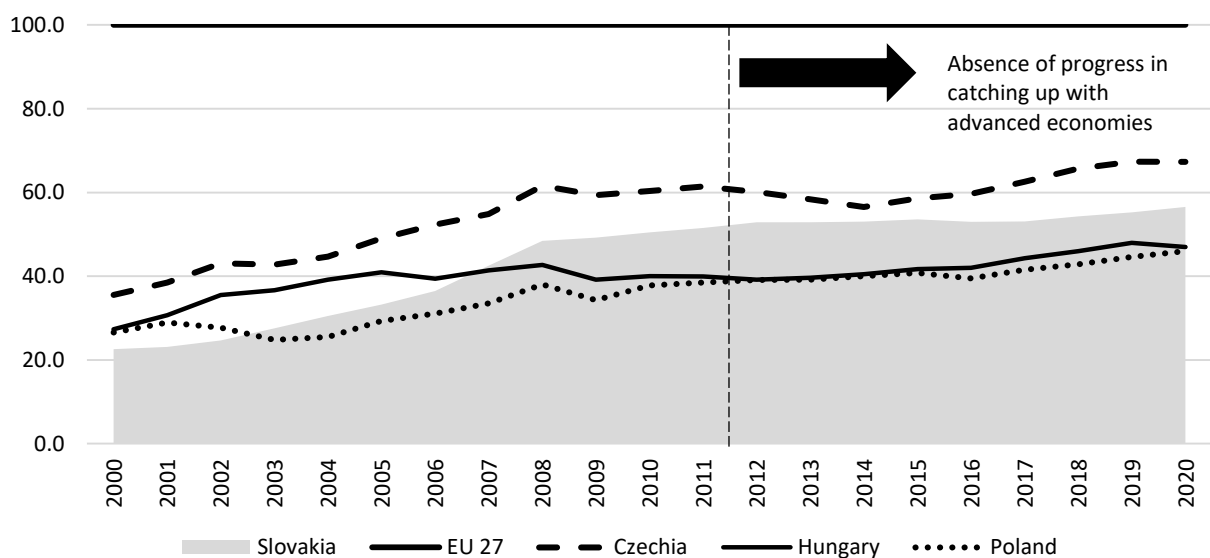
- A problematic phenomenon for future competitiveness and performance is **the slowdown in investment activity** observed in recent years. And it is not just a concomitant of a pandemic recession. During the pandemic economic downturn in 2020, the Slovak economy experienced a particularly deep fall in investment, although the economic downturn itself was not extraordinary in international comparison. But the weakening of investment activity was already present in the longer term (in the period 2016-2020, the dynamics of capital formation in Slovakia was the lowest in the EU27). Such a development is associated with a halt in catching up with advanced economies in the level of capital-to-labour ratio<sup>175</sup> and worsens the prospects for catching up with productivity levels and economic performance of the most advanced economies. External investment resources, allocated to Slovakia in the framework of the implementation of **the Recovery and Resilience Plan**, should be a remedy for the problem that has arisen. These are intended to reinforce reconstruction, modernisation, and reform efforts; however, they are certainly not intended to fully replace internal investment incentives. Given the need to support creative destruction in the recovery from a pandemic recession, a slowdown in investment activity in Slovakia is not good news. It is especially true when this slump in investment was preceded by weaker investment dynamics even in the pre-pandemic period of economic growth<sup>176</sup>.

<sup>175</sup> Morvay, K. - Hudcovský, M. (2018): Overcoming of Lag in the Capital to Labor Ratio in the Slovak Economy. In Ekonomický časopis / Journal of Economics. 2018, vol. 66, no. 8, s. 838-851. ISSN 0013-3035

<sup>176</sup> Morvay, K. - Hudcovský (2021b): Zachránená spotreba pri obetovaných investíciách (alebo ako pandemická recesia prehĺbila investičnú mizériu v ekonomike SR). In: Monitor hospodárskej politiky, 2/2021. ISSN: 2453-9287. [https://nhf.euba.sk/www\\_write/files/veda-a-vyskum/casopisy/monitor-hospodarskej-politiky/mhp\\_12\\_21\\_final.pdf](https://nhf.euba.sk/www_write/files/veda-a-vyskum/casopisy/monitor-hospodarskej-politiky/mhp_12_21_final.pdf)

- The Slovak economy was one of the leaders in real convergence and labour productivity growth in the period leading up to accession and for several years after accession (i.e., in the period 2001-2007). However, the original drivers of both productivity and real convergence started to lose their relevance noticeably in the decade after 2010<sup>177</sup>. These original drivers can be understood primarily as massive, fixed investment, foreign capital inflows, technology adoption from more advanced economies, and involvement in international production chains (with the rise of highly productive mass production). Real convergence has broken down (Figure 11) and labour productivity growth has also slowed very<sup>178</sup>. If other countries want to avoid a similar problem, they should diversify the pillars of their growth. In particular, not to forget to keep developing their innovation potential – in this area, Slovakia has not made sufficient progress.

Figure 11. Convergence slowdown: GDP per capita (current prices, EUR) in relation to the EU27 Level (EU 27 level = 100)



Source: Eurostat database (2021), own calculations and design.

- The international competitiveness of the Slovak economy was supported from the beginning of its transformation by the so-called “**wage cushion**” (the name given to the advantage of low unit labour costs). About 10 to 15 years after full integration into the EU, this advantage started to disappear. This happened for two reasons:
  1. Labour was becoming scarce and scarcer; this increased its price.
  2. Labour productivity growth slowed down considerably, as already mentioned.

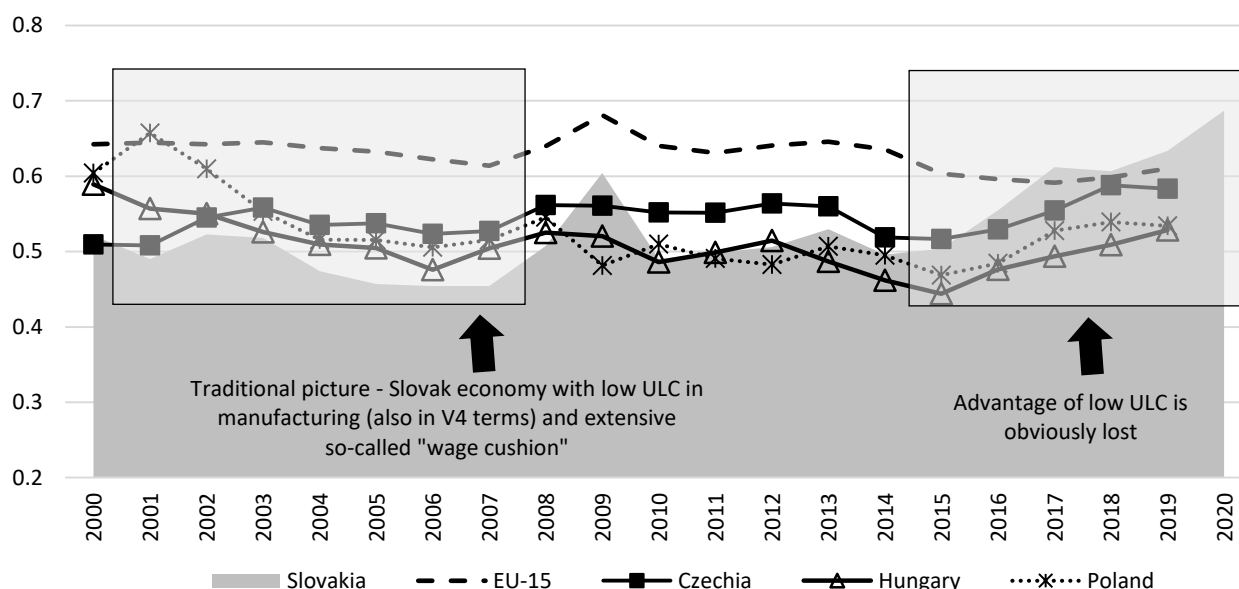
In such a situation, labour costs started to grow faster than labour productivity after the year 2015. This was a remarkable reversal in development (see Figure 12). The advantage of low unit labour costs - especially in manufacturing - disappeared unexpectedly

<sup>177</sup> See: Stehrer, R. (2019): Dissecting the global growth and productivity slowdown. WIIW, The Vienna Institute for International Economic Studies, Available at: <https://wiiw.ac.at/dissecting-the-global-growth-and-productivity-slowdown-n-400.html> and European Commission (2019): Country Report Slovakia 2019. Communication from the Commission to the European Parliament, the European Council, the European Central Bank and the Eurogroup. [https://ec.europa.eu/info/sites/info/files/file\\_import/2019-european-semester-country-report-slovakia\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-slovakia_en_0.pdf)

<sup>178</sup> OECD (2022): OECD Economic Surveys: Slovak Republic. January 2022. PRINT ISBN 978-92-64-37440-9, PDF ISBN 978-92-64-74516-2.

quickly<sup>179</sup>. Followers of a similar competitiveness strategy (a similar "wage cushion" is used throughout the CEE region) must anticipate a scenario where such a traditional competitive advantage is relatively quickly eroded. In Slovakia, the risk of losing this competitive advantage has been known for a long time, however, relatively little has been done to develop newer and more promising competitive advantages.

Figure 12. Unit Labour Cost in Manufacturing Sector (V4 and EU 15 average)



Notes: Calculated as the ratio of the average compensation of employees to labour productivity. Labour productivity is expressed as value-added per worker.

Source: Eurostat database (2021), own calculations and design.

#### 4. Slovakia to WB6 – recommendations derived from Slovak experience

Several lessons can be drawn from Slovakia's complicated and specific journey through all stages of economic integration (from an outsider economy to a member of the Euro area). Despite the specificity of Slovakia's integration trajectory, it is very likely that several similar phenomena will occur (and are already occurring) in the Balkan economies.

- 1) **Free trade exercise itself is not always the most significant challenge.** Adapting early to the conditions of free international trade is of course very useful, but in the case of Slovakia, **pressing for convergence of rules and implementation of reforms** has proved even more useful. The period in which the real chance of EU accession emerged was a unique period of reform opportunities. It was a period during which it was possible to make changes that would otherwise face greater resistance. Such a period needs to be used in other countries to establish the boundaries of a good regulatory framework so that they are no longer easy to dismantle. Later, after EU accession, **reform efforts** may weaken along with the motivation to make difficult changes. In addition, the willingness of voters to tolerate them may fade as well. Therefore, it is desirable to set up things in a manner that the integration of the Balkan countries would lead national governments to

<sup>179</sup> Morvay, K. - Hudcovský, M. (2021a): Acceleration of Labour Cost Along with Deceleration of Productivity: How the Slovak Manufacturing Lost the Advantage of Low Unit Labour Cost. DANUBE, vol.12, no.3, 2021, pp.183-196. <https://doi.org/10.2478/danb-2021-0012>



set rules comparable to those of advanced economies. Free trade training is useful, however, only by itself, it is insufficient.

- 2) **The integration process brings better chances for the uptake of innovation and technology from foreign countries.** Still, the “dependent growth” phenomenon needs to be avoided<sup>180</sup>. The Slovak example also highlights the weaknesses of relying only on innovations and technologies brought by foreign investors. Of course, these are very beneficial and guarantee strong growth in the performance and productivity of the economy for a certain period. However, such growth will stagnate over time (the case of Slovakia in the 'pre-pandemic' period) if domestic innovation potential is not also created. It may also mitigate the problem of the retreat of traditional factors of Eastern European competitiveness (mainly in the form of low unit labour costs).
- 3) Both in the pre-accession phase and during the EU membership, Slovakia has managed to **benefit quite significantly from capital transfers from the EU** (despite chronic difficulties with the implementation of these resources). These sources have gradually become almost the exclusive source of investment financing in the public sector, while the use of domestic sources has been declining. The public sector has become over-reliant on EU funds, which we consider a deformity. Activities for which EU funds are not allocated are then not implemented and securing EU funds has become a necessary prerequisite for any public investment activities. The question arises as to how the state will be able to carry out its capital expenditure in the future when it will no longer have access to such significant capital resources from EU funds. Hence, the recommendation is to **preserve capital resources as one of the pillars of public investment and not to make them an almost exclusive source.**
- 4) **The wave of massive FDI inflows into Central and Eastern Europe has passed and will not be repeated to the extent seen in the V4 transition period, before the 2009 financial crisis.** This is even more reason why SEE economies need to rely on cooperation among themselves, focus on an improvement of their business environments and a better institutional framework formation.

It is useful for former transition economies to prepare for EU integration by operating in free trade zones and giving businesses a training ground for free trade and extensive competition. However, just being in such a zone is not sufficient. It must not overshadow the economic institution's formation, the business environment improvement, or the development of innovation potential. The case of Slovakia also shows that sometimes rather a deeper integration plays a more important role in setting the rules for economic policymakers.

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<sup>180</sup> More on this see: Myant, M. (2018): The Limits to Dependent Growth in East-Central Europe. *Revue de la régulation*. 2nd semestre, num. 24. Available at: <https://journals.openedition.org/regulation/13351>

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## **PART II**

### **COMMON REGIONAL MARKET AGENDA FOR WESTERN BALKANS**



## III.1. A view from Albania

**Zef PREÇI**<sup>181</sup>

**Ilir CIKO**<sup>182</sup>

### Abstract

Albania's active participation in the regional integration processes is based on the premises to deepen economic ties with the countries in the region and support the EU integration process and the creation of an enabling environment for flourishing investments across the region. Relative to the other Western Balkans countries Albania's trade has historically since its transition oriented more toward the European Union and trade with the countries in the region remains still limited. This paper reveals that impressive progress has been achieved in developing trade with the countries in the region, which enables Albania to enhance its role in the regional economic cooperation, further align the domestic rules and regulation with the EU internal market standards and principles aiming to create a sound business environment for attracting foreign investments in the region, and upgrade trade infrastructure and strengthen the role of the institutions in this process. CEFTA 2006 has faced many challenges during the implementation but it has contributed in supporting trade growth across the region while questions persist on the way forward for the regional cooperation in a crossroad between the Common Regional Market and other cooperation models. It is clear than open economies achieve faster growth rates than closed economies. Also, the increase of regional trade is an incentive for the domestic production, use of more efficient and improved technologies; and as a result, the productivity increase. It could play an important role in stimulating economic growth if it is accompanied by macroeconomic stability and a favourable investment environment, which remain as preconditions for accelerating EU Integration as well.

**Keywords:** Albania, Western Balkans, WB6, EU, Trade, European integration, Common Regional Market, CEFTA

### 1. Regional cooperation background and recent development trends

Albania is an upper middle-income country on its path to EU accession. GDP per capita in Albania in 2020 was USD 4424.31, among the lowest in the region and less than half of the new EU member states. Over the past decade, Albania's economy has witnessed a steady growth, by an annual average of 2.4 percent. In 2019, the country faced an economic slowdown, caused by the severe earthquake and growth expanded only by 2.1 percent, compared to 4.1 percent in 2018. In 2020, the economy was projected to grow by an estimated 3.5 percent, however due to the COVID-19 pandemic and the subsequent containment measures, the GDP contracted by 4 percent in 2020 and the economy is facing simultaneous demand, supply and financing shocks.

GDP contraction was broadly based among sectors and aggregate demand components. However, the contraction was more pronounced in the services sector and private consumption, despite

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<sup>181</sup> Dr Zef Preci, president of Albanian Center for Economic Research, Tirana, Albania.

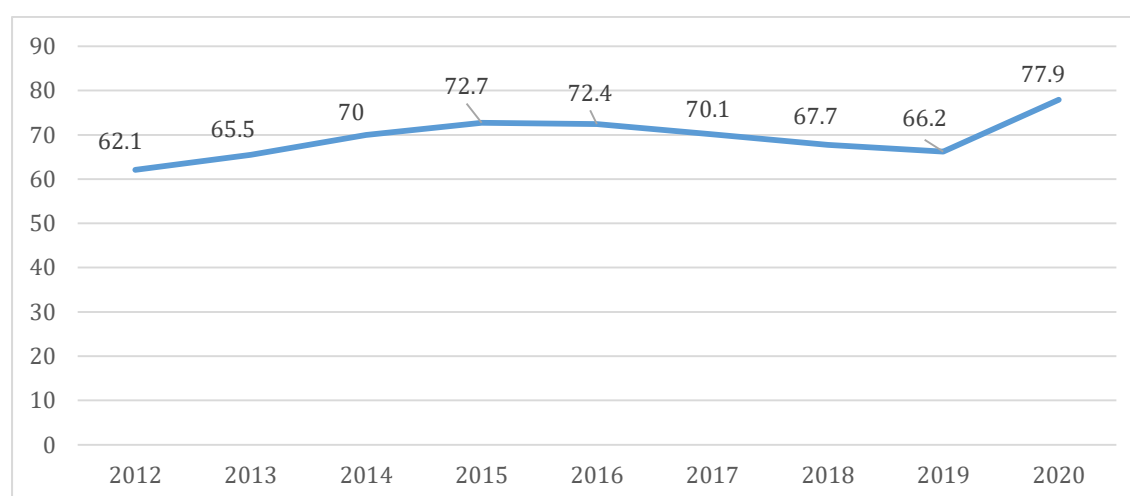
<sup>182</sup> Ilir Ciko, Canadian Institute of Technology (CIT), Tirana, Albania.

the support measures taken by the government. The negative shock triggered in the economy by the coronavirus pandemic largely impacted on the downside services related to “trade, transport, hotels and restaurants”, as well as “professional and administrative services”. Construction, manufacturing, mining and quarrying had also an effect on the downside for GDP growth, even though at a relatively lower magnitude. The increase in value added from agriculture and energy was translated in a positive impact on GDP, but still without being able to compensate for the drop in the activity of the other sectors.

The COVID-19 pandemic has prompted further regional collaboration after demonstrating how interconnected and interdependent regional economies are. However, gaps in regional cooperation remain. From the very outset, the pandemic propelled protectionist measures across the Western Balkans, much like in the rest of world, including disruptions in transport links and supply chains and export restrictions on medical supplies and food products. However, uncertainties related to the pandemic, elevated fiscal deficits and public debt, and a relatively high level of non-performing loans present challenges for the projected recovery. In 2020, the fiscal deficit expanded from 1.9% to 6.7% year-on-year and public debt increased from 66.2% to almost 77.9% of GDP.

The gap in economic and social inequality in Albania has widened and diversified even further. Poverty is one of the main indicators of unequal development. Albania’s poverty rate is one of the highest in the Western Balkans, while its social protection coverage is among the lowest.

Figure 13. Debt to GDP, 2012-2020.



Source: Ministry of Finance and Economy, Public Debt Analysis

Over half of Albanians were at risk of poverty or social exclusion in 2020, the highest percentage in Europe according to the European Institute of Statistics (EUROSTAT). The country’s poverty headcount is estimated to have increased in the aftermath of the earthquake and pandemic, partially reversing a declining trend started in 2014. Given the high level of informality, relatively low labour participation rates, and limited government resources, social protection coverage is among the lowest in the region. High informality and low social protection coverage imply weak automatic stabilizers, strengthening the case for discretionary support to the affected population. Among population categories, the unemployed and children are those most affected by risk of poverty.

Albania’s unemployment rate slightly increased to 11.9 percent in 2021, from the reported figure of 11.8 percent in December 2020. Unemployment in Albania is largely long term and structural

as 66 percent of the unemployed have been unemployed for more than one year. Long-term unemployment remains to be addressed through more flexible and tailored policy interventions. Further, women in general, youth, and those with limited education are more excluded from jobs. Annual inflation remained low and below the 3% target even during 2020. Inflationary pressures were low in the context of weak demand, free capacity in the economy and low inflation levels in partner economies. Average annual inflation was 1.6% during 2020, affected in parallel by both short-term supply shocks, with an increasing impact, and by contracting of demand, with a negative effect on inflation.

Albania received **EU candidate status in June 2014**, and in March 2020, the European Council endorsed the recommendation of the European Commission to open **the accession talks** with Albania. Albania awaits its first Intergovernmental Conference, which would mark the start of accession negotiations.

**The country joined the World Trade Organization (WTO) in 2000 and the North Atlantic Treaty Organization (NATO) in 2009.** Albania enjoys important trade benefits with EU members since it signed and ratified the Stabilization and Association Agreement (SAA) in 2006. Albania has a free trade agreement (FTA) with Turkey and is a signatory to the Central European Free Trade Agreement (CEFTA). In June 2009, Albania also signed an FTA with the European Free Trade Association (EFTA), which includes Iceland, Liechtenstein, Norway, and Switzerland.

While the goal of EU accession is considered a main driving force behind economic transformation and stability of the Albania, the Western Balkans remains at a crossroads among global geopolitical forces. Since the turn of the millennium, the Western Balkans have made much progress towards peace and stability. A number of diplomatic initiatives launched in recent years have supported progress in regional cooperation, including the Berlin Process led by several EU member states, with the accompanying EU connectivity agenda and the EU Western Balkans engagement strategy, as well as the summit-level Brdo-Brijuni process meetings of Western Balkan leaders (led by Croatia and Slovenia), and others.

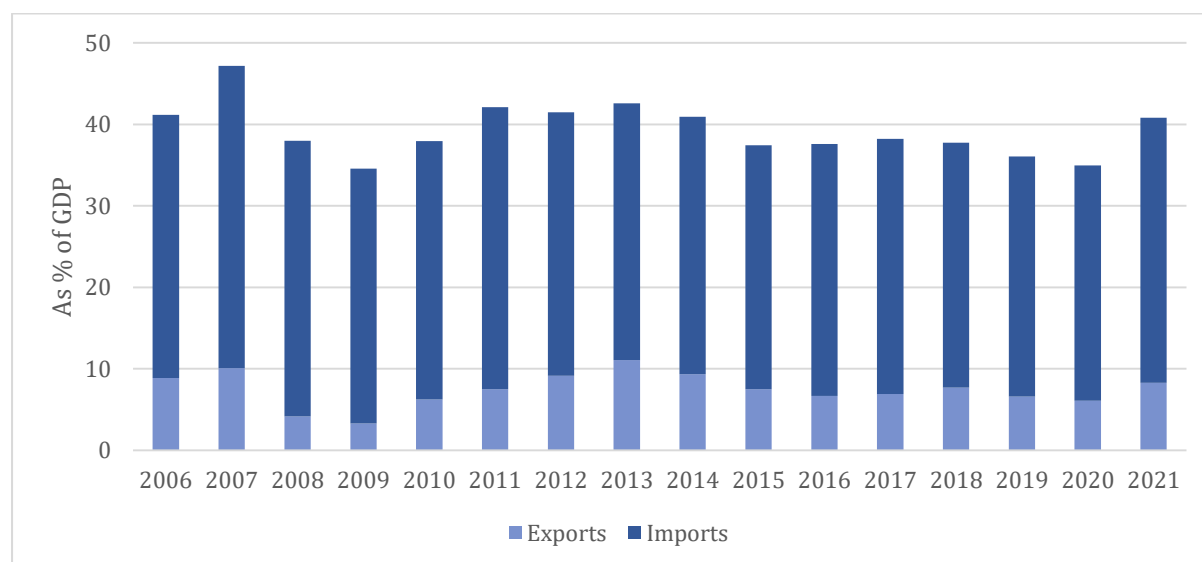
Albania plays a dynamic leadership role in fostering closer cooperation in the Western Balkans. This is evident through the country's active engagement with several regional coordination mechanisms and processes in the fields of (among others) economic development and trade, strengthening transport and communications infrastructure and interconnectivity, and peacebuilding through dialogue with a focus on youth. Examples include the Regional Youth Cooperation Office (based in Tirana and established in 2016), the Central European Free Trade Agreement (CEFTA), the Regional Cooperation Council, the Multi-annual Action Plan on Regional Economic Area in the Western Balkans, and participation in sub-regional cooperation mechanism established with Serbia and North Macedonia known as "Mini-Schengen".

## **2. Developing trade during the transition period**

Despite the negative impacts of the COVID-19 pandemic, Albania's exports during the last 5 years expanded on average by 9.8 percent on annual basis and by 35.7 percent in 2021, exceeding for the first time the 3 billion Euro threshold. Over the same period (2017-2021), imports grew on average by 7.5 percent and 32.3 percent in 2021, reaching 6.5 billion Euro in 2021. The exports-to-imports coverage stands currently at 46.1%. The European Union is Albania's main trade partner, accounting in 2021 for 60 percent of total trade, 72.2 percent of total exports and 54.4 percent of total imports to Albania. Albania's largest trading partners are Italy (29.9 percent in 2021), Turkey (7.8 percent in 2021), Greece (7.3 percent in 2021) and Germany (6.4 percent in 2021).

Albania's foreign trade in 2021 exceeded 40 percent of the GDP and the exports contributed to 8.3 percent of the domestic product while imports accounted for 32.5 percent of the GDP. Trade deficit in goods and services reached 13.7 percent of the GDP while the trade deficit in goods imported and exported stood at 18.8 percent of the GDP. The evolution during the CEFTA period 2006-2021 of the trade to GDP is shown in Figure 14 as per below.

Figure 14. Albania's exports and imports as share of the GDP 2006-2021.



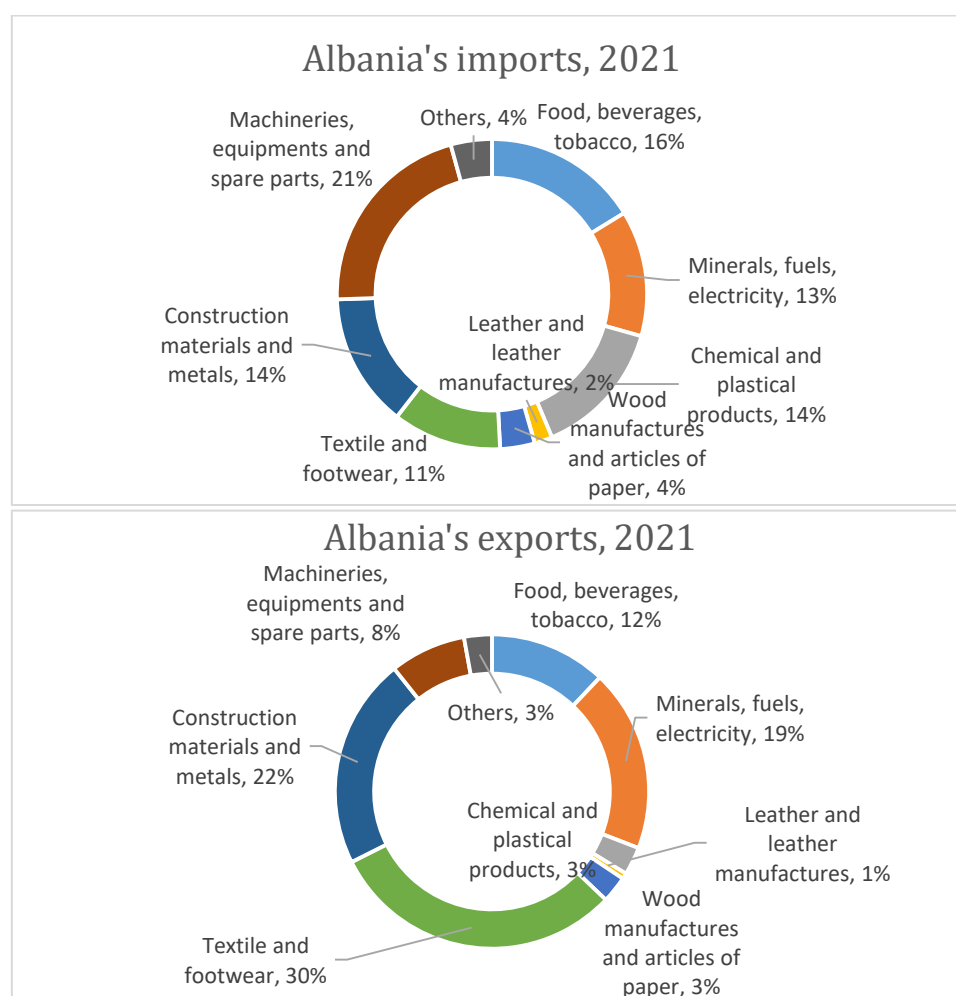
Source: Ministry of Finance and Economy

Albania maintains a relatively liberal trade regime fully compliant with WTO commitments. According to the WTO "...Albania's overall simple average MFN tariff declined to 4.2% in 2015 (compared with 5.2% in 2009), with the highest applied rate of 15%. The average applied tariff on agricultural products (WTO definition), at 8.7%, is higher than on non-agricultural products (3.0%)".

Although historically since the early 90' Albania's foreign trade has been by and large oriented toward the European Union countries, the prevailing peace following the dismantling of the former Yugoslavia, contributed to **building trade channels with the countries in the region**. Albania's trade relations with the neighbouring and regional countries in the early years of the century was very limited because of the lack of trade channels, orientation of Albania's trade toward the larger EU market, conflicts in the region, similarities in production patterns within the region and trade barriers across the borders and within each country.

The structure of the Albanian exports is dominated by the output of low-added value activities and exploitation of the national endowments. Fashion industries – textile and footwear – accounted for 30 percent of the exports in 2021, followed by construction materials and metals (22 percent), and minerals, fuels, electricity (19 percent of the total exports). Albanian imports have a slightly more diversified structure as in 2021 machineries and equipment accounted for 21 percent of the imports, followed by food, beverages and tobacco (16 percent), chemical and plastic products (14 percent) and construction materials and metals (14 percent). Figure 15 provides the details of the imports and exports structure during 2021.

Figure 15. Structure of Albania's foreign trade in 2021.



Source: [www.instat.gov.al](http://www.instat.gov.al), Foreign Trade Database

Following Albania's accession to the WTO in 2000, its trade policy objectives and mechanisms are fully compliant with the WTO principles, guaranteeing the absence of quantitative restrictions on imports and exports, extension of the MFN status to all its trading partners and compliance with the binding schedule of tariffs submitted to the WTO. At the time of Albania's accession to the WTO, a few countries in the region were making progress toward WTO accession, however the trade regime to all the countries was based on a non-preferential MFN status. During the subsequent period, the establishment of the bilateral FTA's with all the countries in the region aimed to improve the trade relations and for some years contributed, although at a limited scope, in expanding merchandise trade and building up the commercial ties with countries in the region.

The endorsement of **CEFTA**, as a proved successful model of regional cooperation and integration in the former Central and Eastern Europe, by the South Eastern European countries (including Moldova), under the full support and promotion of the EU, aimed to resolve the complexity of the bilateral FTA's myriad by unifying and harmonizing the bilateral agreements into a single regional agreement that had delivered for the other economies transitioning from former communist systems toward the full membership in the European Union. Furthermore, the CEFTA agreement established the institutional mechanisms in charge with governing the implementation process, a feature that was non-existent or very weak under the bilateral free trade agreements.



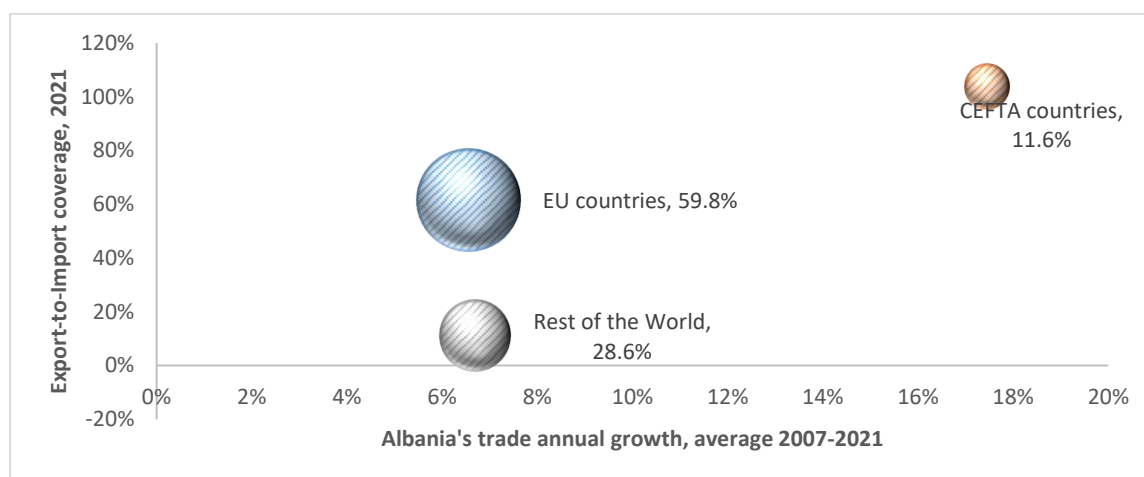
### 3. Regional integration through CEFTA: Trade creation or diversion?

Just a few months ahead of accession to the new CEFTA, in June 2006, Albania had signed **the Stabilization and Association Agreement (SAA)** with the European Union, which on trade in goods and services, comprised the FTA between Albania and the EU. Through CEFTA, the integration process in the region was focused in promoting trade relations among the countries, a process that has proved easier than other integration dimensions in various parts of the world (CEFTA in former CEE, CAFTA, Mercosur etc.), to prepare the countries in the region for the EU integration process and support an enabling environment for flourishing investments across the region.

Active participation in the CEFTA, while progressing with the implementation of the SAA with the EU, enabled Albania to enhance its role in the regional economic cooperation, further align the domestic rules and regulation with the EU internal market standards and principles aiming to create a sound business environment for attracting foreign investments in the region, and upgrade trade infrastructure and strengthen the role of the institutions in this process.

Following the accession to the WTO, the two major FTA's (CEFTA and the EU) entering into force almost at the same time, influenced substantially Albania's foreign trade regime during the recent 15 years. Under conditions where preferential trade agreements exist, one of the fundamental questions that prevails in economic debates is the relevance of the trade creation vs. trade diversion effects, implying the importance of the national prosperity improvements linked to trade growth under the FTA effects, compared to geographical shifts in trade relations due to the preferential status provided by the FTAs. It should be noted however, that both CEFTA and the SAA with the EU provide important commitments and challenges which go well beyond the mere tariff concessions, and include many important policy areas such as non-tariff barriers to trade, investment, services, competition, intellectual property rights and free movement of labour or capital.

Figure 16. Albania's foreign trade 2007-2021.



Source: [www.instat.gov.al](http://www.instat.gov.al), Foreign Trade Database. Horizontal dimension reveals the average annual growth of trade with each partner during 2007-2021. The vertical dimension reveals the exports-to-imports coverage for each trade partner in 2021. Size of the circle shows the relative trade with each partner in 2021.

The above chart summarizes the results and outline the progress of Albania's trade relations, for trade in goods. Figure 16 reveals that while **the EU is Albania's main trading partner**, accounting for 59.8 percent of Albania's trade in goods flows during 2021, trade with CEFTA countries today is limited to just 11.6 percent of Albania's foreign trade but it has steadily grown at a remarkable rate – in average 17.4 percent on annual basis, during the recent 15 years of CEFTA 2006 implementation. As it could be observed from the chart, trade with the European Union countries, as well as with the rest of the world, has expanded at satisfactory levels (respectively at 6.7 percent and 6.6 percent on average during 2007-2021) but at much lower rates compared to the trade growth with the countries in the region.

**The high growth rate of trade flows between Albania and the region** contributed to the rapid expansion of trade with CEFTA members in Albania's foreign trade. In relative terms, trade with the region increased from 4.7 percent of Albania's foreign trade in 2007 when CEFTA 2006 started implementing, to 11.6 percent of Albania's trade in 2021. In absolute terms the results are even more prominent: trade with CEFTA countries expanded from 180 million Euro during 2007, to 1.1 billion Euro in 2021. As trade with the EU countries (under the SAA no-tariff preferential regime) and the rest of the world (under MFN trading regime), also expanded during the same period, the result leads to the trade creation factors in the region, dominating over possible diversions of trade flows.

One important observation from Figure 16, reflected in the vertical dimension which reveals the exports-to-imports share of trade flows with the main trading partners, shows that as of 2021, Albania has a positive trade balance with the CEFTA countries as exports to the region are just 3.7 percent higher than imports from the region. This result is in contrast with trade with the EU countries, with which Albania maintains a large trade deficit as exports to the EU cover only 61.4 percent of the imports from the EU (2021). This performance is even worse with the countries from the rest of the world as exports to these countries represents only 8.3 percent of the imports from these countries.

However, since 2018 Albania has **a surplus in its aggregate trade with the CEFTA countries**, which depicts a very different situation from the year 2007 when CEFTA started implementing, during which exports to CEFTA countries accounted for only 54.7 percent of the imports from the region. Despite the aggregate result, the dynamics of trade flows across the region are more complex. During 2021, Albania had **trade deficits** with all the CEFTA countries (most notably with Serbia), except for Montenegro and Kosovo, with which it had a positive balance that compensated for the deficit at the regional level.

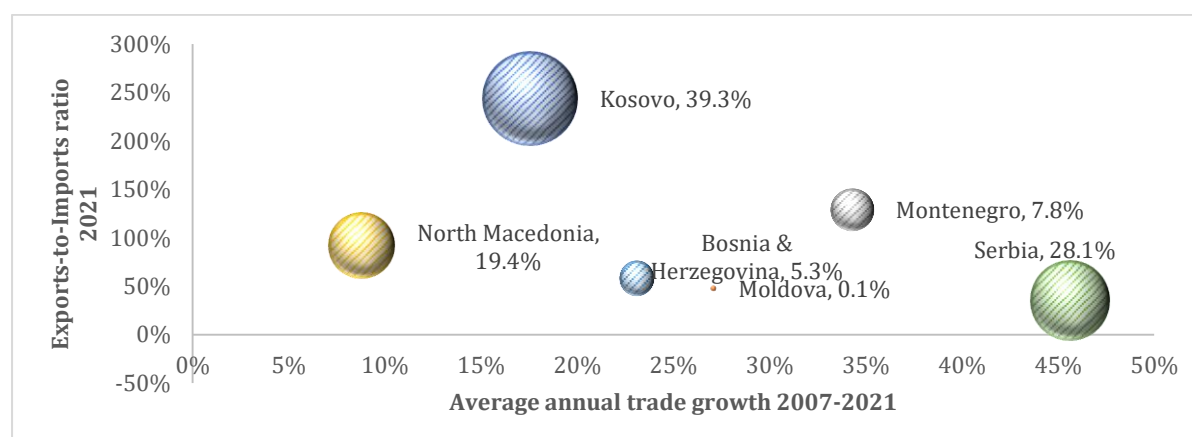
A more detailed assessment of trade flows with countries in the CEFTA region, as shown in the Figure 17, above, reveals that Albania's main trading partner in CEFTA is Kosovo, accounting for 39.3 percent of CEFTA trade in 2021 with Albania, followed by Serbia (28.1 percent) and the Republic of North Macedonia (19.4 percent). Kosovo is also Albania's trading partner in the region with the highest coverage of imports by the exports (244 percent in 2021), followed by Montenegro (129.3 percent), down to the bottom with Serbia for which exports from Albania account for only 35.6 percent of the imports.

As it could be observed from the chart, trade growth during the CEFTA era 2007-2021 has been significant particularly import-based with Serbia and export-based with Kosovo, while trade with North Macedonia has been less vibrant and with Bosnia & Herzegovina and Moldova, more limited.

The assessment of Figure 17 reveals the polarization of Albania's geography of trade in the region: Kosovo is the main export destination in the region, during 2021 it accounted for 55 percent of

Albania's exports to the CEFTA area, while Serbia is the main import partner in the region, accounting for 42.2 percent of Albania's imports from the region during 2021.

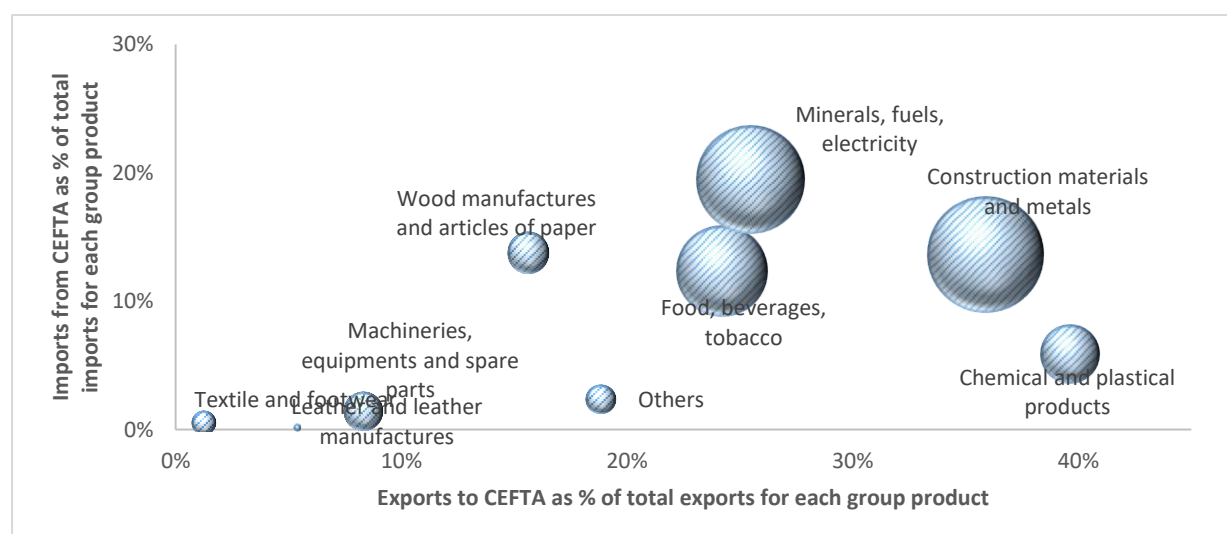
Figure 17. Trade with CEFTA - Share of CEFTA trade (circle size), average annual trade growth 2007-2021 (horizontal) and exports-to-imports coverage in 2021 (vertical).



Source: [www.instat.gov.al](http://www.instat.gov.al), Foreign Trade Database

**The structure of trade in goods with the CEFTA partners** is weak and not well diversified as in trade with the EU countries. It reflects the liabilities of competitiveness levels present in Albania and the region, as well as the similarities in the production patterns and specialization across the different sectors. Figure 18 captures the landscape of Albania's trade in 2021 with the CEFTA countries by the group-products, revealing also the reliance of both exports and imports from CEFTA countries measured as the share of imports and exports from CEFTA to Albania's total imports and exports, specific for each group-product. The chart reveals that trade with the CEFTA countries is concentrated in three main groups: Construction materials and metals (32.5 percent of trade with CEFTA countries), Minerals, fuels, electricity (28.2 percent of trade with CEFTA countries), and Food, beverages, tobacco (19.8 percent of trade with CEFTA countries), while all the other group-products account for less than 10 percent of trade with the region.

Figure 18. Orientation of Albania's foreign trade with CEFTA, by group products. The horizontal dimension represents the exports to CEFTA as share of total exports for each group product. The vertical dimension represents the imports from CEFTA as share of total



Source: [www.instat.gov.al](http://www.instat.gov.al), Foreign Trade Database

The chart shows that the CEFTA area is an important destination for Albania's exports, and even more important relative to the imports from CEFTA countries to Albania. Each of the top group-products account for about 20-40 percent of Albania's total exports in these products (including chemical and plastic products which have less weight in trade, but more concentration for exports – almost 40 percent of Albania's exports in this category are exported to the region). From the other side, the origin of the products imports appears less concentrated with the CEFTA countries, as imports of the main group-products originating from CEFTA countries, in best cases account for less than 20 percent of total imports of these products in Albania. This assessment confirms that trade with the CEFTA area is important for Albania, and is even more important for the Albanian exports in the region, but the structure of trade is not well diversified and substantially smaller than the trade of Albania with the European Union.

Despite the progress achieved in expanding trade with the countries in the region, **the existence of cross-border non-tariff barriers to trade**, discontent manifested by the lack of progress, because of bilateral issues, in adopting important agreements related to **the Common Regional Market**, pressure to deepen the integration in the region, delays with the EU integration process and political frustrations with CEFTA as a regional integration model, were among the reasons that induced three countries in the region – Albania, Serbia and North Macedonia, to launch in 2021 the **Open Balkan Initiative**, aiming to remove economic barriers between them by 2023. The Open Balkan Initiative was perceived as a shortcut to regional cooperation, overcoming the unresolved challenges of CEFTA and other regional cooperation initiatives. Some documents on trade facilitation and movement of persons towards a single labour market were signed by the participating countries but as of today, the Open Balkan Initiative has not yet materialized into a binding and rule-based agreement among these countries.

Apart from building mutual trust and respecting equality between the countries of the Western Balkans as a precondition for any form of economic, trade, investment, etc. cooperation, there is undoubtedly the experience created during the implementation of the Berlin Process. That is, without ever substituting through the Open Balkans Initiative EU membership as a major strategic objective of each particular Western Balkan country, organizational forms, funding support and the leading role of key EU countries become even more decisive.

## 4. Conclusions and recommendations

Albania has benefited from participating in **the regional integration process** as trade with the CEFTA area has expanded at a much faster growth rate during the CEFTA 2006 implementation period, compared to trade with the other major partners. The participation in the regional processes has strengthened Albania's capacity to make progress in the European integration process which is the overarching policy goal in the country.

There is still potential to explore from deepening the trade relations with the region, particularly supported by the attraction of the foreign investments, as trade with the region is still relatively low compared to the other WB countries.

Trade with the countries in the region is concentrated more on selected trading partners – primarily with **Kosovo on exports and Serbia on imports** – and selected group of products, which lead to the need of exploring potential for further diversification of trade within the region and on the structure of the good traded across the borders.

**The Berlin Process** provides a valuable framework of cooperation, which strengthened with the experience and lessons learned could move forward the regional integration process and the functioning of the Common Regional Market.

The experience of the last 15 years of regional cooperation has proved that the domestic institutions have a paramount importance in leading the integration processes. Consultations among the countries in the region on the reduction and removal of the NTMs, in line with the European best practices is very important to strengthen the economic ties within the WB area.

Domestic policy focus on supporting and strengthening the domestic production, specialization in production and services, and processing of goods from a regional perspective supports competitiveness improvements and utilization of comparative advantages in each country in the region.

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## III.2. A view from Bosnia and Herzegovina

Faruk HADŽIĆ<sup>183</sup>

Haris ĆUTAHIJA<sup>184</sup>

### Abstract

Bosnia and Herzegovina's foreign trade has grown over time, with an increase in both exports and imports. Exports have typically grown more slowly than imports, which is unsurprising given Bosnia and Herzegovina's reliance on food imports, particularly from neighbouring countries. The COVID-19 pandemic slowed the economy in 2020, resulting in a significant drop in the volume of foreign trade, with imports declining more than exports. Bosnia and Herzegovina signed the Central European Free Trade Agreement (CEFTA 2006) in Bucharest in December 2006, and it became effective in November 2007. Apart from Bosnia and Herzegovina, current CEFTA members are Albania, North Macedonia, Moldova, Montenegro, Serbia, and Kosovo, while Croatia, a former CEFTA member, withdrew its membership by joining the European Union. Countries – members committed to improving Southeast Europe's trading and investment policies by signing CEFTA. In practice, this meant that the free trade zone would be established in accordance with the World Trade Organization's rules and procedures. Bosnia and Herzegovina signed numerous bilateral and multilateral agreements with other CEFTA members in order to achieve CEFTA membership goals of removing trade barriers and improving cooperation. Bosnia and Herzegovina was given the opportunity to join the Common Regional Market (CRM) with several other Western Balkans countries as a member of the Western Balkans Six (WB6). This would imply that BiH can assist in the creation and establishment of a regional market based on EU rules in order to bring these WB6 countries closer to the European Single Market. This paper also includes conclusions detailing Bosnia and Herzegovina's current trade situation, trade relations with CEFTA and Visegrad Group countries, and the impact of the COVID-19 pandemic, as well as recommendations on how to improve economic and regional cooperation.

**Keywords:** Bosnia and Herzegovina, foreign trade, CEFTA, CRM

### 1. Introduction

Integration into the European Union is a key strategic, political, and economic priority for Bosnia and Herzegovina, as well as other Western Balkan countries. The integration of the Western Balkans into the European Union benefits both the WB-6 countries and the EU. As a result, in recent years, the Berlin Process, a diplomatic initiative aimed at maintaining the pace of the European integration process of the WB-6 countries that were left without the prospect of formal accession to the Union in the medium term, has emerged as an important platform for cooperation and development. Although the new EU Strategy for the Western Balkans envisions

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<sup>183</sup> Faruk Hadžić, Foreign Policy Initiative BH

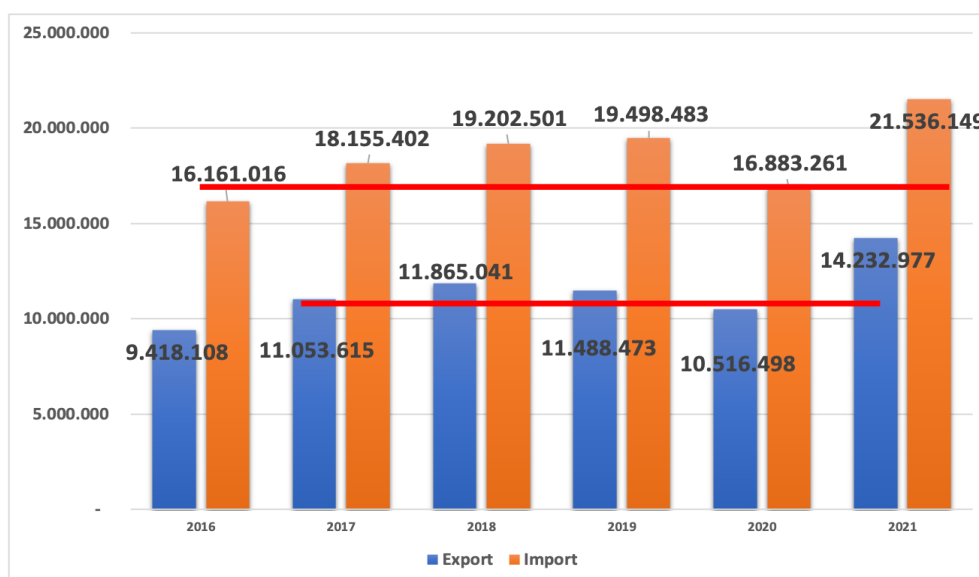
<sup>184</sup> Haris Ćutahija, Foreign Policy Initiative BH

enlargement in 2025, it appears that the Berlin Process will continue to exist because the interconnectedness of the Western Balkans is one of the key aspects of the EU integration process. **The Action Plan for the Common Regional Market 2021-2024**, supported by the leaders of the Western Balkans (WB6) - Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia - at the Berlin Process Summit in Sofia on 10 November 2020, is a continuation of efforts to improve economic cooperation in the WB6. The common regional market aims to boost the region's attractiveness and competitiveness while also bringing it closer to EU markets. Bosnia and Herzegovina's main trading partners are Germany, Serbia, Croatia, and Italy. Bosnia and Herzegovina conducts more than 70% of its foreign trade with European Union countries. Bosnia and Herzegovina signed the Central European Free Trade Agreement (CEFTA 2006) in Bucharest in December 2006, and it became effective in November 2007. As a member of the Western Balkan Six, Bosnia and Herzegovina was given the opportunity to join the Common Regional Market (CRM) with several other Balkan countries. This would imply that BiH can assist in the creation and establishment of a regional market based on EU rules in order to bring these WB6 countries closer to the European Single Market.

## 2. Foreign trade of Bosnia and Herzegovina

Observed by years, Bosnia and Herzegovina had an increase in foreign trade, through an increase in exports and imports. Exports have usually grown more slowly than imports, which is not surprising since Bosnia and Herzegovina is a country dependent on food imports, especially from neighbouring countries. Looking at the years, as shown graphically in Figure 19 it can be seen that in 2019 there was a decrease in exports from Bosnia and Herzegovina, an increase in imports, and thus a deterioration in foreign trade, which can be explained by the decline foreign demand from the main foreign trade partners of Bosnia and Herzegovina, primarily Italy. The main foreign trade partners of Bosnia and Herzegovina are **Germany, Serbia, Croatia, and Italy**. Most of its foreign trade, over **70%**, Bosnia and Herzegovina realize with the countries of the European Union, from which they import the most products, but also Bosnia and Herzegovina export the most to these markets.

Figure 19. Volume of foreign trade of Bosnia and Herzegovina by years



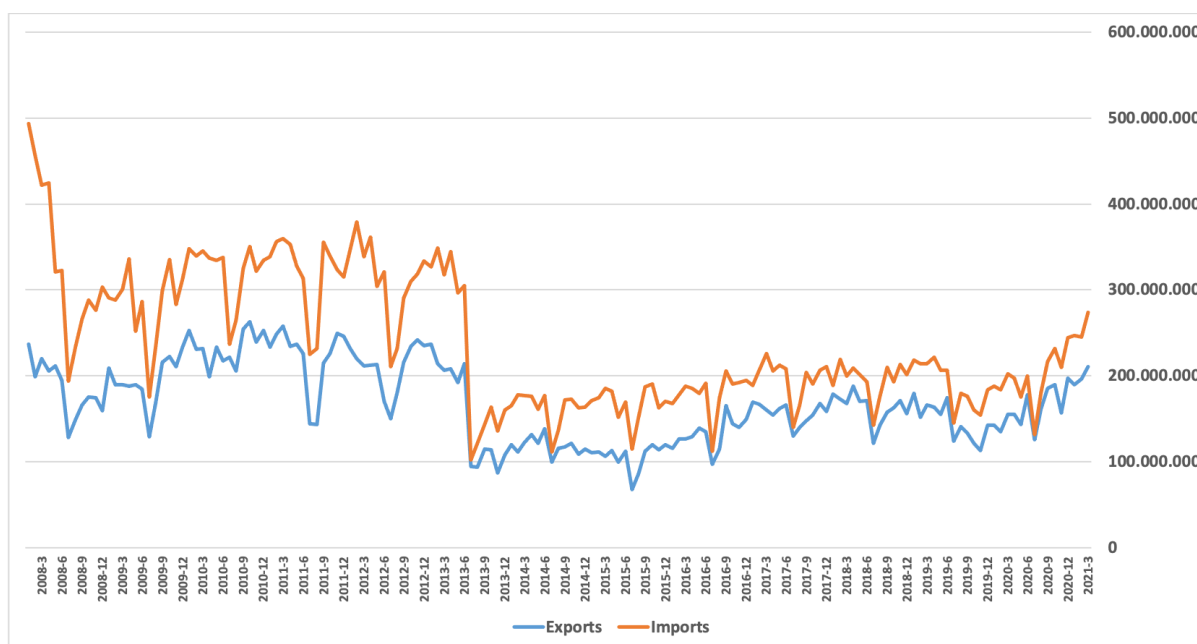
Source: Agency for Statistics of BiH



In 2020, the COVID-19 pandemic came to such a slowed economy, which led to a significant decline in the volume of foreign trade, with a larger decline in imports than exports. According to this decline, which can also be seen in Figure 14, due to the COVID-19 pandemic, Bosnia and Herzegovina has returned to the level of 2017 in terms of foreign trade. However, in 2021, due to the significant recovery of the market across the European Union, difficulties in distribution from Asia, there is a record level of foreign trade, both in exports and imports. Exports largely exceeded the record level from 2018, which, in addition to stronger demand in the EU, can also be explained by the level of inflation.

Observing the level of **foreign trade with the countries of the region** for the period January 2008 - June 2021, more specifically with CEFTA member countries, it can be seen that the level of trade between Bosnia and Herzegovina and CEFTA member countries was much higher until mid-2013, after which there is a sharp decline. This decline can be explained by Croatia's exit from CEFTA and accession to the European Union, which did not reduce the trade between Bosnia and Herzegovina and Croatia, but this level of trade was no longer recorded in this category. However, the data shown graphically in Figure 2 indicate that during the COVID-19 pandemic there was no significant decline in foreign trade between Bosnia and Herzegovina and CEFTA countries, although the total volume of trade decreased. The reason is the proximity of the countries, restrictions among the member states of the European Union, which has led to greater mutual exchange of neighbouring countries. Nevertheless, the recovery during 2021 indicates that CEFTA member countries are on track to reach the pre-2013 level of foreign trade.

Figure 20. Foreign trade of BiH with CEFTA countries for the period 01.2008. - 06.2021.

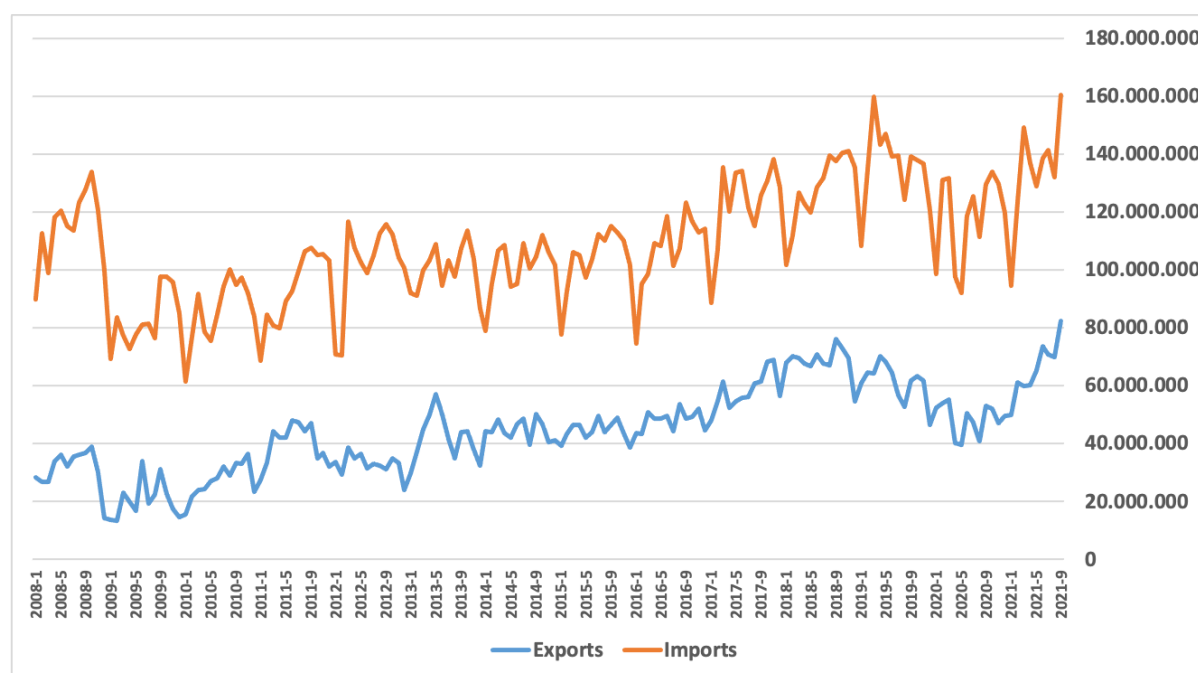


Source: Agency for Statistics of BiH

Unlike CEFTA countries, Bosnia and Herzegovina has a lower level of foreign trade with the Visegrad Group countries (Hungary, the Czech Republic, Slovakia and Poland). Data on the volume of foreign trade of Bosnia and Herzegovina and this group of countries shows that in the period January 2008 - June 2021, there was a steady increase in trade between these countries until the pandemic COVID-19, when the decline was more significant than the volume foreign

trade with CEFTA member countries. However, in the second half of 2020, there is a strong recovery and growth in the volume of trade with members of this group. If we look at the monthly levels of exports from Bosnia and Herzegovina to these countries at the beginning and end of the period, then we can see that there has been an increase of over four times the monthly level of exports, as shown graphically in Figure 16.

Figure 21. Foreign trade of BiH with the countries of the Visegrad Group for the period 01.2008. - 06.2021



Source: Agency for Statistics of BiH

These data on the volume of foreign trade of Bosnia and Herzegovina with CEFTA countries and the Visegrad Group, show **the growing importance of the regional market and integration**, which was especially evident during the COVID-19 pandemic. With a larger future volume of foreign trade, there may be an increase in the gross domestic product of all these countries, and thus the achievement of faster rates of economic growth.

### 3. European economic integration and the region – CEFTA 2006 experience and barriers to trade

Based on the data available on the official website of the Ministry of Foreign Trade and Economic relations, Bosnia and Herzegovina signed the Central European Free Trade Agreement (CEFTA 2006) in Bucharest in December 2006 and enforced it in November 2007<sup>185</sup>. Current CEFTA members, apart from Bosnia and Herzegovina, are Albania, North Macedonia, Moldova, Montenegro, Serbia, and Kosovo, whereas Croatia, a former CEFTA member, withdrew its membership by entering the European Union. By signing CEFTA, countries – members committed

<sup>185</sup> Ministarstvo vanjske trgovine i ekonomskih odnosa Bosne i Hercegovine. 2018. *Sporazum o izmjeni i pristupanju Centralnoevropskom sporazumu o slobodnoj trgovini (CEFTA 2006)*. [online] Available at: <<http://www.mvteo.gov.ba/Content/Read/regionalni-trgovinski-odnosi-cefta>> [Accessed 19 January 2022]

to the improvement of trading and investment policies for the Southeast Europe region. Practically, it meant that the free trade area is established following the rules and procedures of the World Trade Organization.

As The Ministry of Foreign Affairs highlights, Bosnia and Herzegovina is part of a free trade zone with other Western Balkan nations that are also members of the EU's stability and association process<sup>186</sup>. The purpose of CEFTA was to further liberalize regional trade, eliminate all trade barriers, and prepare countries for EU membership. In addition, all CEFTA members, including Bosnia and Herzegovina, have signed free trade agreements with the European Free Trade Association (EFTA, which unites the trade markets of Switzerland, Norway, Iceland, and Liechtenstein in the field of trade), which should eventually result to the CEFTA region and Bosnia and Herzegovina being fully integrated into the single "European Economic Area" (EEA).

In order to achieve CEFTA membership goals – **removing trade barriers and improving cooperation** – Bosnia and Herzegovina signed numerous bilateral and multilateral agreements with other members. On the 10<sup>th</sup> jubilee of signing CEFTA in BiH, former President of the Foreign Trade Chamber of Bosnia and Herzegovina, Bruno Bojić, stated that after the EU, where two-thirds of exchange are conducted, CEFTA member countries are the second most important trade partners for Bosnia and Herzegovina<sup>187</sup>. As reported by Nuhanović and Baraković Nurikić, CEFTA is for BiH one of the largest signed agreements, and the membership expedites the membership and is in a sense a basis for the EU membership<sup>188</sup>. Bearing that in mind, CEFTA membership is temporary, and based on the example of Croatia exiting CEFTA upon joining the EU.

As reported by Muš, Bosnia and Herzegovina in CEFTA mainly traded with three neighbouring countries following trading routes from former Yugoslavia – **Serbia, Montenegro, and Croatia** until EU membership in 2011<sup>189</sup>. The main reasons include already familiar and established relationships with trading partners, personal connections, clusters in the industry, and roads infrastructure that has not significantly changed over the last decades in comparison with the end of the 20<sup>th</sup> century. Serbia became BiH's most significant partner after Croatia entered the EU.

On the other hand, protectionist measures on one side might inevitably cause the other side to oppose countermeasures. One of such examples was also emphasized by Bojić, in particular, that **non-tariff barriers** among members still impose a significant challenge – including non-recognition of accredited laboratories' certificates, where BiH institute was not standardized, so bilateral agreements on mutual recognition of medical findings had to be accepted. Some of the

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<sup>186</sup> Ministarstvo vanjskih poslova Bosne i Hercegovine. 2022. *GENERALNI PREGLED*. [online] Available at: <[http://www.mvp.gov.ba/ekonomska\\_oblast/?id=5436](http://www.mvp.gov.ba/ekonomska_oblast/?id=5436)> [Accessed 21 January 2022]

<sup>187</sup> Sadiković, M., 2016. *BiH: Deset godina od potpisivanja CEFTA sporazuma*. [online] Radio Slobodna Evropa. Available at: <<https://www.slobodnaevropa.org/a/nve-deset-godina-bih-u-cefta/27980267.html>> [Accessed 20 January 2022].

<sup>188</sup> Nuhanović, S. and Baraković Nurikić, M., 2016. THE ANALYSIS OF THE INFLUENCE OF NON-TARIFF BARRIERS ON BOSNIA AND HERZEGOVINA TRADE WITHIN CEFTA 2006. *Journal of Economics and Business*, [online] XIV(2), pp.33-43. Available at:

<[https://www.researchgate.net/publication/319932505\\_THE\\_ANALYSIS\\_OF\\_THE\\_INFLUENCE\\_OF\\_NON-TARIFF\\_BARRIERS\\_ON\\_BOSNIA\\_AND\\_HERZEGOVINA\\_TRADE\\_WITHIN\\_CEFTA\\_2006](https://www.researchgate.net/publication/319932505_THE_ANALYSIS_OF_THE_INFLUENCE_OF_NON-TARIFF_BARRIERS_ON_BOSNIA_AND_HERZEGOVINA_TRADE_WITHIN_CEFTA_2006)> [Accessed 21 January 2022]

<sup>189</sup> Muš, J., 2018. *Bosnian troubles with CEFTA*. [online] Obserwator Finansowy. Available at: <<https://www.obserwatorfinansowy.pl/in-english/macroeconomics/bosnian-troubles-with-cefta/https://www.obserwatorfinansowy.pl/in-english/macroeconomics/bosnian-troubles-with-cefta/>> [Accessed 22 January 2022].

obstacles with the chicken meat trade, where Serbia also imposed different barriers to BiH but those were removed after negotiations among the competent services in favour of an unobstructed export from Bosnia to Serbia<sup>190</sup>. Šiljak in her work recognized that BiH is one of the region's least economically connected countries<sup>191</sup>. In 2017, the country's export ratio of GDP was 36%, and the country's complicated political situation has an impact on the economy. The European Commission is concerned about four primary issues: the lack of a unified domestic market, complex export processes, the lack of coordinated border controls, and the lack of a comprehensive approach to fulfil EU food safety and sanitary and phytosanitary criteria, which is why the country needs to prioritize issues including increasing exports, lowering the international trade imbalance, and addressing export structural issues.

This example shows that not all the policymakers shared sceptical and protectionist views towards CEFTA and the idea of free trade. Minister of MoFTER, Slobodan Puhac, had critics for the high custom tariffs that the Parliament had adopted, stating that closing the economy is not a good answer if BiH wants to enter a single market, first through CEFTA, and later through the EU, meaning that by creating strong competitors in the market through measures that will stimulate the domestic production rather than focusing on adopting the laws that will protect it through a variety of international agreements<sup>192</sup>.

This being said, firms exporting from Bosnia and Herzegovina confront several challenges, and according to Nuhanović and Baraković Nurikić, they include lengthy administrative procedures, technological impediments, and a protracted period for getting the necessary permissions, and the fact that EU standards are not adopted uniformly in all countries also present one of the drivers of non-tariff barriers<sup>193</sup>. The issue comes from the fact that, unlike tariffs, **non-tariff barriers** are not easily noticeable, and CEFTA members need to conduct reforms to open markets and eliminate discriminatory regulations against foreign enterprises in order to join the World Trade Organization (WTO) and the EU. After tariffs were drastically decreased in multilateral trade agreements, non-tariff barriers are now the primary obstacle to trading. Traditional non-tariff barriers were managed by signing the General Agreement on Tariffs and Trade (GATT) in 1947, but other non-regulated non-tariff barriers under the GATT/WTO system, including technical and administrative ones, are among today's most prominent protectionist measures.

Non-tariff and tariff barriers within CEFTA are greatly impacted by the political relations of the countries, which can be noticed from the example of the relation of BiH and Serbia with Kosovo.

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<sup>190</sup> Sadiković, M., 2016. *BiH: Deset godina od potpisivanja CEFTA sporazuma*. [online] Radio Slobodna Evropa. Available at: <<https://www.slobodnaevropa.org/a/nve-deset-godina-bih-u-cefta/27980267.html>> [Accessed 20 January 2022].

<sup>191</sup> Šiljak, Dž., 2019. KKI Policy Brief - Challenges and Opportunities for the CEFTA Countries. [ebook] Budapest: Institute for International Affairs and Trade. Available at: <[https://kki.hu/assets/upload/09\\_KKI-Policy-Brief\\_CEFTA\\_Siljak\\_20190206.pdf](https://kki.hu/assets/upload/09_KKI-Policy-Brief_CEFTA_Siljak_20190206.pdf)> [Accessed 17 January 2022].

<sup>192</sup> See: Muš, J., 2018. *Bosnian troubles with CEFTA*. [online] Obserwator Finansowy. Available at: <<https://www.obserwatorfinansowy.pl/in-english/macroeconomics/bosnian-troubles-with-cefta/https://www.obserwatorfinansowy.pl/in-english/macroeconomics/bosnian-troubles-with-cefta/>> [Accessed 22 January 2022]

<sup>193</sup> Nuhanović, S. and Baraković Nurikić, M., 2016. THE ANALYSIS OF THE INFLUENCE OF NON-TARIFF BARRIERS ON BOSNIA AND HERZEGOVINA TRADE WITHIN CEFTA 2006. *Journal of Economics and Business*, [online] XIV(2), pp.33-43. Available at: <[https://www.researchgate.net/publication/319932505\\_THE\\_ANALYSIS\\_OF\\_THE\\_INFLUENCE\\_OF\\_NON-TARIFF\\_BARRIERS\\_ON\\_BOSNIA\\_AND\\_HERZEGOVINA\\_TRADE\\_WITHIN\\_CEFTA\\_2006](https://www.researchgate.net/publication/319932505_THE_ANALYSIS_OF_THE_INFLUENCE_OF_NON-TARIFF_BARRIERS_ON_BOSNIA_AND_HERZEGOVINA_TRADE_WITHIN_CEFTA_2006)> [Accessed 21 January 2022]

Namely, as reported by Zejneli Loxha and Arnautović, Kosovo introduced a 10% tariff on all the goods imported from BiH and Serbia<sup>194</sup>. Moreover, the transportation of people faces even the greater challenge on the relation of Kosovo – BiH than Kosovo – Serbia, where it is necessary to enable visa liberalization as Kosovo citizens cannot travel to BiH with a green card with which they can travel to Serbia.

Based on the aforementioned example of BiH – Kosovo political and economic disputes and CEFTA violations, it can be concluded that non-tariff barriers still exist in the CEFTA zone. Some of these barriers are the result of the faster pace of EU integration and adoption of the EU acquis for some countries compared to others, while others are connected to improved efficiency, harmonization, and customs procedures simplifying in CEFTA countries. In 2013, when the report on the effects of stabilization and association agreements and CEFTA 2006 on WB6 EU integration and regional cooperation was issued<sup>195</sup>, there were five unresolved cases involving non-customs barriers filed by BiH, whereas there were three filed against BiH.

However, it is of utmost importance to observe BiH not only on the regional level but also at the global level in terms of **the competitiveness and structural capacity**. As Kosić pointed out in his work, BiH is ranked below other WB countries – including CEFTA members – with having the lowest global competitiveness index in the Balkans. Moreover, BiH is among the 10 worst-rated countries of 137 in the ability to innovate, the ability to retain and attract talent, the effects of taxation on investment incentives, and the time it takes to start a business<sup>196</sup>. All these factors significantly decrease the country's competitiveness, and such low scores indicate the urgency of the problems to be solved and the need for socio-economic structural reforms in the country. The level of FDI is still very low, which is a reflection of a complicated and unfavourable business environment. Kosić's discoveries suggest that BiH's competitiveness is much lower than that of newly admitted EU nations<sup>197</sup>. The private sector in the country is weak, production is poor, and development should be more export-oriented. In general, Bosnia and Herzegovina has a low export rate because it lacks sufficient products or services to export and competes within a demanding foreign countries market.

To achieve and fully embrace all the benefits of regional integrations, as Međak et. al. state, it is tremendously important for BiH to work on macroeconomic and political stabilization and structural changes<sup>198</sup>. But, having in mind the current conditions in the Bosnian market, conclusions are that CEFTA 2006 was rather beneficial in BiH, especially in increasing the trade

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<sup>194</sup> Zejneli Loxha, A. and Arnautović, M., 2018. *Jedino Kosovo pod lupom Brisela zbog kršenja CEFTA*. [online] Radio Slobodna Evropa. Available at: <<https://www.slobodnaevropa.org/a/kosovocefta-carine-bih-srbija/29587890.html>> [Accessed 21 January 2022]

<sup>195</sup> See: Međak, V., et. al., 2018. *Effects of Stabilisation and Association Agreements and CEFTA2006 on WB6 European Integration and Regional Cooperation: Achievements and Ways Forward*. [ebook] Belgrade: European Movement in Serbia. Available at: <<https://vpi.ba/wp-content/uploads/2018/06/SAP-CEFTA-WB6-2.pdf>> [Accessed 25 January 2022].

<sup>196</sup> Kosić, I., 2018. *Europska (re)konekcija Balkana: Potraga za novim modalitetima suradnje*. [online] Vanjskopolitička Inicijativa BH. Available at: <[http://vpi.ba/wp-content/uploads/2018/06/Politicka-Analiza\\_Evropska-rekonekcija-Balkana\\_bhs.pdf](http://vpi.ba/wp-content/uploads/2018/06/Politicka-Analiza_Evropska-rekonekcija-Balkana_bhs.pdf)> [Accessed 25 January 2022].

<sup>197</sup> Ibid.

<sup>198</sup> Međak, V., et. al., 2018. *Effects of Stabilisation and Association Agreements and CEFTA2006 on WB6 European Integration and Regional Cooperation: Achievements and Ways Forward*. [ebook] Belgrade: European Movement in Serbia. Available at: <<https://vpi.ba/wp-content/uploads/2018/06/SAP-CEFTA-WB6-2.pdf>> [Accessed 25 January 2022].

volume after the enforced agreement, which also contributed to mitigating political tensions among the countries-members. By accepting CEFTA 2006 and executing the SAA, BiH became exposed to foreign trade liberalization and economic adaptation, which should improve BiH's international competitiveness before the EU membership. However, as can be seen, there is still room for improvement of CEFTA, particularly in terms of removing non-tariff barriers and further trading liberalization, which would aid in enhanced growth potential for the country and the region as a whole, but a prerequisite for this growth potential to be obtained is to enforce such reforms within the country that they would bring macroeconomic stabilization.

Also, as previously emphasized, even though trade inside **CEFTA 2006** expanded as tariffs were lifted, the presence of non-tariff barriers makes intra-regional trade complicated and restricted. Nuhanović and Baraković Nurikić conclude that when it comes to export, exporting nations confront complex procedures at border crossings, such as red tape or customs and inspection agencies that operate irregular hours<sup>199</sup>. Furthermore, acquiring certificates is a significant challenge due to the country's lack of globally recognized accreditation and certifying authorities. International and domestic standards are not aligned, and each nation has its own set of rules and equipment testing. As a result, certain products are subjected to two rounds of testing and inspection, with transportation and infrastructural challenges facing complex permit-issuing systems. International trade between BiH and other countries in the area is also being hampered by the growing incidence of smuggling and corruption. Certain major findings concerning correlation were made based on the examination of import, export, and data for non-tariff barriers (administrative, technical, sanitary, and phytosanitary). Within CEFTA, a substantial connection was discovered between non-tariff barriers and BiH import/export, proving that the enforcement of non-tariff barriers does have an impact on import and export volume, whereas the rise of administrative and technical barriers has a negative impact on imports. Because the values obtained of their correlation coefficients are the highest, sanitary and phytosanitary barriers have the greatest impact on the export of services and goods, and implementation of countermeasures by one country is directly influenced by the non-tariff barriers enforcement by another one. In that manner, the government is ought to enact and execute the EU-mandated legislation, which would resolve the issue of exporting to both the EU and CEFTA countries. CEFTA 2006 is a temporary trade agreement that allows non-EU Balkan countries to have easier and better economic cooperation with the ultimate goal of entering the EU, where the presence and respecting CEFTA is significantly important for BiH to be maintained until the EU membership, mainly because the regional trade should be respected until it is expanded from the regional to the level of entire Europe.

#### 4. CRM Implementation in BiH

Bosnia and Herzegovina (BiH) as a member of the Western Balkan Six (WB6), was given a phenomenal, yet often debated, opportunity to join **the Common Regional Market (CRM)** with several other Balkan countries. This would mean that BiH can help create and establish a regional

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<sup>199</sup> Nuhanović, S. and Baraković Nurikić, M., 2016. THE ANALYSIS OF THE INFLUENCE OF NON-TARIFF BARRIERS ON BOSNIA AND HERZEGOVINA TRADE WITHIN CEFTA 2006. *Journal of Economics and Business*, [online] XIV(2), pp.33-43. Available at: <[https://www.researchgate.net/publication/319932505\\_THE\\_ANALYSIS\\_OF\\_THE\\_INFLUENCE\\_OF\\_NON-TARIFF\\_BARRIERS\\_ON\\_BOSNIA\\_AND\\_HERZEGOVINA\\_TRADE\\_WITHIN\\_CEFTA\\_2006](https://www.researchgate.net/publication/319932505_THE_ANALYSIS_OF_THE_INFLUENCE_OF_NON-TARIFF_BARRIERS_ON_BOSNIA_AND_HERZEGOVINA_TRADE_WITHIN_CEFTA_2006)> [Accessed 21 January 2022]

market that is based on the EU rules to bring these WB6 countries closer to the European Single Market. This initiative is built upon the success and lessons learned from the Regional Economic Area, which initially had debatable results with its implementation<sup>200</sup>. Furthermore, the Minister of Foreign Affairs of Bosnia and Herzegovina, Bisera Turković, stated that by signing the document that confirms BiH's participation in the CRM, they have opened the doors to many possibilities. BiH has committed to accepting and following the standards of the EU market, which means that local companies can open to the market of the region with **18 million residents**. The market will be organized to adhere to all four freedoms of the EU: to provide services, freedom of movement of capital, goods, and persons. Additionally, this participation will allow BiH academic diplomas and professional qualifications to gain wider recognition thus, citizens can have access to the broad labour market of the WB6. As a member of the CRM, as Turković states, BiH is one step close to entering the EU market<sup>201</sup>.

The document signed includes nine billion euros that cannot be refunded and serve the purpose of aiding the country in improving its infrastructure to best accommodate all the needs of the CRM. Furthermore, the digitalization of the country will play a significant role in ensuring BiH's one step closer to the EU market. Nevertheless, for true improvement the country is looking at significant renewable energy improvements; the green agenda implies possible energy transformations that will open new job possibilities in the future. Turković adds, with not having these documents signed BiH would have been the only one out of the WB6 that did not decide to participate which would not bring benefits to the country<sup>202</sup>. The public tends to misinterpret the circumstances that are related to the initiative of the CRM, however, Turković stresses out the importance of BiH's participation by explaining that the main goal is to satisfy the Four Freedoms for the Western Balkans that have already been accepted by other participants<sup>203</sup>. In addition, some media platforms and political circles undermine the importance of BiH's participation in the so-called Mini Schengen. These groups believe that the moment CRM was signed in the Berlin Process its validity disappeared in a sense that the importance in terms of ideas will not be sustained. The main concern is the scope of all modalities of the market integration in BiH and other WB6 countries.

The focus is on job creation and regional growth that can only be achieved if all WB6 countries move forward quickly to develop **the CRM**. The elimination of all obstacles is vital for the progression. The completion of Corridor 5c is one example of how BiH can be connected to its neighbouring countries as well as it is a symbol of no more barriers. This is the main path to the success of the Economic and Investment Plan and taking one step closer to the EU accession process.

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<sup>200</sup> See: *Regional Cooperation In The Western Balkans*, Balkan Policy Research Group, viewed 14 January 2022, <[https://balkangroup.org/wp-content/uploads/2021/02/Regional-Cooperation-in-the-Western-Balkans\\_Regional-Economic-Area-the-mini\\_schengen-and-the-Common-Regional-Market-WEB-1.pdf](https://balkangroup.org/wp-content/uploads/2021/02/Regional-Cooperation-in-the-Western-Balkans_Regional-Economic-Area-the-mini_schengen-and-the-Common-Regional-Market-WEB-1.pdf)>

<sup>201</sup> Ministarstvo vanjskih poslova Bosne i Hercegovine. 2022, Available online at: <<http://www.mvp.gov.ba>> [Accessed 21 January 2022].

<sup>202</sup> Ibid.

<sup>203</sup> Ibid.



According to the Regional Cooperation Council, **the CRM** could bring a **2.5%** increase in GDP with EFTA integration, but with the EU integration, that number could rise to **6.7%**<sup>204</sup>. The International Monetary Fund estimated that if the countries were integrated into global value chains, the GDP could reach an increase of **10%**. Additional benefits for BiH would be that the CRM would allow the population to travel the region with **ID cards** only, trade would be facilitated in the sense of food products and industrial goods through mutual recognition agreements (if one good is satisfactory for the internal market then it is for the region). Similarly, there would be increased possibilities for individuals to work in their profession and students would be offered studies throughout the region. The development of the regional digital market is high on the benefits list because it allows for e-commerce, digital services, data economy, and many more. An opportunity for easier border crossings by expanding the green line initiative that would cut the waiting time at borders up to 70% of the current time. Finally, CRM will allow BiH to introduce lower costs of regional payments.

As explained by **the Chamber Investment Forum Western Balkan 6**, the expected effects of CRM are already present in the region<sup>205</sup>. There has been an introduction of common mechanisms used to manage trade and the removal of non-tariff barriers was presented, and some of the non-tariff barriers are already in operation some are yet to be adopted. BiH is experiencing changes in legislation regulations and the impact on the operations of many companies in the country are to change as the legislation does. BiH and the region will, in addition, experience effects on the business environment, digital and innovative aspects due to regional investments as measures are being taken to ensure the adoption of the investment measures and their regional support<sup>206</sup>.

The implementation of the CRM remains a challenge to BiH considering that the majority of the issues are **technical** and need to be considered by all WB6 countries to prepare them for implementation in the national context<sup>207</sup>. These technical issues for BiH are problems that require **political** solutions, especially if the problem is observed from a different perspective; relationships between BiH and Kosovo. The CRM, according to the Balkan Policy Research Group, will have an even more difficult time resolving existing bilateral disputes among the WB6<sup>208</sup>. The government of BiH has a difficult time living up to its agendas and is currently vulnerable to internal struggles. If such issues cannot be resolved the CRM will not bring any benefits to BiH and will face the same fate as the previous regional initiatives.

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<sup>204</sup> Bregu: *Common Regional Market Is A Stepping Stone For The Western Balkans To Align With Eu Single Market Rules*, Regional Cooperation Council, viewed 14 January 2022, <<https://www.rcc.int/news/652/bregu-common-regional-market-is-a-stepping-stone-for-the-western-balkans-to-align-with-eu-single-market-rules>>

<sup>205</sup> *Info day on the topic "Implementation of the Common Regional Market Plan (CRM) – Benefits and challenges for the business in Bosnia and Herzegovina*, Chamber Investment Forum Western Balkan 6, viewed 13 January 2022, <<https://www.wb6cif.eu/2021/03/23/info-day-on-the-topic-implementation-of-the-common-regional-market-plan-crm-benefits-and-challenges-for-the-business-community-in-bosnia-and-herzegovina/>>

<sup>206</sup> See: *Info day on the topic "Implementation of the Common Regional Market Plan (CRM) – Benefits and challenges for the business in Bosnia and Herzegovina*, Chamber Investment Forum Western Balkan 6, viewed 13 January 2022, <<https://www.wb6cif.eu/2021/03/23/info-day-on-the-topic-implementation-of-the-common-regional-market-plan-crm-benefits-and-challenges-for-the-business-community-in-bosnia-and-herzegovina/>>

<sup>207</sup> See: *Regional Cooperation In The Western Balkans*, Balkan Policy Research Group, viewed 14 January 2022, <<https://balkansgroup.org/wp-content/uploads/2021/02/Regional-Cooperation-in-the-Western-Balkans-Regional-Economic-Area-the-mini-schengen-and-the-Common-Regional-Market-WEB-1.pdf>>

<sup>208</sup> *Regional Cooperation In The Western Balkans*, Balkan Policy Research Group, viewed 14 January 2022, <<https://balkansgroup.org/wp-content/uploads/2021/02/Regional-Cooperation-in-the-Western-Balkans-Regional-Economic-Area-the-mini-schengen-and-the-Common-Regional-Market-WEB-1.pdf>>

The problem began with BiH's initial response to the idea of CRM. The political system is not only complex but a very expensive one where all decisions regarding adopting the path to EU accession are often ignored due to political reasons. Even if a step in the right direction is made it is thanks to the interference of international parties. As Šehović stated when the idea of CRM was first introduced the BiH presidency disregarded it, claiming that there is no point in BiH entering such an arrangement because CEFTA has been present since 2006 offering similar benefits to those of CRM<sup>209</sup>. Additionally, Republika Srpska (RS) already has an established relationship with Serbia, allowing RS citizens to cross the border with an ID card only.

Šehović further elaborates by stating that BiH should have mobilized its diplomatic troops in Serbia, Albania, North Macedonia, and Montenegro in order to gain as much information on the initiative as possible<sup>210</sup>. Furthermore, these diplomatic troops should have been mobilized in the EU to state why this movement should not take place or to offer full support if BiH's interest will not be endangered. Nevertheless, a year had gone by until the Presidency ordered its relevant institutions to do the necessary research. It is believed that the USA supporting CRM in the Serbia-Kosovo agreement was the initial push BiH needed.

The negotiating position of BiH in the matter has been significantly weakened by the, often, shown disinterest and lack of activity on the Presidency's part. If BiH did decline to become a member of CRM it would have been isolated and alone between the EU Schengen and the CRM. However, BiH did accept to participate and now a new problem is on the horizon. BiH is a developing economy that has suffered major blows in its lifetime. The recovery process from the last war had not played its part thus leaving the country in tight inner relations. This has greatly been reflected in how BiH deals with major issues. For that reason, BiH is in danger of being overshadowed by Serbia who has the most developed economy out of all regional countries. Furthermore, BiH was not participating in the negotiating process from the beginning. Šehović<sup>211</sup> explained that BiH made the same mistake in 2006 with CEFTA because it did not partake in the negotiation of its position thus leaving the country with higher imports of regional products and low exports of domestic ones.

According to Muminović, many believe the creation of CRM and its implementation is just a political stunt to paint a picture of good neighbourly cooperation<sup>212</sup>. The reason is the Multi-Annual Action Plan on Regional Economic Area (MAP REA), whose goals are overlapping with those of CRM. The creation of MAP REA was approved on the requests of the WB6 leaders, and it was supported by the European Commission. In contrast to CRM, the MAP REA provides a needed structure that is a must for any initiative especially CRM in order to provide a strategy, action plan, objectives, benchmarks, indicators, measures, a much-needed financial resource plan, and qualified staff. Considering that CEFTA did not live up to its reputation and similarly the MAP REA,

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<sup>209</sup> Šehović, H 2021, *EU Enlargement And Mini-Schengen-The case of Bosnia and Herzegovina*, 3 October, Quo Vademus, viewed 13 January 2022, <https://quo-vademus.org/eu-enlargement-and-mini-schengen/>

<sup>210</sup> Ibid.

<sup>211</sup> Ibid.

<sup>212</sup> Muminović, E 2020, *Mini-Schengen, Regional Economic Area and Common Regional Market: What is what?*, 15 December, European Western Balkans, viewed 14 January 2022, <https://europeanwesternbalkans.com/2020/12/15/mini-schengen-regional-economic-area-and-common-regional-market-what-is-what/>

it is difficult for experts to for certain state that the CRM will be any different. The mentality that is dominant in BiH is that of a less-educated population that knows no better than what is currently provided for them. As long as the war is out of the question the population tends to request very little change despite it being mandatory.

Brezer<sup>213</sup> explains that the issues still present in BiH are related to rampant **ethno nationalism** that led the country to be suspicious of joining an initiative led by the Serbian President. The tension among regional countries is not to be ignored. Even some Montenegro leaders are fighting against the rise of Serb nationalism. The tensions in BiH are increasing by the day thus it is very difficult for many in the country to focus on other topics including CRM. Such issues will not be resolved by BiH's participation in CRM or even its success in the market. Brezer<sup>214</sup> wrote that Vogel stated how anyone that might think that these types of measures that highlight confidence building are underestimating the possible dangers of the economy-focused approach. However, the danger currently hiding is that the economic cooperation will run up against rising tensions and political obstacles. The EU will most likely turn to the economy if the political situation in BiH becomes too tight; this has never been successful because all of the political issues in BiH have been created through the corruption of its government, and these political issues will one day catch up to all unresolved economic issues. This will not only limit BiH's success in an already Serbian-dominated CRM but might further create instability in the country. Serious supportive measures must be created to ensure its proper functioning in the CRM and protect the future of Bosnia and Herzegovina.

## 5. Conclusion and Recommendations

- Bosnia and Herzegovina has **achieved significant economic benefits** through the regional free trade market. Through regional cooperation, trade has increased significantly.
- Most of its foreign trade, over **70%**, Bosnia and Herzegovina realizes with the countries of the European Union.
- Due to **the COVID-19 pandemic**, Bosnia and Herzegovina has returned to the level of 2017 in terms of foreign trade. However, the economic recovery in the markets of the European Union during 2021, led to a strong increase in exports.
- **CEFTA countries are important foreign trade partners** for Bosnia and Herzegovina. Until Croatia's exit from CEFTA in 2013, the volume of foreign trade grew among member countries, so it is expected to return to pre-2014 levels soon.
- **Foreign trade between the countries of the Visegrad Group and Bosnia and Herzegovina is constantly growing.** Exports from Bosnia and Herzegovina, on a monthly basis, increased up to four times at the end of 2021 compared to 2008 with a tendency to increase after recovery after the COVID-19 pandemic.
- To improve economic and regional cooperation, it is crucial to **improve the business environment and reduce trade barriers** between countries. A step towards this can be stronger regional cooperation through the formation of a free trade zone and the

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<sup>213</sup> Brezer, A 2021, *As EU membership stalls, Balkan countries make controversial move to create their own mini-Schengen*, 31 August, Euronews, viewed 13 January 2022, <https://www.euronews.com/2021/08/31/as-eu-membership-stalls-balkan-countries-make-controversial-move-to-create-their-own-mini->

<sup>214</sup> Ibid.

elimination of restrictions on the movement of the four economic freedoms - goods, services, people and capital.

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### III.3. A view from Kosovo\*

Visar VOKRRI<sup>215</sup>

Alban HASHANI<sup>216</sup>

#### Abstract

This paper provides an assessment of existing as well as recently launched initiatives on the Western Balkans regional economic cooperation. It also examines challenges of the CEFTA implementation and potential avenues for deepening regional integration of the Western Balkans and its approximation to the EU. Trade barriers, especially non-tariff barriers, remain the biggest challenge that is undermining the regional cooperation potential. Efforts towards further integration of the region unfortunately have not produced any significant result to date. Hostility among the countries in the region and the lack of political willingness to address existing disputes are the main cause of the lack of progress. Political normalization between the Western Balkans countries, especially between Kosovo and Serbia, and equality among partners are the main preconditions for deepening regional economic cooperation.

**Keywords:** Western Balkans, Regional Integration, Common Market, Customs Union, CEFTA.

#### 1. European economic integration and the region - CEFTA 2006 experience and barriers to trade

The Central Europe Free Trade Agreement (hereafter “CEFTA”, “Agreement”) represents a stepping-stone towards the integration of Western Balkans more closely with the EU. Since its ratification in 2007, trade flows between Kosovo and the countries in the region have been intensified although it is not clear to what extent the steady increase in trade volumes may be attributed to this agreement. Historically, regional countries, namely ex-Yugoslav entities, were the main trading partners of Kosovo, mainly due to the political context as well as geographic proximity and other cultural ties; trade structure and partners are more or less the same also in the modern history of Kosovo. Today, neighboring countries, namely **Albania, Serbia, and North Macedonia**, account for around 20% of Kosovo’s total trade flows or 90% of trade within the CEFTA. Due to its narrow export base, Kosovo exported mainly raw materials, however, in the recent years the volume of value-added complex exports has systematically increased.<sup>217</sup> On the other hand, **imports from the CEFTA** market include mainly processed, more complex, goods. In nominal terms, the value of both imports and exports with the CEFTA market is increasing, albeit disproportionately, leading to an ever-increasing gap. Trade balance in Kosovo was systematically negative since early 2000s, in particular with the CEFTA partners. In 2021 the **total trade deficit** was around 3.6 billion Euros which in relative terms is equivalent to almost **50% of Kosovo’s GDP** for the reporting year. When considering trade partners individually, we

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<sup>216</sup> Alban Hashani, Executive Director at Riinvest Institute;

<sup>217</sup> Trade data available at Kosovo Customs webpage <https://dogana.rks-gov.net/en/per-doganen/statistikat-dhe-arritjet/trading-balance-based-on-tariffs/>;



don't see any change in patterns after joining CEFTA. On average, during the last one and half decades, top three partners, namely Albania, Macedonia and Serbia, accounted for almost 90% of trade flows within CEFTA. A plausible explanation for the persistence in trading partners is that neighbouring countries provide the easiest market access for the majority of tradable goods as trade costs are lower over small distances. In addition, the region suffers from lack of competitiveness in general, in manufacturing sector in particular, which could also explain the persistence in trade patterns within CEFTA. Except geographical proximity, cultural ties play also an important role in the trade flow patterns between the member countries. Albania was the main export partner of Kosovo since early 2000s while the intensity of exports has increased markedly after the highway in Northern Albania was inaugurated in mid-2009.

**The main objectives of CEFTA 2006**, among others, include expansion of trade in goods and services and foster investments by means of fair and predictable rules, eliminate barriers to trade between the member countries, provide protection of intellectual property rights in accordance with international standards as well as to harmonize provisions on modern trade policy issues such as competition rules and state aid. In order to meet its basic objective and become the agreement on free trade in the region, with relevant market rules and equal treatment of all exporters, barriers that restrict and harm the trade should be eliminated. However, its implementation has been systematically challenged from political barriers and unfair trade practices, mainly non-tariff barriers that have been introduced by the parties. Moreover, the lack of proper dispute settlement mechanism that would deal with unfair practices introduced by any of the agreement signatories, has also contributed to intensification of such prohibited practices. The majority of reported problems by member countries refer to technical barriers to trade, sanitary and phytosanitary measures, unnecessary pre-shipment inspections at the place of departure and additional charges. The majority of the reported problems have been appearing in the food processing and beverages industry.

Exporting companies in Kosovo have been regularly reporting unfair practices that they faced at the border of exporting markets within CEFTA region. **Most common barriers** that have been identified by Kosovo authorities are of technical nature (**TBT**) as well as sanitary and phytosanitary standards (**SPS**). There were several cases reported by exporting companies of agricultural products to Albanian market that official papers issued by certified laboratories were not recognized by relevant food authorities in Albania. In addition, application of seasonal reference prices related to different agricultural products originating from Kosovo, remain one of the main challenges those Kosovan agri-businesses face. There are also several reported cases of anti-competitive practices (**dumping prices**) applied by Albanian firms exporting to Kosovo (e.g. the case of eggs). Such distortions restricted competition and directly affected the domestic industry in Kosovo.

Dumping prices were also applied by Serbian businesses. Department of Trade within the Ministry of Trade and Industry in Kosovo reported that construction industry as well as wheat sector, namely wheat flour, were mainly affected by such anti-competitive practices. On the other hand, Kosovo exporters systematically were facing different challenges when exporting to Serbia. Long delays at the border and SPS related requirements are few of the most common barriers. Serbian authorities still do not recognize quality standards related certificates issued by relevant institutions in Kosovo. There are also cases where Serbian authorities, allegedly for political reasons, have been neglecting issuance of import licences for several industrial products with Kosovo origin. Documentation issued by relevant authorities in Kosovo related to fish and many other animal origin related products still are not being fully recognized by Serbian counterparts. Since the declaration of independence, Kosovan businesses very often are forced to use



alternative routes when exporting/importing to/from EU market since they are not allowed to use Serbian territory as a transit route. Lastly, businesses from Kosovo also reported that they are discriminated in public procurement activities in Serbia as any documentation issued by Kosovo authorities are considered as void.

Producers of construction materials have also been occasionally complaining about excessive requirements from North Macedonian Customs. Clay materials originating from Kosovo without European Conformity certificate (CE Mark) were not allowed to enter Macedonian market. Unless clay products are destined for the European market, such a measure was considered as a discrimination against Kosovan producers.

Also, Montenegrin authorities have imposed technical barriers towards made-in Kosovo products. Additional tests and examination required by border authorities in Montenegro are among the most common issues preventing fair trade between the two countries.

As with Serbia, most of the barriers imposed by BiH authorities were of political nature. Sporadic obstructions due to non-recognition of relevant Kosovo authorities and official papers issued by them, mainly Food and Veterinary Agency of Kosovo, still hinder the normal trade flows as well as free movement of people and via respective countries. However, non-tariff obstacles were also reported by businesses importing goods from BiH such as customs clearance delays imposed by Kosovan authorities. According to importers, such delays were imposed only towards “made in BiH” products as a retaliatory measure in response to BiH actions towards Kosovo exports. This barrier was mainly applied to animal origin related products and occasionally to other imported products from BiH.

Except the above-mentioned obstacles that prevent proper functioning of the trade agreement between the member countries, **the lack of an independent dispute settlement mechanism**, is further hindering closer economic integration of the region. Any trade agreement is not worth if its obligations cannot be enforced when one of the signatories fails to comply with such obligations. An effective mechanism to settle disputes will certainly strengthen the commitments that signatories undertake in a trade agreement. Most of the disputes that were reported by Kosovo relevant authorities to CEFTA secretariat have been resolved, when there was political will, through mutual understanding. In the cases where implementation of the agreement was challenged due to open political issues with Serbia and BiH, Joint Committee as a governing body of CEFTA failed to ensure compliance with settlement procedures as set out in the agreement.

Although there were several attempts to push forward the idea of establishing a proper dispute settlement body, the lack of political will from the member countries, remain a major stumbling block in overcoming current compliance challenges and the overall implementation of the agreement.

## **2. Common Regional Market: Regional cooperation, quo vadis?**

Regional cooperation aimed at integrating WB countries with the ultimate goal of EU integration has been and remains a priority of all countries in the region. However, the major changes that have taken place in recent years that threatened the EU cohesion have indirectly affected the WB countries' European future as well. The EU is closely linked to WB in many aspects; the EU remain the main trading partner of all countries in the WB region, in particular the EU countries bordered

or close to the WB region such as Austria, Greece, Germany, Italy, and Slovenia. Most importantly, the largest donor and contributor to the economic, social and political development of all countries in the WB, with no exception, is **the EU** with its funds from the Instrument for Pre-Accession (IPA) mechanism. In recent years, however, there is an evident 'fatigue' from enlargement within the EU, as various circles are increasingly discussing other modalities of integration for WB<sup>218</sup>. Variety of alternatives, from creating a pre-integration 'antechamber' in the medium term to other options that further postpones integration or even aim to replace it.

Voices regarding new modalities of regional economic cooperation were more frequent after the deadlocks that the countries of the region had in the implementation of the commitments arising from the Joint Declaration of the Trieste Summit in 2017, namely the establishment of **the Regional Economic Zone**. In this new reality, different arrangements that promote higher regional cooperation and integration have emerged, such as the Regional Economic Area, the Mini-Schengen, the Customs Union or some other ideas which have been mentioned sparingly after the Berlin process, and especially following the statement of French President Macron in 'The Economist' about the idea that WB6 be given a more privileged partnership instead of full EU integration, until the latter reconsiders its future enlargement modalities<sup>219</sup>. While the WB6, rather in a clumsy and non-uniform way, continue their work in the MAP REA agenda, another idea from the European Stability Initiative (ESI) proposes a complete restructuring of the methodology of the current criteria for EU membership. According to this proposal, the WB6 should be given the opportunity to enter the common European market based on the model of Iceland, Liechtenstein, Norway and Switzerland<sup>220</sup>.

Against this background, it is essential to analyze the challenges of implementing these proposals considering possible changes in the EU's approach regarding the enlargement process. This section aims to shed light on the four modalities of regional economic cooperation which have been discussed and some have already been initiated, as well as the position of Kosovo towards them.

### 3. 'Mini-Schengen' of the Western Balkans

A 'Schengen area' for the Western Balkans would mean the free movement of individuals, capital, goods and services without border controls. Participation in such a platform should reflect economic and political interest as well as opportunities to advance political and economic relations for member countries. In summer 2021 "Mini-Schengen" was renamed as "**Open Balkans**" following the joint announcement by the leaders of the three WB countries, namely North Macedonia, Albania, and Serbia, that border controls between the three countries will be abolished by 2023.

Although it was proclaimed in the media that the idea was launched jointly by the Prime Minister of Albania, Edi Rama and the President of Serbia, Aleksandar Vucic, it seems that the foundations of the idea are in the Multi-Annual Plan (MAP), for the regional integration of WB6, approved by the head of states during the Trieste Summit in 2017, the fourth consecutive Summit of the Berlin Process.

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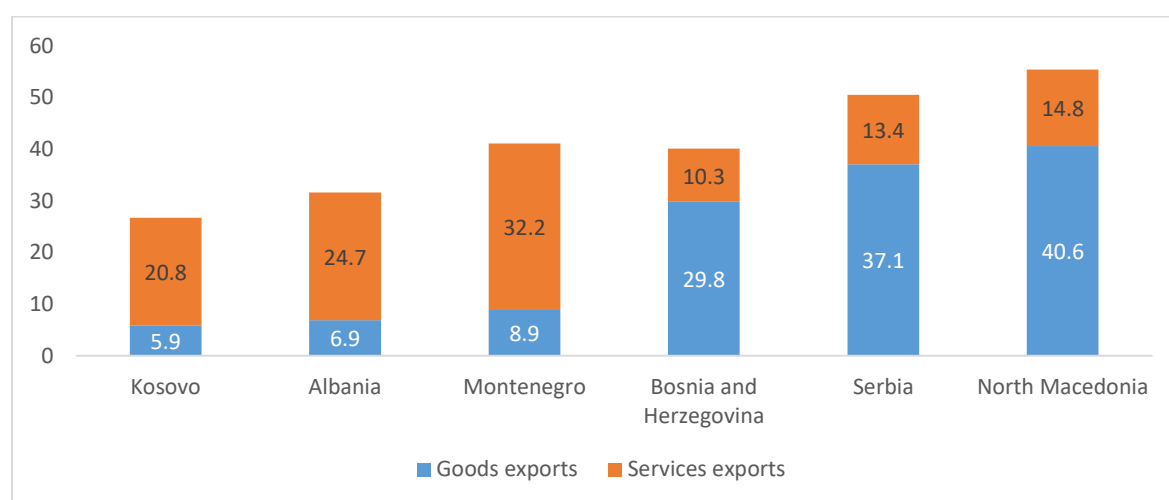
<sup>218</sup> The Economist (2019). Emmanuel Macron in his own words. The French president's interview with The Economist

<sup>219</sup> The Economist (2019). Emmanuel Macron in his own words. The French president's interview with The Economist

<sup>220</sup> European Stability Initiative (2019). Coup de grâce – Delors and squaring the circle – Norway in the Balkans. ESI Newsletter 6/2019. Berlin, Germany

Through this document, the WB6 representatives pledge to work towards a perspective for the region where the four fundamental freedoms that are the pillars of the functioning of the EU will be implemented in the region as well: the free movement of people, capital, goods and services. Kosovo's continued absence in regional meetings, but also the skeptical approach of Bosnia and Herzegovina, and Montenegro signals that this platform is not in full harmony between the WB countries, which turns this initiative into just a mini "**Mini-Schengen**". Let us isolate for a moment the political dimension of this initiative and focus only on its economic dimension. Kosovo's as well as Montenegro's and Albania's exports are dominated by services, not goods; on the other hand, exports in Bosnia and Herzegovina, Northern Macedonia, and Serbia, are dominated by goods (figure 1). Therefore, with little analytical skills it can be assumed that 'Mini-Schengen' beyond CEFTA, should simultaneously advance the liberalization of trade in goods and services to create a sustainable regional trading platform that will benefit all participants. So, a 'Mini-Schengen' would make sense if, in addition to trade in goods, trade in services will be also fully liberalized. Only then it would enable a level playing field where all countries will have equal opportunities to compete in such a platform.

Figure 22. . Exports of goods and services as a share in GDP, 2017 (% GDP)



Source: Bartlett, W., Krasniqi, B., and Ahmetbasić, J. (2019). LSEE-CEFTA Research Papers on International Trade Barriers to cross-border trade in intermediate goods within regional value chains in the CEFTA region. London, UK

However, past experiences have shown that **the liberalization of services** is a much more complex and difficult process compared to that of goods. The rhetoric regarding border crossing with identity cards does not achieve this goal. Liberalization of services would mean, among other things, the harmonization and mutual recognition of diplomas, certificates, and licenses.

Considering that the export structure of Kosovo, Montenegro and Albania is dominated by services, the inability to compete with the exports of goods at the regional level and the failure of CEFTA to guarantee an advantage of the liberalization of trade in goods reinforces the skepticism of Kosovo and Montenegro regarding this regional initiative. Therefore, in economic terms, the position of Kosovo and Montenegro regarding the 'Mini-Schengen' initiative is clearly justified. Furthermore, attracting foreign investments in manufacturing sectors for Kosovo, Montenegro and Albania in the short run does not seem to change the structure of exports in these countries. Moreover, manufacture of goods in these countries remains for a while far from the potential of North Macedonia and Serbia. However, in these circumstances, the economic position of Albania with "Mini-Schengen" is arguable, especially without the full participation of Montenegro and Kosovo. Without the support of Kosovo and Montenegro, Albania's negotiating power is weaker

for an effective 'Mini-Schengen' that would ensure full liberalization of services along with the liberalization of goods, thus mitigating the certain negative effects on the trade balance with other member countries. But, in a scenario where Kosovo and other skeptical countries (i.e., Montenegro) joins the initiative, the negotiating position of the countries with higher exports of services would be stronger.

It is also worth mentioning that the US-brokered agreement known as **the Washington Agreements** or Kosovo and Serbia economic normalization agreement signed on September 4, 2020 at the White House between the former Prime minister of Kosovo, Mr. Abdullah Hoti, and the President of Serbia, Mr. Aleksandar Vucic, mediated by President Trump, has been reduced by many circles to the notion of the 'Mini-Schengen' agreement. Agreements are rather commitments from both countries to the US government for an economic normalization between the two countries. Technically, agreements are signed bilaterally by each country with the US, but there is essentially no document indicating that there is a bilateral agreement between Kosovo and Serbia, although the text of the agreement signed with the US by both parties is the same.

The Economic Normalization Agreement itself is broader initiative where the creation of a 'Mini-Schengen' area is just one of its points. In essence, the agreements are commitments to the conclusion of some pending processes within the Berlin Process, among other things, in addition to 'Mini-Schengen', it addresses 'bottlenecks' in the Connectivity Agenda between the two countries, i.e. improving cooperation for the implementation of infrastructure projects on roads, railways, airlines and energy; as well as issues on missing persons, improvement of digital technology related to national security, terrorism, and human rights. Apart from the recognition of Kosovo by Israel, the processes related to other points of the agreements has not been implemented to date. With the signing of the Joint Declaration by the Prime Minister of Kosovo at the Sofia Summit in November 2020,<sup>221</sup> both countries committed for **the Common Regional Market** but not 'Mini-Schengen' in the Western Balkans. In any case, Kosovo in such formats needs to strengthen its negotiating arguments for strengthening services exports in order to mitigate the negative effects of regional export liberalization of goods.

#### 4. Common Market and Customs Union

A higher degree of trade integration in the WB region seems necessary and beneficial for the region. This was also stated by the former EU Commissioner for European Neighborhood Policy and Enlargement Negotiations, Johannes Hahn, while navigating the idea of a Customs Union (CU) for the WB. In another synonymous way at the same time the use of the term Common Market (CM) for the WB has started. As Gligorov presumes, both ideas were probably endorsed and promoted by the President of Serbia<sup>222</sup>. However, in order to consider such ideas, one must analyses all possible scenarios.

##### WB Common market

It is important to clarify here the difference between the common market and customs union. CEFTA aims to liberalize the market not only in goods and services, but in investments and labor as well. So, CEFTA by design will be in a common market, but not in a customs union until WB

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<sup>221</sup> [https://ec.europa.eu/neighbourhood-enlargement/news/western-balkans-summit-sofia-important-steps-advance-regional-cooperation-boost-socio-economic-2020-11-10\\_en](https://ec.europa.eu/neighbourhood-enlargement/news/western-balkans-summit-sofia-important-steps-advance-regional-cooperation-boost-socio-economic-2020-11-10_en)

<sup>222</sup> Gligorov V. (2017). Challenges to a Customs Union and Common Market in the Western Balkans. WIIW. Vienna, Austria

joins the EU. Therefore, while the idea of a WB customs union was to facilitate the introduction of the common market, the idea of CEFTA was to create a common market without a customs union<sup>223</sup>.

The problem with both scenarios is that **the WB countries are at different stages of EU integration, and their trade regimes with the EU affect their regional trade**. This means that countries in the region will use non-tariff barriers and other policies to counterbalance the regional free trade area, but this situation can only last until all countries have fully liberalized their trade with the EU. In addition to the above options, there is now an idea of a monetary union for the WB that is usually associated with that of the common market for the same region. This is sometimes suggested as a way to prepare countries for their eventual EU membership.

In any case, in the above-mentioned scenarios, harmonization of differences that the WB countries have on the path of EU integration will not be easy because there is also the rest of the world besides the EU. This fact especially accompanies **the idea of customs union in WB** with two problems: a) not all countries are members of the World Trade Organization (WTO), such as Bosnia-Herzegovina, Kosovo and Serbia, and this means that tariffs with the rest of the world can change significantly; b) WB countries have free trade arrangements with the third countries. In the event of a customs union, they would have to be adjusted, which means the usual tariff regime of WB countries with the rest of the world.

It is clear that there are losses for countries that have such agreements compared to the countries that do not, but that loss should be evaluated against the potential gains from the customs union. There are also exceptions; for example, the free trade agreements of the countries of the region with Turkey may not be a problem, because they can extend to the whole region. Turkey most likely would be willing to enter into a free trade agreement with the region as a whole. However, a major obstacle for the customs union is the free trade agreement between Serbia and Russia, which from an economic point of view might not be a big challenge, but it seems that Serbia does not have the political will give up from that agreement.

Regarding the idea of the common market, currently **the CEFTA platform** is the mechanism through which regional cooperation in WB is trying to upgrade the level of cooperation. However, since the very beginning the functioning of CEFTA was challenging due to political issues as well as policy divergences between member countries i.e., different monetary policy as a result of different exchange rate regimes (no single currency). As the harmonization of these regimes would be difficult to address, it will remain an obstacle to both the customs union and the common market. One advantage of the WB common market would be that the region as a whole could be more attractive towards foreign investors.

In conclusion, in theoretical terms, customs unions and common markets are agreements of trade 'diversion' and investments. A concrete example is post-2008 trade between CEFTA member countries. Cross-CEFTA trade barely grew, while exports to the EU rose sharply. Nevertheless, **interregional trade and investments and relations within WB** have deepened in the last 20 years, and the regional infrastructure link has slightly improved. However, this has not yielded

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<sup>223</sup> Gligorov V. (2017). Challenges to a Customs Union and Common Market in the Western Balkans. WIIW. Vienna, Austria

much economic convergence with the rest of Europe, and the quality of infrastructure generally remains well below the level of the EU<sup>224</sup>.

This is what actually pushed the actors of **the Berlin Process** towards the intensification of the MAP REA, in order to drive the process towards the commitment to the establishment of **the Regional Common Market (RCM)**, codified in the Declaration of Sofia Summit in November 2020. According to the commitment, RCM will be built on the principles of MAP REA and based on EU rules. The aim of this initiative is to put the WB region on the map of global investors by reducing their distance to EU markets and helping in diversification of supply channels, creating jobs, increasing supply and lower prices for consumers, as well as supporting the labor market throughout the region. This cooperation aims to increase the integration of the region with the European value chains by increasing the competitiveness of the region's economies, with expectations ranging from between 1 and 3% of GDP growth (if there is average integration in the region, at the levels of EFTA) or between 2 and 14% in the case of integration at the levels of EU countries (De Soyres, et al, 2018).

**The Action Plan for the establishment of the CRM** is intended to be completed by 2024 which looks very ambitious, and includes certain actions in four key areas: i) regional economic zone with four freedoms of movement - to facilitate movement of goods, services, capital and people in accordance with EU rules, ii) regional investment area - which aims harmonization of investment policies with EU standards and international best practices in order to promote investments from outside and inside the region, iii) regional digital area - to integrate the region into the pan-European digital market, and iv) regional industrial and innovative area - to transform the industry and create regional value chains<sup>225</sup>.

### **WB in a Customs Union with EU**

In such a scenario two things need to be considered: i) the fact that all WB countries will adopt the EU customs regime, and ii) the fact that all WB countries in the region would switch to free trade with the EU with no tariffs. The latter implies that countries that have not yet fully implemented the Stabilization and Association Agreements (SAA) with the EU, such as Bosnia and Herzegovina, Kosovo and Albania, would speed up the process of removing tariffs. Further, a WB customs union with the EU means that all other free trade arrangements that these countries have, including Kosovo, with third parties would be abolished. In this case Kosovo would have to renegotiate its trade position with these third countries.

## **5. 'Economic Zone of the Western Balkans'**

Among the options around modalities for increasing regional cooperation in WB is also the idea of Gerald Knaus from the European Stability Initiative<sup>226</sup>. But what exactly is this alternative? This idea is argued on the basis of a need for a process that does not replace the EU accession but is not integration either; a process that promises the EU influence in the region and is also attractive to WB leaders and politics. According to ESI, such a process is not utopia but possible, it is a tested

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<sup>224</sup> Vienna Institute for International Economic Studies (2020). Pushing on a string? An evaluation of regional economic cooperation in the Western Balkans. Bertelsmann Stiftung. Gütersloh, Germany

<sup>225</sup> Regional Cooperation Council (2020). Common Regional Market: E6 Regional Economic Integration Plan. Sarejevo, Bosnia and Herzegovina

<sup>226</sup> European Stability Initiative (2019). Coup de grâce – Delors and squaring the circle – Norway in the Balkans. ESI Newsletter 6/2019. Berlin, Germany

idea, and that can be replicated based on the experience of cooperation of European countries before membership on the road to their integration into the EU. This option is **the European Economic Area (EEA)**, which was brought as an idea by the French politician Jacques Delors with the basic aim of creating **a more structured partnership that emphasizes the political dimension of cooperation** between countries in the economic, social, financial and cultural areas. The idea was then turned into an offer to non-EU countries with the aim of uniting them in the common market.

The EEA entered in force back in 1994 and was originally designed for European countries that were not in the 12-member EU family. It served as a kind of 'ante-chamber' before EU membership, and often considered as a 'near-membership'. Its functional and contractual basis, as in the EU, is the guarantee of four fundamental freedoms: movement of goods, people, services, and capital. It also regulates the area of competition, state aid, consumer protection, the environment, data, and other areas of economic importance. Such a contractual option is definitely demanding for the states, but it could also be a useful to-do list for all WB countries which through a higher regional cooperation could further improve their EU integration process.

Based on the demanding and unrewarding experiences as a result of a partial cooperation so far, which still does not signal a satisfactory degree of integration towards the EU even though the region has spent two decades of effort, such a model perhaps would be attractive and financially supported through grants and investments by the EU itself. From such a support that this option would bring, based on the experience of other countries, the results would be much more tangible. This multilateral contractual option would probably encourage a more rapid cooperation and would also benefit the state of Kosovo if such a model for WB (let's call it the WB economic zone) would be an EEA equivalent and would regulate the same areas with the same degree of monitoring, accountability and contractual issues. According to ESI, this model would be offered to all countries in the region without exception, including Kosovo which would join as a country with neutral status by not depriving it from the right to converge with the countries in the region. Kosovo's membership as a country with neutral status requires a deeper political analysis which is not the subject of this study.

If the **'WB economic zone'** were to be financed for its operation based on the contribution from member countries estimated by the GDP per capita of the member countries, even though it would be a cost to Kosovo's public finances, it also could be an advantage given the fact that it has the lowest level of development in the region. Based on the co-operation experiences of European countries that were part of such an area but not the EU, the EEA was profitable for the EU itself as well because alignment with its rules and principles was much easier across integration stages. In terms of the regulatory framework, this would be another bonus for Kosovo since it would shorten the time of the next stages towards EU membership.

Such an option would improve all important areas for attracting foreign investors and further improve the economic environment to the level of the EU standards. Nevertheless, such a contractual cooperation does not automatically guarantee the EU membership; however, it would be a very positive signal in Brussels, and would increase the credibility of membership talks, and would be a good opportunity to clearly assess the progress of Kosovo and the countries of the region about the level of cooperation between them. This would facilitate and further accelerate the EU integration path.



## 6. Concluding remarks

This short analysis summarises the main issues related to the functioning of CEFTA and regional economic cooperation scenarios for the Western Balkans. In addition, it also covers some institutional aspects as well as a local perspective on the new recent initiatives that are not fully supported by all six countries in the region. Key findings based on the developments discussed in this paper are recapped as follows:

- Efforts towards regional cooperation in WB have **not resulted in any substantial impact**, mainly due to the geography of hostility, and the EU accession of the region, without overcoming them still seems pretty far-fetched.
- **The current proposals for deepening regional cooperation in the economic sense are good, but** they are not expected to fundamentally change the situation. Without a constructive approach from all parties, it is likely to encounter familiar and bitter obstacles of the past, where the territorial disputes of 2022 are the same as those of 2000.
- **Political normalization between WB countries should be imperative.** Without normalization of political relations, economic cooperation will not reach its potential, despite negligible advances in recent years.
- **Different blockades imposed between countries in the region** as a result of the enmities of the past can stall each other's progress towards EU membership; therefore, an accession of the WB in block should be proclaimed.
- In the economic aspects of the regional cooperation, **non-tariff barriers remain a real challenge** that is slowing down the pace of economic activity between the countries of the region. In this regard, CEFTA was not so effective in resolving them. Barriers between Kosovo and Serbia remain a huge problem that is undermining the economic activity and cooperation between the two countries, especially Serbia's persistent approach of blocking Kosovo exports to its country, thus breaking CEFTA rules. Addressing such barriers constructively is imperative to further deepen regional integration.
- **The different level of economic development between the countries in the WB region** is another obstacle towards the opening of countries to a higher degree of regional cooperation. Kosovo ranks at the bottom of the list in terms of the level of economic development measured by GDP per capita. In this situation, interests for cooperation between countries will not be the same. Cooperation initiatives through contractual agreements based on the level of economic development would be more favourable options with more positive outcomes. This would in some ways also neutralize the negative effects on 'net losers' and minimize a 'zero-sum trade' effect.
- **Spending so much energy in such a large number of regional cooperation initiatives** that produces minor effects may not be the right course. The minimal positive effects are mainly as a result of (almost completely) disproportionate effects that such initiatives have on the WB countries which creates 'net winners' and 'net losers'.
- Finally, for a fruitful collaboration within certain initiatives intended for regional cooperation, whether existing or newly designed ones, the main precondition is the

**fairness and equality of partners within such initiatives.** This condition may be ensured only after a more constructive position of Serbia towards Kosovo on the normalization of relations between the two countries, which would pave the way for regional cooperation and integration, and with it the economic growth, trade and investments that will lead to the approximation of the region to the EU.

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### III.4. European perspective and regional trade initiative: a view from Montenegro

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#### Abstract

All of the Western Balkans Six (WB6) countries have been working for years on their probably most important foreign policy goal: the EU membership. The integral part of the European integration process is regional cooperation, good neighbourly relations and strengthening of economics through raising of competitiveness level. In order to speed up its integration path towards the EU common market, these countries decided to work together and, besides the CEFTA 2006, deeper economic cooperation towards four economic freedoms in the region based on respect of mutual economic (and political) interest. The EU proposal is implementation of the Action plan for Common Regional Market (CRM) signed on the Berlin process summit in Sofia in November 2020. Montenegro, as one of the WB6, is a highly liberalized and probably the most open to trade economy. Exports are still modest, given the underdeveloped production potential and underutilised resources the country has, while imports are always rising, which hinders development of producers in the country and competitiveness of the economy. In this paper, we will shed a light, through the lens of trade, on how closely tied Montenegro is with the countries of the region, given the fact that it is an open, euroized and liberalized economy, that relies heavily on trade, even though it experiences a negative trade balance with almost all of its partners.

**Keywords:** Montenegro, WB6, EU, Trade, European integration, Common Regional Market

#### 1. Introduction

In the case of Montenegro, as well as in the other parts of ex-Yu economic space, **the transition** started with the period of economic recession. In other words, unlike countries of the Central and Eastern Europe, followed by a number of negative events, the transition in ex-Yu countries became a process of country dissolution, with disintegration of a single market, and finally resulting in war in Croatia and Bosnia and Herzegovina. The founding of the SRY, in April 1992, was followed by the economic sanctions, blockade of the international trade, hyperinflation, and general decrease in the economic activity in all sectors. Montenegro, out of all states, was more seriously affected by the dissolution of the state and the loss of republic markets for its export, as it was traditionally oriented on the production of raw materials and import of final products from, at that time, single Yugoslav market with a population of 23 million<sup>229</sup>.

Because of the aforementioned dissolution of Yugoslavia, and all of the problems linked with it, the SRY found itself in the period of surviving, the so-called transition recession, and between

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<sup>228</sup> Petar Raičević, Montenegrin PanEuropean Union

<sup>229</sup> Djurović, G., Radović, M., Djurašković, J. (2011). Makroekonomske performanse crnogorske privrede u periodu 2001-2010, Ekonomski razvoj kroz prizmu preduzetništva. Ekonomski fakultet, Podgorica;

1990 and 1996 went through the most difficult economic and social crisis in the recent history. The main temptations of the Montenegrin economy in the mentioned period can be systematized as follows: a) the first temptation is connected with the necessity of replacing the logic of socialistic self-management economy with market logic and the system of market conditions (transition period and program of market transformation coordinated by the state); b) fast adjustment on the dissolution of the Yugoslav market; c) the UN economic sanctions 1992-1995 to the Federal Republic of Yugoslavia (successor of the ex SFRY); d) the social fragmentation and the poverty caused by reduction of the economic activities in the majority of industries and the reduction of the living standard; e) the raise of the informal economy and unemployment – expansion of informal economy and non-registered employment; and f) finally, the economic and social challenges which had a negative impact on the basic system of values<sup>230</sup>.

In the attempt to protect its basic economic resources, Montenegro entered the process of gradual building of its own economic system. Gradually, it started to design its own economic policy. In July 1999, Montenegro adopted some regulations of transitional character and stopped to transfer part of customs revenues into the federal budget, as well as part of the revenues from sales tax and excise duties. Soon after that, Montenegro took charge over customs service for its territory. In parallel, in November 1999, Montenegro introduced dual currency system. Consequently, in November 2000, only the German mark remained as the official currency in the payment system<sup>231</sup>. After the unilateral introduction of the Deutsche Mark in 1999, introduced after the economic crisis of the nineties of the last century and the consequences of the hyperinflation, Montenegro established its own Central Bank of Montenegro, its own foreign trade and customs policy, and Montenegrin authorities in exceptional circumstances adopted the euro as its official currency in 2002<sup>232</sup>.

All of the above mentioned were the initial steps in achieving the macroeconomic stability after the transitional recession. In the meantime, the use of the euro as a legal tender made impossible the use of the most quantitative instruments of monetary policy during the financial and economic crisis, making the mandatory reserve rate as the only means that can, to some extent, control the secondary issue<sup>233</sup>. These reforms continued with the dynamic price liberalization on the internal market, reduction of customs and non-tariff barriers, establishment of significant number of new institutions, adoption of strategic documents in key policy areas, which meant the adoption of a set of new regulations in the field of financial policy, customs, tax, and sectoral policies.

The period 2000-2006 was a period of gradual economic recovery. It was the period of gradual strengthening of the economic independence of Montenegro. In fact, strengthening economic independence paved the way for the restoration of the state after 88 years.

Following the regaining of independence after the referendum on 21 May 2006, as an independent country, Montenegro has regarded joining the EU and NATO as its key strategic foreign policy priorities.

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<sup>230</sup> Djurovic G., Boskovic P., Cetkovic J. (2002). *Alternative Development Concepts of Economy of Montenegro*, Ekonomski fakultet, Makromenadžment centar, Podgorica: 5-7.

<sup>231</sup> Djurović, G., Muhadinović, M. (2016). *Waiting for integration – going beyond transition: Case study Montenegro*. Proceedings of International Conference: Researching Economic Development and Entrepreneurship in Transition Economies: Assessment of the last 25 years, going beyond the 'transition', REDETE 2015, University of Banja Luka.

<sup>232</sup> Montenegro's present use of the euro will be addressed in the course of the final phase of the negotiations. Montenegro will participate in the economic and monetary union from accession as a Member State with a derogation and shall join the euro area following the Council decision to this effect based on an evaluation of its fulfilment of the necessary conditions (EU General Position for the Ministerial meeting opening Intergovernmental conference on accession of Montenegro to the European Union, 2012).

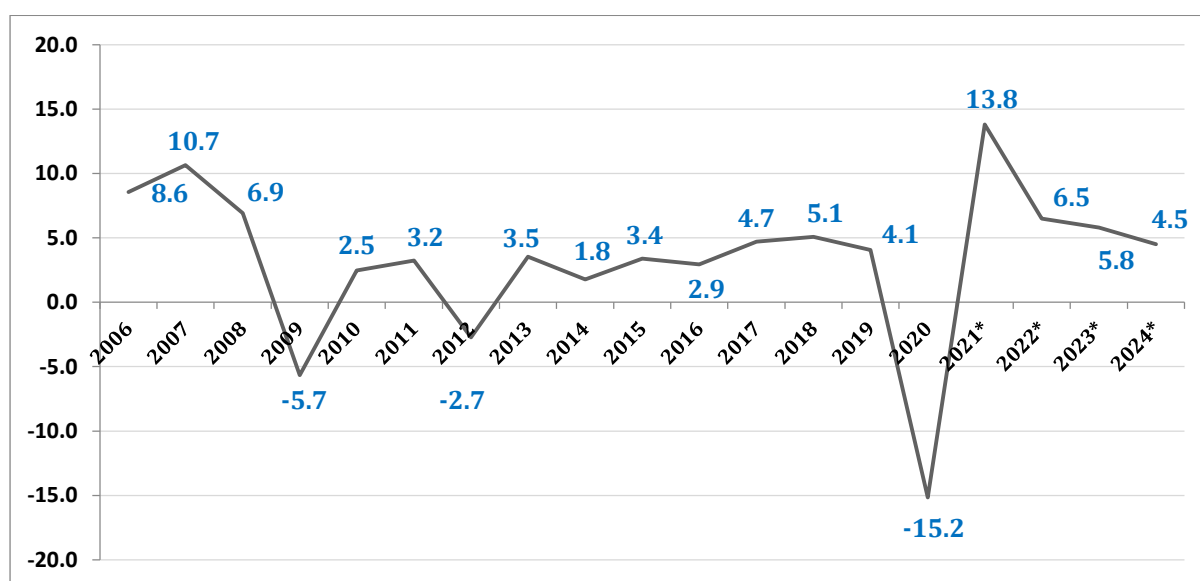
<sup>233</sup> Government of Montenegro (2011). *Economic Reform Programme 2009-2011*;

## 2. Montenegro: European perspective and economic trends

The country has made important advances in the transition process towards functional market economy. The GDP growth rate in the period 2006-2021 could be systematized in **a few phases**:

- Dynamic economic growth after the regaining independence (2006-2008 average growth rate was 8.7%)
- Global economic and financial crisis
- Gradual economic recovery and new investment cycle
- COVID-19 pandemic and platform for post-COVID recovery and recent challenges

Figure 23. GDP growth rate – Montenegro, 2006-2021 and projections 2022-2024



Sources: MONSTAT data for 2006-2020 and Economic Reform Programme 2022-2024 for projections;

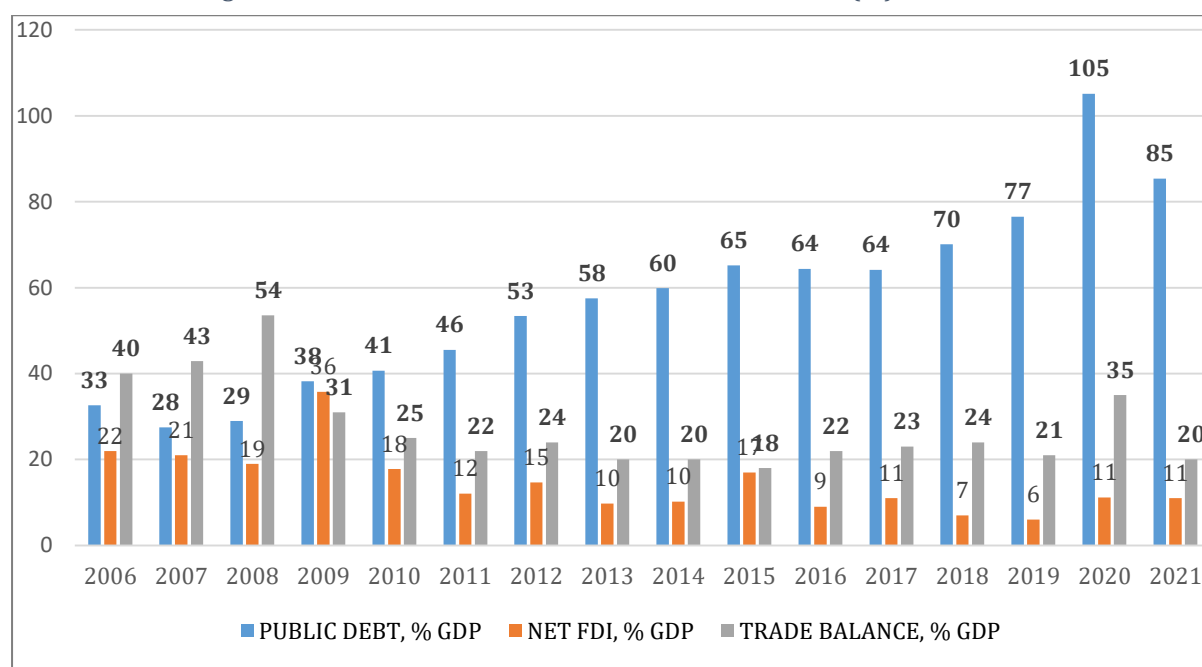
The first three years after regaining the independence are characterized by an extraordinary economic dynamic (2006-2008 average growth rate was 8.7%). The breakdowns in the global economic and financial system had significant influence on overall business environment in Montenegro – in conditions of a small, open, and *euroized* market-oriented, but insufficiently competitive economy. Montenegrin GDP contracted by 5.7% in 2009, grew by 2.5 and 3.2 % in 2010 and 2011, respectively. It contracted again in 2012 by 2.7% and grew by 3.5% in 2013, in each case in real terms.

Having been equipped with certain and adequate anti-crisis measures in the real and financial sector in the period 2008 – 2013, unfavourable effects have been mitigated and the economic substance has been saved, which was a precondition for the process of gradual, though very slow recovery.

The period 2013-2019 is characterised with gradual economic recovery and opening of a new investment cycle with the first highway section from Podgorica towards Serbian border of 41 km length and numerous bridges and tunnels. Average real growth rate was 3.6 percentage. However, public debt/GDP ratio achieved level of 76.5% and trade deficit of goods and services in GDP - level of 21%. At the same period, average net FDI/GDP indicator was 10%, whilst average trade deficit in GDP was more than double (21%).

**The foreign direct investments** have been an important source of growth for Montenegro since 2006, but as can be seen from the graph, the net FDI flow hasn't been enough to cover high trade deficit, which should be the case. In order to attract more investments, Montenegro created a favourable legal framework and offer numerous additional incentives for both domestic and foreign investors.

Figure 24. Public debt, Net FDI and Trade balance in GDP (%) 2006-2021



Sources: Ministry of finance (Public debt) and Central Bank of Montenegro (Balance of Payment);

Montenegro experienced a sharp fall in GDP in 2020 due to **the COVID-19 pandemic** largely driven by losses in the tourism and travel sector, and lock-down of economy for a few months. In spite of the negative effects of the coronavirus pandemic and contraction of the gross domestic product of 15.3 percent in 2020, the Montenegrin economy is recording a strong recovery in 2021, primarily due to successful tourism season and advancements in immunisation, as well as because of the effects of improved tax discipline and use of electronic fiscalization.

The COVID-19 pandemic continued to bring uncertainties for employment, and affected the labour market indicators. According to the data of the Montenegro Employment Office, number of unemployed at the end of 2021 was 57,386, while the registered unemployment rate was 24.7%<sup>234</sup>. In accordance with the revised administrative data of MONSTAT, number of registered employment in December 2021 was 211,302 (31% higher than in December 2020). Activity rate was 41%,

We can see from the graph that Montenegro had two different paths in the recovery period: double bottom crisis 2009-2012 with gradual recovery and so-called "V" model with very fast recovery trend in 2021.

<sup>234</sup> Employment Office of Montenegro database (<https://www.zzzcg.me/statistika/>);

According to the Economic reform programme<sup>235</sup>, projections of the macroeconomic indicators for the period 2022-2024 are based on assumptions of further economic recovery and growth of economic activity, in accordance with announced investments in priority sectors and a new investment cycle, expected effects from implementation of a new set of fiscal reform (so-called the Europe Now Programme), and expected gradual diversification of the Montenegrin economy. The planned sectoral policy measures, along with the EU integration prospects, will provide strong spurt to reform activities concerning the economic sphere and provide incentives to inclusive and sustainable growth and development.

However, in early 2022, new challenges appear as energy crisis, inflation, prolonged pandemic and invasion of Russia to Ukraine.

Montenegro's European orientation was affirmed by signing the Stabilization and Association Agreement in October 2007, establishing free-trade area with the EU common market.

**The CEFTA 2006 regional free trade agreement** was also signed and in force since 2007. The CEFTA parties established gradually a trade area without custom tariffs. In addition, numerous NTMs are removed through adoption of the CEFTA 2006 protocols. Montenegro has achieved full-fledged membership in the WTO in 2012.

Montenegro became **an associated member** of the EU when the SAA entered into force on 1 May 2010, in line with the TFEU. The country uses the SAA mechanisms in its preparations for EU membership, thus providing for complementarity of the negotiations and the SAA framework in meeting the commitments undertaken.

Montenegro actively participates in regular **political dialogue** with the EU on bilateral and international matters of mutual interest and promotes common positions in different areas of the Common Foreign and Security Policy, including the development of good neighbourly relations<sup>236</sup>.

**NATO membership** was achieved in June 2017, while the EU accession talks started in June 2012 with a very uncertain date for accession. After almost 10 years of accession talks, 33 (out of 35) negotiating chapters have been opened and 3 have been closed temporarily (chapters related to science and research, Education and culture, and External relations).

### 3. Montenegro: trade profile and regional trade integration

Montenegro has been **a member of WTO** since 29 April 2012. Since its WTO accession, Montenegro's small and open import-dependent and services-orientated economy has been on a fluctuating growth path.

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<sup>235</sup> Government of Montenegro. (2022), ERP 2022-2024 (<https://www.gov.me/en/documents/7049c66a-5b87-4102-9d2e-6fde9c24fd5d>);

<sup>236</sup> Government of Montenegro (2012): General Position of the Government of Montenegro for the Ministerial meeting opening the Intergovernmental conference on accession of Montenegro to the European Union, Podgorica: 4.

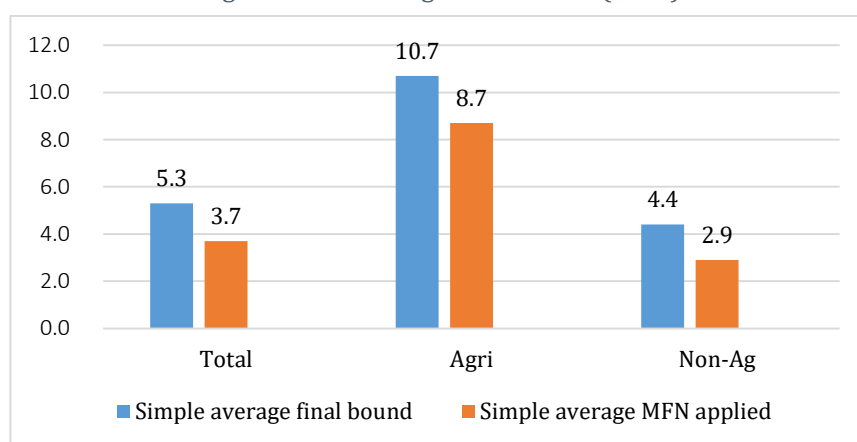


**The openness of the Montenegrin economy to international trade** and its aim to integrate into the world economy continues to be reflected in the ratio of its trade (exports plus imports) in goods and services to GDP, which was 93% in 2021.

**The tariffs**, as one of the main trade policy instruments, are declining as source of tax revenue (1.5% of total tax revenue in 2021)<sup>237</sup>. Although most tariff lines are *ad valorem*, and therefore transparent, the tariff's complexity increased as a result of its EU alignment. As a result of an increase in both the number of tariff bands and the number of duty-free tariff lines (including on information technology items), and a decrease in the coverage of compound rates, the simple average MFN applied tariff rate dropped significantly from 6% in 2012 to **3.7%** in 2020<sup>238</sup>.

All tariff lines are bound on an *ad valorem* basis and the implementation of the few remaining commitments is to be completed in 2022.

Figure 25. Montenegro's tariff data (2020)



Source: WTO, Member information ([www.wto.org](http://www.wto.org))

**Montenegro's expansion of bilateral and regional free trade agreements** meant that its simple average tariff rate on imports from preferential sources remained considerably below the MFN average tariff rate<sup>239</sup>.

The regional trade agreements (RTAs) for which an early announcement has been made to the WTO<sup>240</sup> are the following:

- **Central European Free Trade Agreement (CEFTA) 2006** – FTA, entry into force 1 May 2007, notification under GATT Art. XXIV on 26 July 2007; Current signatories: Albania; Bosnia and Herzegovina; Moldova, Republic of; Montenegro; North Macedonia; Serbia; UNMIK/Kosovo;
- **EFTA – Montenegro**, FTA, entry into force 1 September 2012, notification under GATT Art. XXIV on 24 October 2012; RTA composition – Bilateral, one party is a RTA; Current signatories: Iceland, Liechtenstein, Norway, Switzerland, and Montenegro;

<sup>237</sup> Government of Montenegro, GGDS table for 2021 (<https://www.gov.me/en/article/realized-record-revenues-deficit-by-421-lower-than-planned>);

<sup>238</sup> Technical note on country page: Simple average final bound is simple average of final bound duties excluding unbound tariff lines. Simple average MFN applied is simple average of MFN applied duties (Most favourable nation principle). Available at:

[https://www.wto.org/english/res\\_e/statis\\_e/daily\\_update\\_e/tariff\\_profiles/TariffProfileTechnicalNotes\\_E.htm](https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/TariffProfileTechnicalNotes_E.htm);

<sup>239</sup> WTO (2018). Montenegro, Trade policy review, Summary, ([https://www.wto.org/english/tratop\\_e/tpr\\_e/s369\\_sum\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s369_sum_e.pdf));

<sup>240</sup> WTO RTAs database, Montenegro, available at <http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=893&lang=1&redirect=1>

- **EU – Montenegro** – type: FTA and Economic integration agreement; RTA composition – Bilateral, one party is a RTA; Entry into force 1 May 2010; Notification under GATT Art. XXIV & GATS Art. V; Current signatories: EU27 and Montenegro;
- **Turkey – Montenegro** – FTA, entry into force 1 March 2010; notification under GATT Art. XXIV on 12 March 2010; Current signatories: Turkey and Montenegro;
- **Ukraine – Montenegro** - FTA, entry into force 1 January 2013; Notification under GATT Art. XXIV & GATS Art. V on 25 April 2013; Current signatories: Ukraine and Montenegro;

Under its RTAs with the European Union and Turkey, Montenegro applies tariff rate quotas to 149 agricultural products.

Most of the Western Balkans countries export-to-GDP ratio remains below their potential. Looking at the MONSTAT data for Montenegro's foreign trade, the picture becomes a little clearer.

Table 16. Montenegro trade in goods 2006-2021

Year	GDP	Exports	Exports (% of GDP)	Imports	Imports (% of GDP)	Coverage imports by exports (%)	Trade balance	Trade balance in GDP (%)	Trade in goods in GDP, openness
2006	2,149.0	441.1	20.5	1,457.3	67.8	30.3	-1,016.2	47.3	88.3
2007	2,680.0	454.7	17.0	2,073.1	77.4	21.9	-1,618.4	60.4	94.3
2008	3,085.6	416.2	13.5	2,529.7	82.0	16.5	-2,113.5	68.5	95.5
2009	2,980.9	277	9.3	1,654.2	55.5	16.7	-1,377.2	46.2	64.8
2010	3,125.1	330.4	10.6	1,657.3	53.0	19.9	-1,326.9	42.5	63.6
2011	3,264.8	454.4	13.9	1,823.3	55.8	24.9	-1,368.9	41.9	69.8
2012	3,181.5	366.9	11.5	1,820.9	57.2	20.1	-1,454.0	45.7	68.8
2013	3,362.5	375.6	11.2	1,773.4	52.7	21.2	-1,397.8	41.6	63.9
2014	3,457.9	333.2	9.6	1,784.2	51.6	18.7	-1,451.0	42.0	61.2
2015	3,654.5	317.2	8.7	1,841.5	50.4	17.2	-1,524.3	41.7	59.1
2016	3,954.2	325.8	8.2	2,061.7	52.1	15.8	-1,735.9	43.9	60.4
2017	4,299.1	371.5	8.6	2,303.5	53.6	16.1	-1,932.0	44.9	62.2
2018	4,663.1	400.1	8.6	2,553.6	54.8	15.7	-2,153.5	46.2	63.3
2019	4,950.7	415.5	8.4	2,600.7	52.5	16.0	-2,185.2	44.1	60.9
2020	4,193.2	366.1	8.7	2,105.2	50.2	17.4	-1,739.1	41.5	58.9
2021*	4,881.3	437.1	9.0	2,504.3	51.3	17.5	-2,067.3	42.4	60.3

Source: MONSTAT, 2022;

As it is already mentioned, Montenegro represents a **very liberal, open, import-dependant and services-oriented small economic system**. Coverage of exports by imports has been constantly falling since 2006, when it was 30%, to 17.4% in 2021. Total trade in goods in GDP is 60.3%.

According to the World Bank, even though CEFTA was a success for the countries of Central Europe, the implementation and functioning of the CEFTA 2006 for Western Balkans was quite complex and the economic impact was partial. The efforts towards economic integration through this agreement has not increased the shares of trade within the Western Balkans at the expected levels, and the EU has remained the dominant export market for all the Western Balkans.<sup>241</sup>

The Union keeps on being Montenegro's **largest trading partner**. EU Foreign Direct Investment (FDI) in Montenegro reached 311.2 mil EUR in 2021, while the volume of trade in goods with the EU was €1.279 billion in 2021 or 35% of total inflow of FDI. The EU remains the largest provider

<sup>241</sup> World Bank (2015). Coping with floods, strengthening growth, South East Europe, No. 7. Washington DC.

of financial assistance to Montenegro, with 504.9 million EUR in EU pre-accession funds in the period 2007-2020, as well as 804 million EUR provided in European Investment Bank loans since 1999.<sup>242</sup>

Apart from the EU, most important trade partners of Montenegro are the CEFTA 2006 signatories. 74% of total trade is with the EU and the CEFTA countries. Montenegro is exporting to the EU and CEFTA 31% and 43% respectively and importing from the EU and CEFTA 46% and 28% of total import. , Montenegro is also importing from China and Turkey (9.8% and 4.4%) and exporting to Turkey 5.5% of total export in 2021. Average import from the EU is 46% (the same is in 2021) whilst average export to the EU is 48% (only 31% in 2021).

Table 17. Montenegro trade partners 2006-2021

	EU		CEFTA 2006					CHINA		OTHER	
	% of import from EU	% of export to the EU	Import from CEFTA	% of import from CEFTA	Export to CEFTA	% of export to CEFTA	% of trade deficit	% of import from CN	% of export to CN	% of total import	% of total export
2006	52%	68%	438,405	30%	133,626	30%	30%	3.9%	0%	14%	2%
2007	51%	71%	612,307	30%	125,775	28%	30%	5.0%	0%	14%	2%
2008	47%	63%	773,249	31%	142,521	34%	30%	4.9%	0%	17%	2%
2009	42%	52%	567,786	34%	118,822	43%	33%	5.5%	0%	18%	5%
2010	43%	57%	589,848	36%	126,477	38%	35%	5.4%	0%	16%	5%
2011	44%	60%	726,171	40%	137,698	30%	43%	5.7%	0%	10%	9%
2012	44%	52%	702,314	39%	143,667	39%	38%	7.2%	1%	10%	8%
2013	44%	41%	687,091	39%	185,771	49%	36%	8.1%	1%	9%	8%
2014	47%	36%	669,580	39%	151,754	46%	36%	7.7%	1%	7%	18%
2015	41%	36%	698,476	38%	137,483	43%	37%	10.3%	2%	11%	18%
2016	48%	38%	627,546	30%	146,800	45%	28%	9.0%	6%	12%	12%
2017	47%	35%	717,605	31%	152,492	41%	29%	9.6%	2%	12%	22%
2018	48%	45%	728,368	29%	160,786	40%	26%	10.0%	4%	13%	11%
2019	48%	39%	743,354	29%	185,778	45%	26%	8.5%	4%	15%	13%
2020	45%	39%	606,654	29%	164,896	45%	25%	10.4%	0%	16%	16%
2021*	46%	31%	713,411	28%	188,850	43%	25%	9.8%	0%	16%	26%

Source: MONSTAT, 2022;

Average import from the CEFTA is 33% (28% in 2021) whilst average export to the CEFTA is 43% (only 40% in 2021). In the period from 2006 to 2021, amongst the **EU members**, the most important exports partners were Italy, Greece, Slovenia, Hungary, and to some extent Germany. As regards the imports partners, the picture is somewhat similar, with the main partner being Germany, followed by Italy, Greece, Croatia, Slovenia, Austria, Spain, and France.

The constant negative trade balance in goods is the result of Montenegro's service-oriented economy with small agricultural and industrial sectors. As regards **Montenegro's trade with the Visegrad countries** in the period 2006-2020, their percentage in our exports varies from 3.4-20.2%, while in imports it stands between 2.7-4.7%. However, we are faced with a quite unexpected change in the period 2018-2020 on the side of EU partners, where a rising trend of trade with some Visegrad countries can be observed, *i.e.*, Hungary and Poland, as well as Czechia from 2019, in exports as well as imports.

<sup>242</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-10/18102021\\_factograph\\_montenegro.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-10/18102021_factograph_montenegro.pdf)

Table 18. Trade in goods with the CEFTA partners 2020-2021

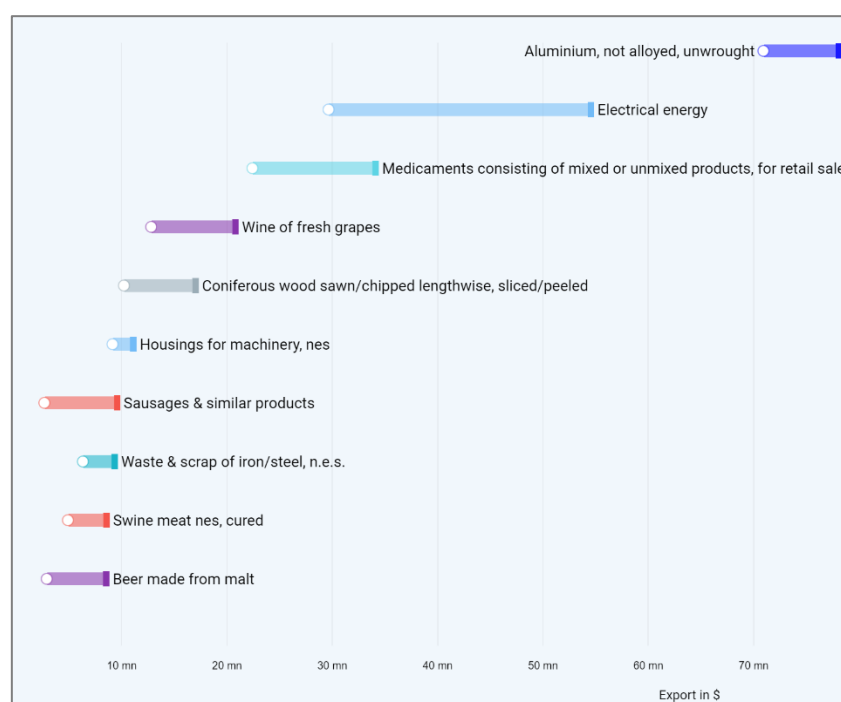
Trade partner s	Import (000 EUR)				Export (000 EUR)				Trade Balance	
	2020		2021		2020		2021		2020	2021
World	2,105,170		2,504,353		366,128		437,051		-1,739,042	-2,067,302
<b>CEFTA</b>	<b>606,694</b>	<b>29%</b>	<b>713,411</b>	<b>28%</b>	<b>165,074</b>	<b>45%</b>	<b>188,850</b>	<b>43%</b>	<b>-441,620</b>	<b>-524,561</b>
AL	39,726	7%	42,783	6%	12,969	23%	19,954	26%	-26,757	-22,829
BA	119,352	20%	128,892	18%	22,364	2%	33,386	3%	-96,988	-95,507
MD	336	0%	325	0%	38	3%	0	5%	-298	-325
MK	25,708	4%	31,835	4%	5,117	0%	4,661	0%	-20,591	-27,174
RS	414,899	68%	500,831	70%	100,997	1%	107,291	1%	-313,902	-393,540
KS*	6,674	1%	8,745	1%	23,589	14%	23,558	15%	16,916	14,813

Source: MONSTAT, 2022;

Montenegro has a trade deficit in goods with all CEFTA partners, excluding Kosovo\* (mostly because of the export of wood). The biggest trade partner is Serbia. Montenegro imports 70% of CEFTA import from Serbia and 20% from Bosnia and Herzegovina. On the export side, beside Kosovo, the biggest export market is Albania.

In addition, it is important to analyse **the export potential of Montenegro**. Based on the ITC export potential methodology<sup>243</sup>, the Export Potential Map evaluates export performance, target market demand, market access conditions, and bilateral linkages between the exporting and importing countries to provide a ranking of untapped opportunities. The Export Potential Map identifies products, markets, and suppliers with (untapped) export potential as well as opportunities for export diversification.

Figure 26. ITC export potential from Montenegro to the world: from actual to potential export



Source: [www.exportpotential.intracen.org](http://www.exportpotential.intracen.org)

<sup>243</sup> <https://exportpotential.intracen.org/%7BlocalLink:umb:/media/3d7e960ae51f4a8dbb46177ad835f0cc%7D>

The products with **greatest export potential** from Montenegro to World are Aluminium, not alloyed, unwrought (760110), Electrical energy (271600), and Medicaments consisting of mixed or unmixed products, for retail sale (3004xb). Further – wine of fresh grapes (220421), beer made from malt (220300), coniferous wood sawn/chipped lengthwise, sliced/peeled (4407xa), sausages and similar product (160100), swine meat, cured (021019), waste and scrap of iron/steel (720449), housing for machinery (848230), etc. Electrical energy shows the largest absolute difference between potential and actual exports in value terms, leaving room to realize additional exports worth 33 million \$<sup>244</sup>.

Finally, it is also important to mention issue of **non-tariff measures (NTMs)**. Working together on removing existing NTMs is common goal of WB6. Numerous measures are incorporated in the Action plan for Common Regional Market 2021-2024. In fact, NTMs are an issue across the whole CEFTA. In the recent regional survey for exporter and importer in the WB6 conducted by the GIZ in 2021<sup>245</sup>, out of the total number of interviewed companies, the 161 companies highlighted 796 NTM incidents.<sup>246</sup> In term of sectors, 74% of the companies reported NTMs in the manufacturing sector, 19% of the companies reported NTMs in the agriculture sector and the 7% remaining companies either reported NTMs in other sectors or did not precise their sector.

Key recommendations regarding existing NTMs given by the business in this survey are the following: recognise conformity assessments procedures across the CEFTA region; conformity assessment bodies need to be re-strengthened; reduce waiting times by expanding business hours; develop a private-sector led trade obstacle alert mechanism; facilitate the release and clearance of goods; further institutional coordination to facilitate trade; enhance a risk-management system for inspecting cargo; and establish One-Stop-Shops across CEFTA.

## 4. Conclusions and recommendations

Montenegro is **strong supporter of European integration process** and introduction of the EU standards in trade and economic cooperation, in order to raise level of competitiveness of the WB6 economies and speed up the integration into EU common market.

In that context Montenegro strongly **support full implementation of all CEFTA protocols** and further trade and economic integration from the MAP REA (Multi-Annual Plan for Regional Economic Area) to **full implementation of the Action plan for Common Regional Market 2021-2024 (CRM)**. This action plan is signed in November 2020 by six Governments and supported by the EU, including announced support through the EU pre-accession assistance (IPA III, Economic and Investment Plan, and Green Agenda for Western Balkans).

**The Common Regional Market is supported by the EU** and represents proper measure between deepening of regional integration with focus on European integration of each country separately. It is **not** a process of creation of supranational institutions or development of common external border. It is **deepening of trade and economic cooperation**, for the benefit of all

<sup>244</sup>

[https://exportpotential.intracen.org/en/products/tree-](https://exportpotential.intracen.org/en/products/tree-map?fromMarker=i&exporter=499&toMarker=w&market=w&whatMarker=k)

[map?fromMarker=i&exporter=499&toMarker=w&market=w&whatMarker=k](https://exportpotential.intracen.org/en/products/tree-map?fromMarker=i&exporter=499&toMarker=w&market=w&whatMarker=k)

<sup>245</sup> GIZ, Draft report on NTMs in CEFTA (2021). Support to regional economic integration, GIY-ORF Trade;

<sup>246</sup> A total of 161 companies were interviewed from WB6. However, these represent only a fraction of all contacted companies. The interviews were conducted with those companies that reported incidents with NTMs. Some companies did not report any NTM, and therefore were not interviewed.

involved parties, in line of their own capacities, priorities and agreed level of further liberalization.

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## III.5. Integrating WB6 towards integrated EU: a view from North Macedonia

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Blagica PETRESKI<sup>248</sup>

### Abstract

The EU accession of any country of Western Balkan Six is still uncertain. Each country follows its own EU path populated with social, political and economic obstacles. The idea for a common regional market for the Western Balkan Six (WB6) presumes deeper regional economic integration and interdependence that should simultaneously help to all WB6 countries to merge into the EU Single Market. This chapter analyses the complementarity of the Common Region Market (CRM) initiative with the EU integration looking through the lenses of North Macedonia. Additionally, it discusses the role of CRM in overcoming the political obstacles present in the WB6. Finally, it identifies the main challenges and risks arising from the deeper economic integration of WB6.

**Keywords:** Common Regional Market, Western Balkan, EU integration, regionalism

### 1. Introduction

**The initiative for Common Regional Market (CRM) for the Western Balkan Six (WB6)** countries represents a step forward towards further deepening of the regional economic integration which started with CEFTA 2006 and should culminate with the EU integration of WB6. The intention is to extract the benefits of increased market size and improved product/service quality making the region more attractive for foreign investors. The deep (rather than shallow) integration generates substantial economic benefits and productivity gains<sup>249</sup>. However, does the CRM represents deep integration? Deep integration exists when countries delegate some political control over selected policies to supranational institutions<sup>250</sup>. Still, the CRM relies on intergovernmental (voluntary) coordination of countries' domestic policies and its implementation remains under the discretion of public institutions in each WB6 country.<sup>251</sup> Yet, the CRM is heavily grounded in the EU rules and standards implying that it is a **stepping-stone** for each country towards EU integration. Thus, the CRM could be treated as *'deep integration in*

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<sup>249</sup> See for e.g.: Campos et al., 2014; Campos et al., 2021

<sup>250</sup> Campos, N. F., Coricelli, F. & Moretti, L. (2014). Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union Using the Synthetic Counterfactuals Method. IZA Discussion Paper No: 8162. Retrieved from <https://docs.iza.org/dp8162.pdf>

<sup>251</sup> Since deeper cooperation between the members of regional blocs does not involve binding alignments of national policies and may be suboptimal for one or several members, it should not be treated as deep (policy) integration (Schiff & Winters, 2003).



*disguise,* however to what extent CRM helps in the EU integration of North Macedonia apart from its unilateral compliance with the EU accession requirements remains to be explored first in this chapter.

Moreover, the connection between the CRM and the EU integration of WB6 should be viewed through the political lenses. The EU enlargement largely depends on EU's capacity to absorb newcomers<sup>252</sup>. The unity among EU members could be distorted as more members join the club, especially if the newcomers have unresolved bilateral issues with the existing or new members. The existence of political tensions between WB6 and EU countries such as the case between, Serbia and Kosovo, North Macedonia and Bulgaria, and Bosnia and Herzegovina and Republic of Srpska, is generally known. Obviously, the **breaking of the political "ice"** would be crucial in opening the accession processes of WB6 towards EU. Could CRM help in reducing political frictions between antagonistic neighbours? Economic integration and intensified trade among the countries improve the political cohesion among the integrating partners through increase in economic interdependence, greater interactions between peoples and governments and greater trust<sup>253</sup>. Once the liberalization starts, it induces further liberalization changing the political landscape<sup>254</sup>. The breadth of CRM presumes liberalizations in many domains and requires significant political will to be implemented. The recent initiative for creating political and economic zone, so-called Mini-Schengen Area or Open Balkan, between Albania, North Macedonia and Serbia could be viewed as an effort towards liberalization limiting the influence of political issues among all WB6 members. Hence, in the next step, we discuss the role of Open Balkan and CRM in resolving the political frictions between WB6 countries.

Finally, besides the formal and political dimension, we need to consider the economic constraints of the CRM project. The CRM presumes that there is a significant potential to trade within WB6, welfare improvement of all members after the implementation and collective agreement over building strategies for attracting FDIs. However, the potential to trade may be constrained by the structural characteristics of manufacturing sectors and the limited size of the region. Moreover, further liberalization may cause unequal distribution of gains and losses among the members if agglomeration forces arise. Lastly, the current competitive environment in attracting FDIs may be favourable for some countries, so they may resist to enter negotiations for integrated regional policies. Do these challenges make the CRM project **'a hard nut to crack'**? We discuss in the final part of this chapter.

## 2. Is CRM a stepping-stone?

CRM is built upon four main pillars which are embedded in the Action Plan for a Common Regional Market 2021-2024. The first pillar is directed towards creating a regional trade area through the elimination of unjustified trade barriers and securing free movements of goods, services, capital and people. The second pillar targets the establishment of regional investment area where WB6 countries would coordinate their investment policies and align with the EU standards and international practices. The third pillar refers to the integration of WB6 into the pan-European digital market. Finally, the fourth pillar aims to improve the competitiveness of industrial sectors and stimulate research and development activities across the region. Evidently,

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<sup>252</sup> Baldwin, R. E. (2007, May 17). "Is enlargement unlimited?". VOXEU. <https://voxeu.org/article/enlargement-unlimited>

<sup>253</sup> Schiff, M., & Winters, L. A. (2003). *Regional Integration and Development*. World Bank. <https://openknowledge.worldbank.org/handle/10986/15172>

<sup>254</sup> Baldwin, R. E. (2008). Sequencing and Depth of Regional Economic Integration: Lessons for the Americas from Europe. *The World Economy*, 31(1), 5–30. <https://doi.org/10.1111/j.1467-9701.2007.01080.x>

CRM is designed in the spirit of EU's Single Market and is anchored to the EU principles and regulations. However, each WB6 country is facing with the same natural question whether CRM process and EU integration are complementary. To assess the extent to which the progress in CRM means progress in EU accession for North Macedonia, we conduct qualitative analysis of the scope of CRM Action Plan 2021-2024 and of Progress report (for 2019) of the multi-annual action plan for a regional economic area (MAP REA) in comparison with the scope of European Commission (EC)'s annual progress report for North Macedonia (for 2019).

Table 19 shows **the coverage of CRM and MAP REA in comparison with EC's progress report on North Macedonia**. CRM and MAP REA directly touch upon 20 out of 33 chapters on the criteria for accession of North Macedonia to the EU. The red cells designate that no or limited progress has been identified by the EC in the given chapters for the given year. Generally, those are the chapters where the CRM would play crucial role in altering the status-quo and moving the processes forward. The implementation of CRM would prompt the process for free movement of good and workers, improve certain aspects in competition policy and strengthen the efforts for environmental considerations and consumer and health protection. Additionally, the green cells show that some progress has been reported in the assessment report. North Macedonia has made important advancements with regard to MAP REA on different venues (green cells), especially in building digital environment (connectivity and access) and those have been recognized in the EC's report. Finally, the CRM action plan predicts reduction of trade costs and further liberalization which would positively reflect on several chapters covering public procurement, intellectual property laws, statistics, customs union and external relations.

Table 19: Scope of coverage of CRM and MAP REA

EC's 2019 progress report on North Macedonia	WB6 Common Regional Market (CRM) Action Plan (2021-2024)	Progress report (2019) of the multi-annual action plan for a regional economic area (MAP REA)
Chapters	Components	Regional assessment
Chapter 1: Free movement of goods	Free movement of goods	Facilitation of trade in goods (region score: moderately prepared);
Chapter 2: Freedom of movement for workers	Free movement of people	Removal of obstacles to mobility of researchers (region score: moderately prepared); Removal of obstacles to recognition of professional qualification (region score: some level of preparation); Removal of obstacles to recognition of academic qualifications (region score: good level of preparation)
Chapter 3: Right of establishment and freedom to provide services	Free movement of people	
Chapter 4: Free movement of capital	Free movement of capital	Planned in CRM Action Plan (2021-2024)
Chapter 5: Public procurement	Cross-cutting trade measures	Harmonization of CEFTA markets with the EU (region score: good level of preparation); Creating NTMs and TDM-free region (region score: moderately prepared)
Chapter 7: Intellectual property law	Cross-cutting trade measures	
Chapter 8: Competition policy	Cross-cutting trade measures	
Chapter 9: Financial services	Free movement of services	Facilitation of free trade of services (region score: moderately prepared); Diversification of financial systems (region score: moderately prepared);
Chapter 10: Information society and media	Infrastructure and connectivity; Skills and competence; Digital economy	Digital environment networks and services, connectivity and access (region score: some level of preparation); Digital skills (region score: some level of preparation); Digital economy and society (region score: moderately prepared); Smart growth (moderately prepared); Progress in all WB countries with respect to harmonizing the legislation with EU acquis regarding digital transformation

Chapter 11: Agriculture and rural development	Agro-food industry development	Planned in CRM Action Plan (2021-2024)
Chapter 12: Food safety, veterinary and phytosanitary policy	Agro-food industry development	Planned in CRM Action Plan (2021-2024)
Chapter 18: Statistics	Cross-cutting trade measures	Harmonization of CEFTA markets with the EU (region score: good level of preparation); Creating NTMs and TDM-free region (region score: moderately prepared)
Chapter 20: Enterprise and industrial policy	Automotive industry value chain; Agro-food industry development; Creative industry; Metal-processing industry; Sustainable tourism; Digital economy	Digital economy and society (region score: moderately prepared); Smart growth (moderately prepared); Progress in all WB countries with respect to harmonizing the legislation with EU acquis regarding digital transformation
Chapter 22: Regional policy and coordination of structural instruments	Regional investment promotion; Regional investment policy; Regional industry development	Promote WB6 as a unique investment destination (region score: some level of preparation); Develop and establish RIRA (region score: well advanced); Formalize RIRA through appropriate instruments (region score: good level of preparation); implement and monitor investment reforms (region score: well advanced)
Chapter 24: Justice, freedom and security	Trust and security	Trust and security (region score: some level of preparation)
Chapter 25: Science and research	Innovation	Planned in CRM Action Plan (2021-2024)
Chapter 27: Environment and climate change	Green and circular economy	Planned in CRM Action Plan (2021-2024)
Chapter 28: Consumer and health protection	Cross-cutting trade measures	Harmonization of CEFTA markets with the EU (region score: good level of preparation); Creating NTMs and TDM-free region (region score: moderately prepared)
Chapter 29: Customs union	Cross-cutting trade measures	
Chapter 30: External relations	Cross-cutting trade measures	

On the other side, we observe sections **where the progress in MAP REA does not necessarily mean progress in the EU integration** (yellow cells). For instance, the removal of obstacles to mobility of researchers and to recognition of professional and academic qualifications within the region has not been recognized as a step forward in the corresponding chapters of the EC's assessment report. Additionally, the adoption of an Individual Reform Action Plan (IRAP) and advancements in the cyber security present in the MAP REA's report are absent in the EC's report. Obviously, certain aspects of CRM would be region-specific and may be less relevant for the EU's Single Market. Finally, the rest of the chapters (not presented in Table 1) stay out of scope of CRM, but are relevant for the EU integration. These mainly refer to the criteria which require compliance with the existing EU obligations including adherence to the aims of political, economic and monetary union, as well as building institutions that guarantee democracy, the rule of law, and protection of fundamental rights.

In summary, our qualitative analysis shows that **the CRM plan is complementary to the EU integration objectives of North Macedonia** and have potential to accelerate the process of its accession to the EU. The actions in the CRM Action Plan would certainly instigate progress in the criteria developed to build functioning market economy and create certain level of preparedness of the Macedonian economy to join the EU Single Market in future. On the other side, some aspects that relate to the liberalization of regional mobility of goods, services, capital and people, as well as the coordination of national investment policies do not necessarily (directly) translate in progress towards EU accession of North Macedonia. Those aspects would be relevant for strengthening the competitiveness of the WB6 region and for regional alignment of investment

policies. Finally, the compliance with the EU obligations and the development of sound institutions that guarantee democracy, rule of law, and protection of fundamental rights remain in the sole responsibility of North Macedonia apart from CRM, if the country aspires for agile accession to the EU.

### 3. Is CRM an ice-breaker?

The EU integration of WB6 depends on **political cohesion** within the region, however the legacy of past conflicts distorts the regional political climate and prevents progress in the needed economic and political reforms<sup>255</sup>. Firstly, Serbia and several EU member states do not recognize Kosovo as independent state, which in turn fails to build cohesion between Albanians and Serbs within its own borders. Secondly, Bosnia and Herzegovina fail to free itself from nationalist sentiments of the main three ethnicities (Bosniaks, Croats and Serbs) and exists as a two-tier confederation which is difficult to manage on central level. Thirdly, North Macedonia and Greece have successfully resolved the long-lasting name dispute reducing not only the regional, but also the domestic political uncertainty<sup>256</sup>. However, North Macedonia encountered a novel hurdle, lifted on historical grounds, from Bulgaria which blocks its path towards the EU. Ostensibly, the odds for breaking the WB6 “political limbo” shrink, and the EU pessimism deepens, further deteriorating the economic, social and political situation in the region. Is there a pragmatic solution to break the frozen political situation in the WB6?

Turning to the history of evolution of EU integration, we claim that **the CRM may arise as an important political ice-breaker**. Baldwin (1993, 1994, and 2008) argues that the EU enlargement could be explained by the domino theory of regionalism. Namely, the domino theory presumes that the integration in a larger regional economic bloc boosts the profit opportunities of members’ exporters and the discrimination and lost benefits of outsiders’ exporters push the non-members to join the bloc. The examples of Britain, Ireland, Denmark and Norway joining the European Economic Community (EEC) despite their dominant economies in the 1960s and Central Eastern European countries joining the EU Single Market in 2004 illustrate the domino logic (Baldwin, 2008). In the latter case, the domino effect is strong enough to overcome any opposition to the trade liberalization and to the transfer of sovereignty to the supranational EU institutions. Additionally, Baldwin (2008) replenishes his domino theory of regionalism with juggernaut theory of liberalization. In basic terms, the juggernaut theory states that once the nations involve in multilateral tariff-cutting negotiations on reciprocal basis, exporters (in the liberalizing-sectors) become more active in the tariff-cutting debate increasing the political weight towards liberalization. As the process of tariff-cutting starts, the pro-liberalization forces become stronger and the cycle repeats until eventual complete liberalization. Both theories have relevant grounds to explain the recent evolvments in the WB6 and the CRM initiative.

In June 2021, Albania, North Macedonia and Serbia revealed the new initiative, called **the Open Balkan (extension to the Mini-Schengen Initiative)** by signing one interstate Agreement and two Memorandums of understanding<sup>257</sup>. The main objective of this initiative is to secure greater inter-state cooperation in case of catastrophic events and facilitate free movements of goods and

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<sup>255</sup> Dabrowski, M. & Myachenkova, Y. (2018, February 22). “The Western Balkans on the road to the European Union”. Bruegel. <https://www.bruegel.org/2018/02/the-western-balkans-on-the-road-to-the-european-union/>

<sup>256</sup> Srbinoski, B., Poposki, K., Dencic-Mihajlov, K., & Pavlovic, M. (2021). The Economics of the Name Change: Long-term Adjustments towards EU/NATO or Short-term Resolution of Political Uncertainty? *Organizations and Markets in Emerging Economies*, 12(1), 86–105. <https://doi.org/10.15388/omee.2021.12.49>

<sup>257</sup> Ristic, D. (2021, September 13). Open Balkan Initiative: Less History, More Business. CEP. <https://cep.org.rs/en/blogs/open-balkan-initiative/>

workers across the Open Balkan countries. In geopolitical sense, this initiative has been already classified as **'a waiting room for EU membership'** by creating a buffer zone which serves as a defence shield for Western Europe from the migration flows from Middle East<sup>258</sup>. Additionally, the initiative came across scepticism from the other WB countries refusing to participate in the project. Despite the presence of opposition to the initiative, the Open Balkan initiative is complementary to the CRM idea, and even assumes **deeper integration** between the countries in the relevant fields<sup>259</sup>. Moreover, in the spirit of Baldwin's juggernaut theory, it may serve as a trigger of further liberalization and regional integration prompting liberalization and domino cycles which would put pressure on the other WB6 countries to join the initiative towards the CRM goals. Evidently, the initial set of (Open Balkan) countries arise as a reasonable kick-off point since the political stake is not significant. North Macedonia has overcome the ethnical tensions with the Albanian minority and has established stable relationship with Albania, while not having major obstacles in collaborating with Serbia. On the other side, Serbia and Albania avoid the Kosovo obstacle in case of negotiations with all WB6 countries while exploiting their main advantages of greater integration, larger market size (for Serbia) and coastal access (for Albania). Once the implementation of CRM progresses significantly, it would cause change of the political landscape towards overcoming the political barriers for greater economic benefit for all WB6 countries.

To summarize, **the political climate in the WB6** is gloomy. The countries have political tensions not only within the region but also outside, with some of the EU members, making the individual path towards the EU integration more difficult. However, the EU integration and regionalism have already passed through similar political phases and currently, the EU club comprises countries which had serious confrontations and wars in the past. The benefits of regionalism had been recognized and enabled overcoming the political barriers between the members. It was needed an initial 'ice-breaker' to illuminate the potential benefits of integrating the markets. In the case of WB6, the Open Balkan and CRM represent the ice-breakers of the political limbo. Once the liberalization efforts dominate, the political economy would change towards more liberalization disparaging the existing political issues between the countries. However, the main factor is the cost of non-membership in the regional bloc. If the potential for trade between the members is limited, then the pressure imposed by the lost benefit of not belonging to a larger bloc would be lower.

#### 4. Is CRM a hard nut to crack?

In the previous discussion, we have pointed out on two potential impediments regarding the CRM Action plan implementation and EU integration, low institutional quality and lack of political commitment, which remain in sole responsibility of each WB6 country. However, **the deeper regionalization and integration of WB6** could be constrained by more objective factors, such as the limited potential to trade within WB6, unequal distribution of gains and losses after integration and disagreement in building strategies for attracting FDIs. We analyse these challenges by calculating and observing the trends in the relevant indicators of regional integration regarding the regional trade, industry structure and regional FDIs.

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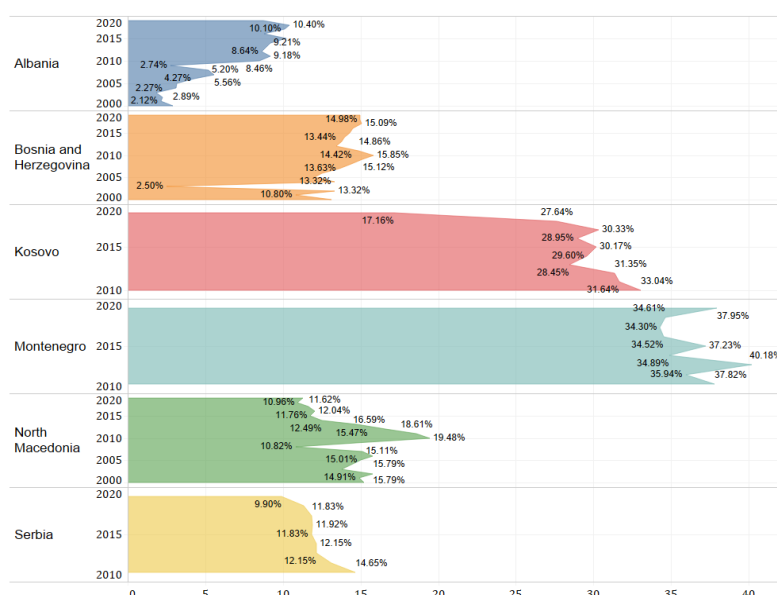
<sup>258</sup> Dora, Z. K., & Botić, J. (2021). Yeni Bir Tampon Bölge Olarak Batı Balkanlardaki Mini-Schengen Girişimi. *Ankara Üniversitesi SBF Dergisi*, 1–21. <https://doi.org/10.33630/ausbf.1031194>

<sup>259</sup> Ristic, D. (2021, September 13). Open Balkan Initiative: Less History, More Business. CEP. <https://cep.org.rs/en/blogs/open-balkan-initiative/>



The theoretical literature posits that **small economies** having similar production structures enjoy limited gains of further regional integration. The case of the Common Market for Eastern and Southern Africa (COMESA) illustrates the limited potential to trade among its 19 members. Since COMESA's members largely trade with European countries, the intraregional trade remained low<sup>260</sup>. To analyse **the intraregional trade tendencies of WB6**, we calculate the intraregional trade share for each country and for the whole WB6.<sup>261</sup> Figure 27 shows the share of trade of each WB6 country with its remaining five partners within the region. The intraregional trade is higher for Kosovo and Montenegro, while significantly lower for Albania. Moreover, the importance of intra-WB6 trade experiences **decreasing tendencies** in the recent years, especially for Serbia, North Macedonia and Kosovo, while **increasing trends** for Albania and Bosnia and Herzegovina. Additionally, Figure 28 presents how the WB6 block trades with EU27 and rest of the world. In the last decade, there is a rising dependence on EU27 for WB6's exports/imports at the expense of intraregional trade within WB6.

Figure 27. Intraregional trade share of each WB6 country with other five WB6 partners



Source: Authors' calculations based on data from the Observatory of Economic Complexity (OEC)

**The potential to trade and to extract gains from deeper integration** would largely depend on the development of manufacturing and on its structural characteristics<sup>262</sup>. For instance, the Latin American customs union MERCOSUR caused changes in production patterns among the member countries depending on their comparative advantage, especially in skilled labour<sup>263</sup>. Generally,

<sup>260</sup> Geda, A., & Kebret, H. (2008). Regional Economic Integration in Africa: A Review of Problems and Prospects with a Case Study of COMESA. *Journal of African Economies*, 17(3), 357–394. <https://doi.org/10.1093/jae/ejm021>

<sup>261</sup> The intraregional trade share of country/region  $i$  is defined as:

$$ITShare_{it} = \frac{(X_{iit} + M_{iit})}{(X_{it} + M_{it})} \text{ were,}$$

$X_{iit}$  is exports of country/region  $i$  to region  $i$  in year  $t$

$M_{iit}$  is imports of country/region  $i$  from region  $i$  in year  $t$

$X_{it}$  is total exports of country/region  $i$  in year  $t$

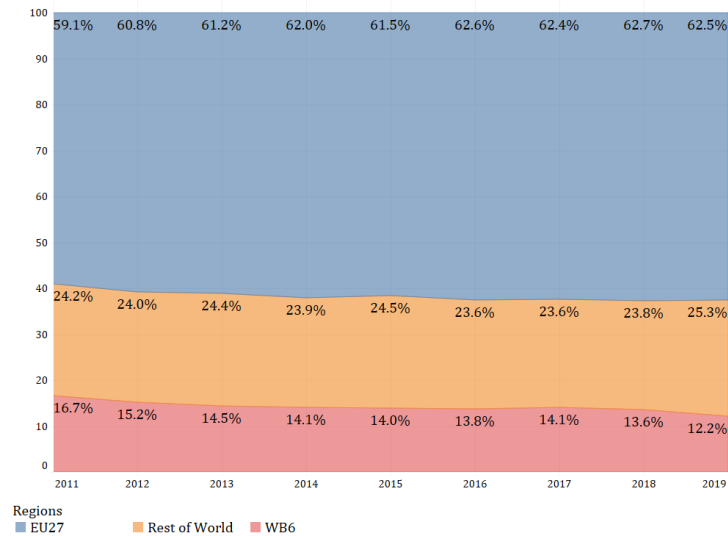
$M_{it}$  is total imports of country/region  $i$  in year  $t$

<sup>262</sup> See for e.g.: Brada, J. C., & Mendez, J. A. (1983). Regional economic integration and the volume of intra-regional trade: A comparison of developed and developing country experience. *Kyklos*, 36(4), 589–603

<sup>263</sup> Sanguinetti, P., Siedschlag, I., & Martincus, C. V. (2010). The Impact of South-South Preferential Trade Agreements on Industrial Development: An Empirical Test. *Journal of Economic Integration*, 25(1), 69–104

the empirical evidence confirms the Heckscher-Ohlin theory that regions specialize in those industries that are intensive in their abundant resources.<sup>264</sup>

Figure 28. Intraregional trade share of WB6 with itself, EU27 and rest of the world



Source: Authors' calculations based on data from OEC

To analyse the regional manufacturing characteristics, we calculate two indicators, Krugman<sup>265</sup>'s **index of regional specialization**<sup>266</sup> and Ellison & Glaeser's<sup>267</sup> **Spatial Gini (localization) coefficient**.<sup>268</sup> Figure 29 shows the trends in the index of regional specialization. The index of regional specialization is lower than one indicating that the manufacturing sector is despecialized in the WB6 region. Regarding North Macedonia, there are tendencies of despecialization, especially with Serbia, and increasing specialization with Bosnia and Herzegovina. The lower trade intensity within WB6 may be partially attributed to the lower level of specialization of the manufacturing sector. However, as the movements of people, goods and services liberalizes, it is expected production rearrangement within the region according to the market size, countries' pool of skilled labour and infrastructural development creating gains for the larger, skilled-labour abundant and well-connected countries and losses for the smaller, skilled-labour lacking and poor-infrastructure countries.

<sup>264</sup> Kim, S. (1995). Expansion of Markets and the Geographic Distribution of Economic Activities: The Trends in U. S. Regional Manufacturing Structure, 1860–1987\*. *The Quarterly Journal of Economics*, 110(4), 881–908. <https://doi.org/10.2307/2946643>

<sup>265</sup> Krugman, P. (1991). *Geography and Trade*. Cambridge, MA: MIT Press

<sup>266</sup> Krugman's index of regional specialization is defined as:

$$SI_{ik} = \sum_{j=1}^n \left| \frac{E_{ji}}{E_i} - \frac{E_{jk}}{E_k} \right|$$

where,  $E_{ji}$  is the level of employment in industry  $j = 1, \dots, n$  for country  $i$ ;  $E_{jk}$  is the level of employment in industry  $j = 1, \dots, n$  for country  $k$ ;  $E_i$  is the total industrial employment for country  $i$ ;  $E_k$  is the total industrial employment for country  $k$ . The index ranges from 0 to 2. If the index equals 0 then the two countries,  $i$  and  $k$ , are completely despecialized, and vice versa, if it equals 2 then the countries are completely specialized.

<sup>267</sup> Ellison, G., & Glaeser, E. L. (1997). Geographic Concentration in U.S. Manufacturing Industries: A Dartboard Approach. *Journal of Political Economy*, 105(5), 889–927. <https://doi.org/10.1086/262098>

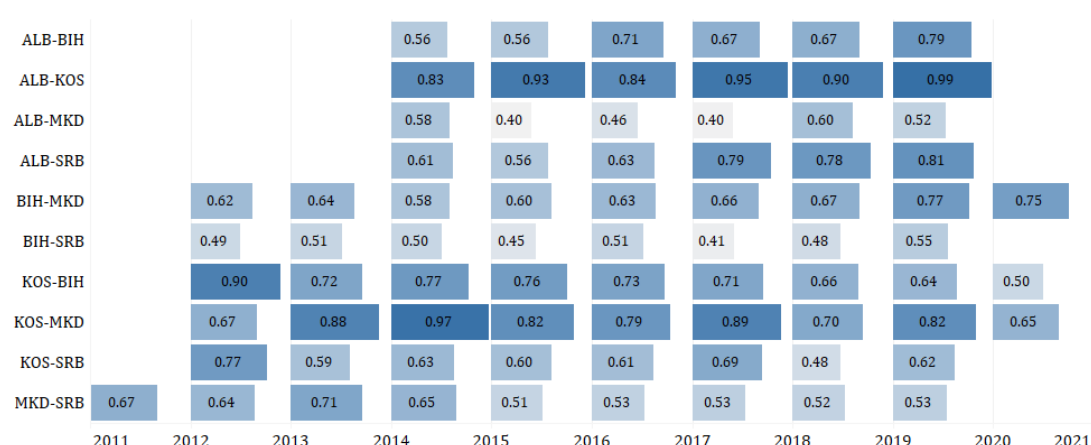
<sup>268</sup> Spatial Gini coefficient is defined as:

$$G_j = \sum_{i=1}^5 \left( \frac{E_{ji}}{E_j} - \frac{E_i}{E_{total}} \right)^2$$

where,  $E_j$  is the total employment in industry  $j$  and  $E_{total}$  is the aggregate employment (in WB6). If  $G_j = 0$ , then the industry is uniformly distributed across countries, while higher number indicates higher level of localization.



Figure 29. Krugman's index of regional specialization across WB6



Source: Authors' calculations based on ILO's labor force statistics

Note: The index is calculated based on ISIC-Rev.4 two-digit division of manufacturing sectors. Data was not available for Montenegro and for some years for the other five countries.

Figure 30. Spatial Gini coefficient in WB6



Source: Authors' calculations based on ILO's labour force statistics

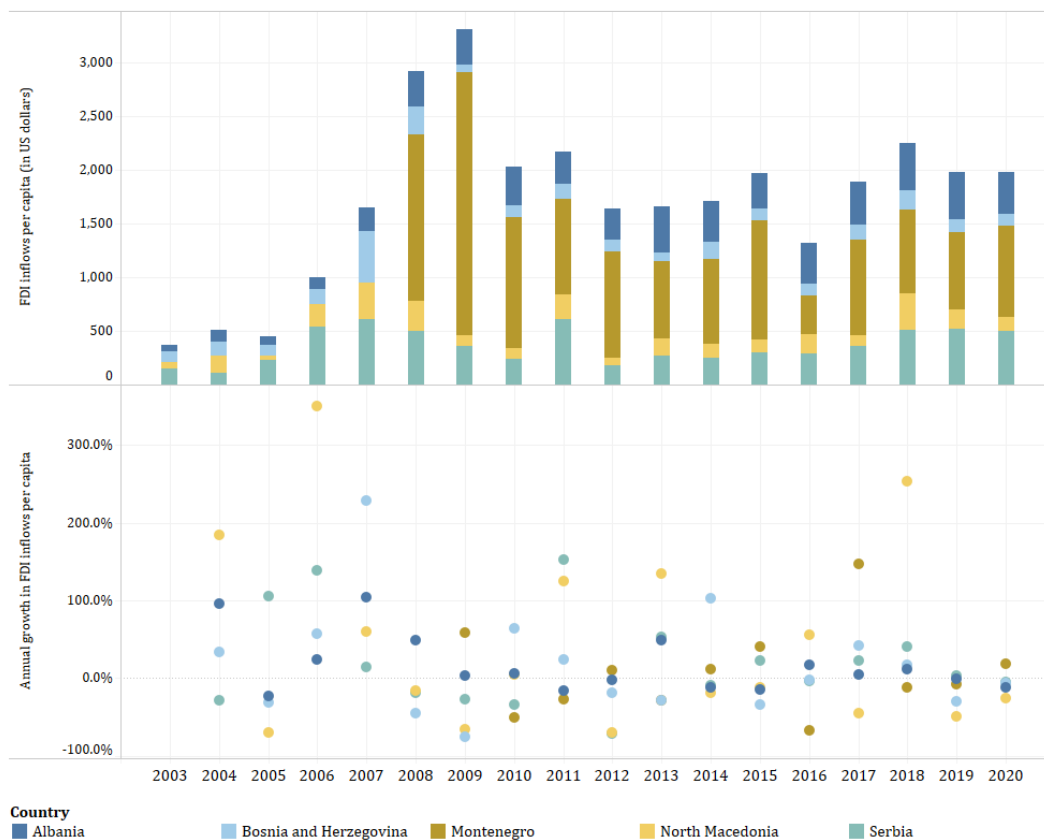
Note: The index is calculated based on ISIC-Rev.4 two-digit division of manufacturing sectors. Data was not available for Montenegro. Dominant country represents the country with the highest location quotient for a given industry.<sup>269</sup>

<sup>269</sup> Location quotient is defined as:

Figure 30 presents **the Spatial Gini coefficients** across manufacturing sectors in the WB6 region. Manufacturing sectors have low levels of localization which corresponds with the lower levels of specialization in the WB6. Generally, the coefficients are close to 0 for traditional and resource-based manufacturing, while higher localization is observed for higher-value-added products. For instance, in the recent years, the localization increases for production of transport and electrical equipment, as well as production of machinery, where the dominant position is reserved for Serbia. On the other side, decreasing tendencies in the localization coefficients are evident, especially in the sectors where North Macedonia had dominant position (tobacco and wearing apparel). Since CRM-driven liberalization may cause further specialization, North Macedonia faces challenges in localizing higher-value-added manufacturing.

Finally, **the CRM predicts regional policies for attracting FDIs**. Currently, each country in the region designs its own policies to increase its FDI stocks. Figure 31 shows the regional per capita FDI inflows and contributions of each country (upper panel), as well as the country's annual growth of FDI inflows per capita (lower panel). During the last eight years, the ratio is fairly stable (except for 2016), however once one country experience positive growth in FDI inflows per capita, at least one other country experiences decline. This illustrates the competition that exists among the WB6 countries in attracting FDIs.

Figure 31. Per capita FDI inflows and annual growth



Source: UNCTAD

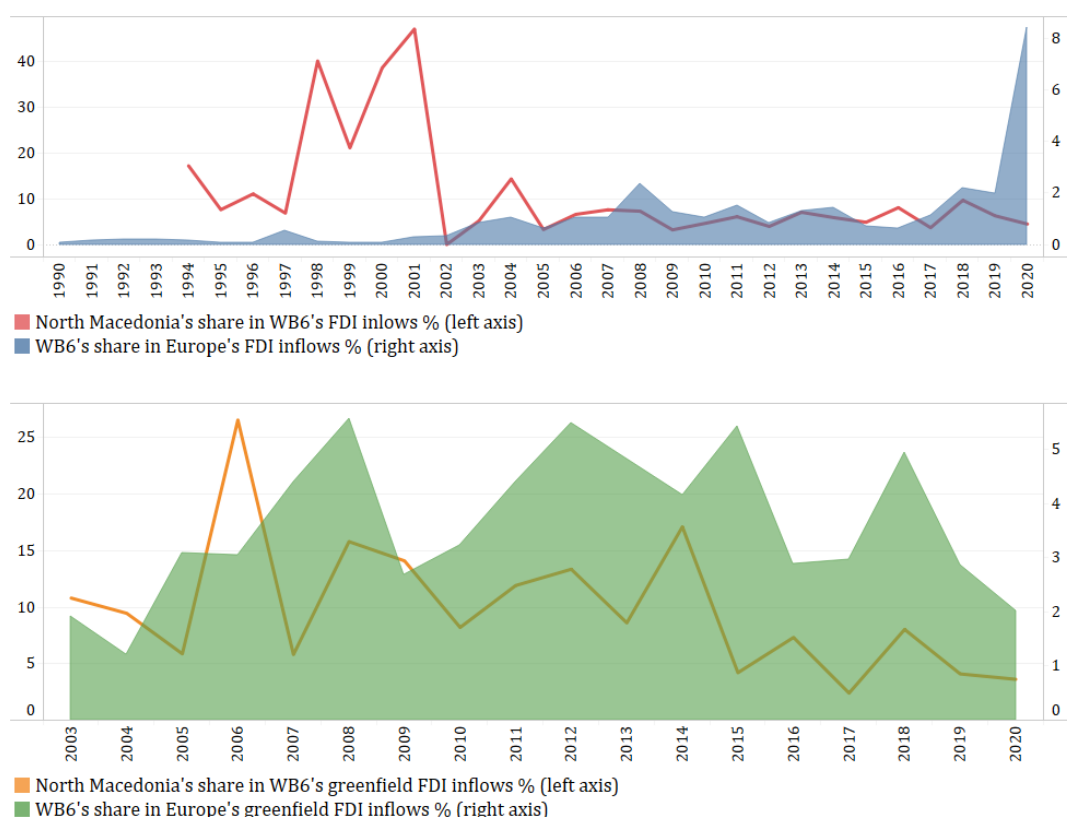
Note: Data was not available for Kosovo

$$L_{ji} = \frac{E_{ji}}{E_j} / \frac{E_i}{E_{total}}$$

If  $L_{ji} > 1$  then the country has higher percentage of a given industry compared with its proportion of total industry employment relative to other countries.

Moreover, Figure 32 presents **the share of North Macedonia in WB6's FDI inflows** and the share of WB6 in Europe's FDI inflows (upper panel), and the same indicators for the greenfield FDI inflows (lower panel). The importance of WB6 in the Europe's FDI (and greenfield FDI) inflows shows increasing tendencies, while North Macedonia is losing (or stagnating) its importance in the regional FDI inflows. Obviously, a more coordinated approach in attracting FDIs in the region should revert the North Macedonia's position in the regional FDI inflows. From one side, the CRM could stop the 'race to the bottom' phenomenon that occurs in WB6 countries by increasing state aid and reducing taxes in order to attract FDIs. On the other side, smaller countries and those with limited resources could become less attractive for foreign investors, and the benefits of the CRM to be concentrated.

Figure 32. Country and regional shares of FDI and Greenfield FDI inflows



Source: UNCTAD

Note: Data was not available for Kosovo

In summary, apart from the political will and institutional development, the success of CRM depends on the potential to trade within WB6, distribution of gains and losses after integration and the agreement in building strategies for attracting FDIs. All WB6 countries largely trade with the EU countries and the importance of intraregional trade (within WB6) is decreasing. It is difficult to argue that CRM would increase the intraregional trade given **the structural characteristics and limited size of the region**. Moreover, the manufacturing in the WB6 is less specialized and less localized, meaning that potential to trade is constrained. The CRM may cause shift in the production patterns, in favour of larger and skilled-labour-abundant markets, causing regional distortions and possible winners and losers. Nevertheless, smaller countries, such as

North Macedonia, may benefit from the CRM's more coordinated approach in attracting FDIs given the losing position in the current competitive environment within WB6.

## 5. Conclusion

**The WB6's CRM initiative** could be viewed from two perspectives, as a regional waiting room for deferred full membership and a fast track for economic integration leading to the EU membership. The first implies that the CRM is a separate process and each WB6 country is responsible for its own path towards EU, while the latter assumes complementarity between the CRM and EU integration and interdependence of WB6 countries towards EU.

Three dimensions are important to understand **the complementarity of CRM with EU integration**. Firstly, the formal dimension assumes that the CRM initiative instigates progress in the criteria relevant for EU integration of each WB6 country. Our qualitative analysis shows that the CRM Action Plan would certainly bring progress in the criteria developed to build functioning market economy and create certain level of preparedness of the Macedonian economy to join the EU Single Market in future. However, the compliance with the EU obligations and the development of sound institutions that guarantee democracy, rule of law, and protection of fundamental rights remain in the sole responsibility of North Macedonia apart from CRM, if the country aspires for agile accession to the EU. Secondly, the political dimension assumes that the economic forces driven by the CRM and Open Balkan initiatives would break the political limbo in the Western Balkan and change the political landscape towards more liberalization disparaging the existing political issues between the countries. The history of EU integration shows that the current EU members, successfully overcoming the serious political confrontations and wars in the past, understood the benefits of belonging to a larger bloc and formed the EU club enlarging it in several occasions.

Finally, the economic dimension assumes that **the CRM project** is facing objective challenges in terms of limited potential to trade within WB6, unequal distribution of gains and losses after integration and disagreement in building strategies for attracting FDIs. It is difficult to argue that CRM would increase the intraregional trade given the structural characteristics and limited size of the region, while it may cause shift in the production patterns, in favour of larger and skilled-labour-abundant markets, causing regional distortions and possible winners and losers. Nevertheless, smaller countries, such as North Macedonia, may benefit from the CRM's more coordinated approach in attracting FDIs given the losing position in the current competitive environment within WB6.

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## III.6. Serbia's economic cooperation in light of recent regional initiatives

Dragan ĐUKANOVIĆ<sup>270</sup>

Predrag BJELIĆ<sup>271</sup>

### Abstract

In this paper, the authors analyse the economic cooperation of Serbia with the most important trade partners and research recent initiatives on regional integration, especially Regional Economic Area, Regional Common Market and Open Balkan. Serbia as a small European economy is very open to international economic exchange with the rest of the world. But the most important trade partners of Serbia are situated in its vicinity. The most important trade partner is European Union (EU), a very developed customs union close to Serbian borders. Also, important trade partners include neighbouring countries of Serbia, especially those which were the part of the single Yugoslav market in the past. Other important trade partners include: Russia, or Eurasian Economic Union (EAEU) now, China, countries of European Free Trade Association (EFTA), the USA. The paper examines the launch of three regional initiatives deriving from the Berlin Process and analyses their prospects in the Western Balkans vis-à-vis its wider European integration. In addition to implementing reforms, regional cooperation is also one of the prerequisites for a successful European accession. While the countries in the Central and Eastern Europe and the Baltic countries were encouraged, and not required, to cooperate with their neighbours, the Western Balkan Six have had to achieve benchmarks in terms of their mutual relations, along with their bilateral accession process with Brussels.

**Key words:** Serbia's trade, EU, CEFTA, Regional Economic Area, Regional Common Market, Open Balkan.

### 1. Introduction

Serbia is a developing European country that, as most of East European countries, has gone through the process of economic transition to full market economy. But Serbia was also faced with legacy of political conflict and sanctions that have significantly influenced its foreign trade sector. This is why Serbian foreign trade is not fully comparable to East European economies, countries in transition and now European Union members.

**Most important and dominant trade partner of Serbia is the EU** since it includes most important trade partners of Serbia, like Germany and Italy but also Croatia and Slovenia. Other important trade partners are countries of former Yugoslavia that are grouped in the revised Central European Free Trade Agreement from 2006 (CEFTA 2006).

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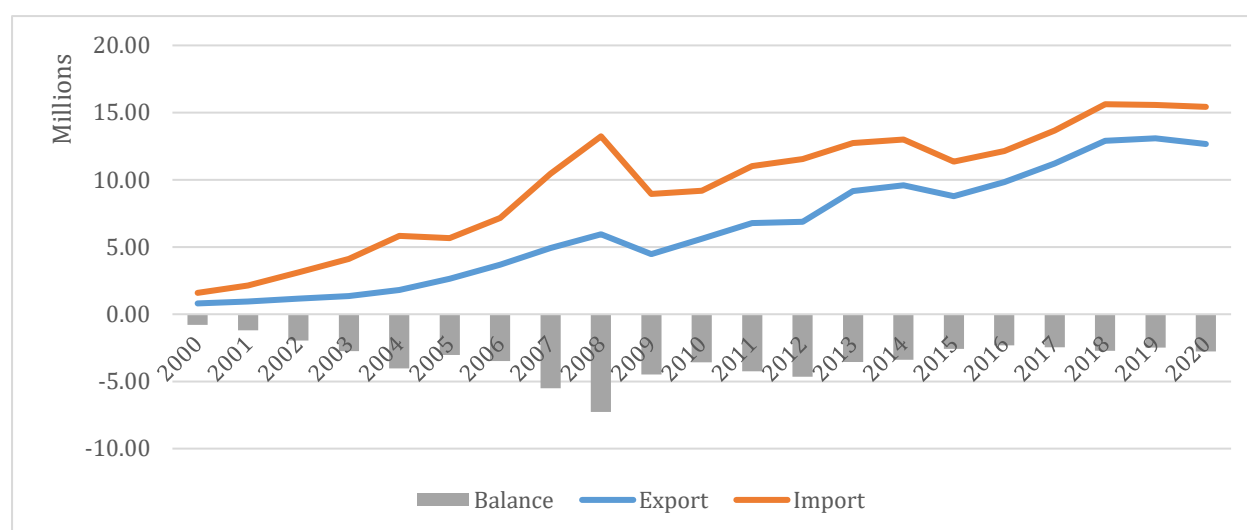
<sup>271</sup> Full Professor of International Trade, University of Belgrade Faculty of Economics. E-mail: bjelic@ekof.bg.ac.rs.

Two decades since the start of **Stabilization and Association Process for the Western Balkans**, the EU accession of the region is tied to the internal dynamics, willingness, and political decision of the EU. Negotiations are an open-ended process and the EU has refrained from announcing a time frame for potential accession of the Western Balkan countries. On the other hand, candidate countries are late in delivering reforms they promised. In economic terms, the region lags behind as well, and it will take decades to catch up to average standards of living in the EU. In light of the growing scepticism towards enlargement, EU has also tried to foster regional economic integration, launching the Berlin process in 2014, which is meant to lead to a regional market. Three regional cooperation initiatives stemming from the Berlin process: Regional Economic Area, Open Balkan (formerly Mini-Schengen) and Common Regional Market aim to facilitate the free flow of people, goods, capital and services, and not to substitute the EU membership of WB6 as the ultimate goal.

## 2. Serbia Trade

**Total goods trade of Serbia was around 45 billion USD in 2020**, according to official Serbian Statistical Office data<sup>272</sup>. Export of goods was 19.5 billion USD in 2020 while total goods import was 26.2 billion USD, so Serbia recorded deficit of 6.7 billion in goods trade in 2020. Export of service was around 7.1 billion USD from Serbia in 2020 according to National Bank of Serbia data<sup>273</sup>. Imports of Services for Serbia was around 5.8 billion USD in 2020, so Serbia recorded service trade surplus in 2020 around 1.3 billion USD. This surplus in service trade corrected the goods deficit significantly.

Figure 33. Serbia Trade with the EU, 2000-2020



Source: Author representation of Statistical Office of Serbia data

**Major trade partner of Serbia are countries members of the European Union (EU)** which we perceive as one subject of international trade since it has customs union established between its members. EU is a dominant trade partner of Serbia since EU has a share of more than 50% in both export and import of Serbia. Trade between Serbia and the EU follows the dynamics of total EU Serbia. It is rising significantly from 2003 since EU started to apply unilateral trade preferences (known as Autonomous Trade Measures – ATMs). Later these trade preferences were

<sup>272</sup> Statistical Office of Serbia database, Internet, [www.stat.gov.rs](http://www.stat.gov.rs).

<sup>273</sup> National Bank of Serbia data, Internet, [https://nbs.rs/sr\\_RS/drugi-nivo-navigacije/statistika/platni\\_bilans](https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans).

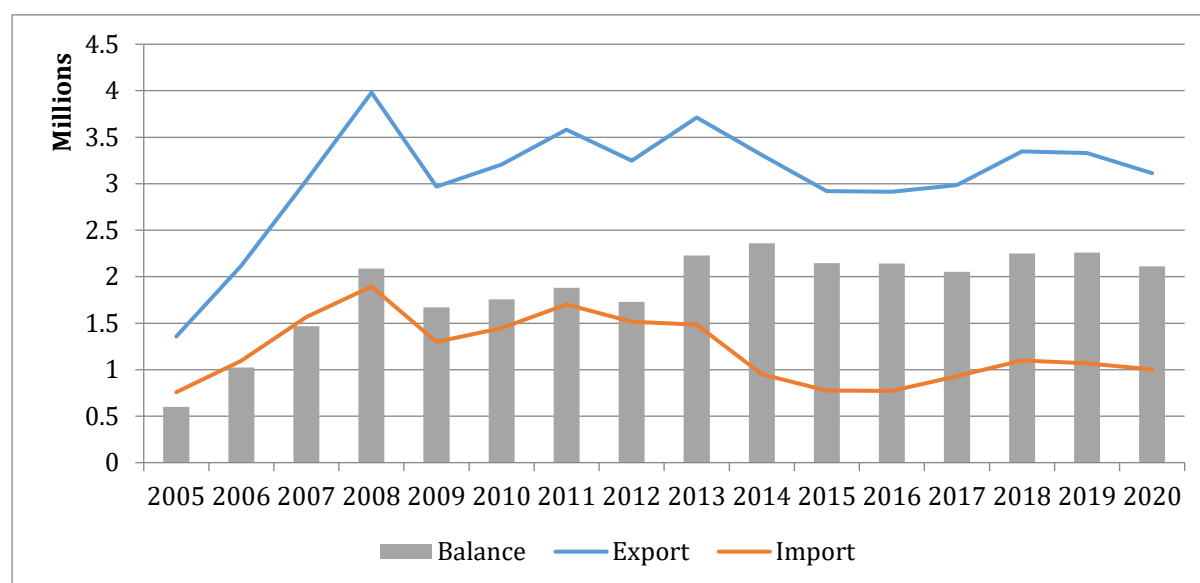


transferred to trade agreement that is a part of the Stabilization and Association Agreement (SAA). But important stimulus to trade between Serbia and the EU was inclusion of Serbia in **Euromed** rules of origin cumulation scheme.<sup>274</sup>

EU as a more developed economy has a constant surplus in trade with Serbia, but positive is that this surplus is narrowing in last years, which can be observed in Graph 34.

The second group of trade partners of Serbia, by importance, is former Yugoslav economies that are signatories of the **CEFTA 2006**. Important is that Serbia has surplus in trade with all CEFTA 2006 partners, now when Croatia is no longer CEFTA 2006 signatory.

Figure 34. Serbia Trade with the CEFTA-2006, 2005-2020



Source: Author representation of Statistical Office of Serbia data

In recent years export of Serbia to CEFTA 2006 signatories is not rising more and became constant. Reasons are applied non-tariff barriers that these economies apply against Serbia<sup>275</sup> but also diminishing trade potential of exports to these economies.

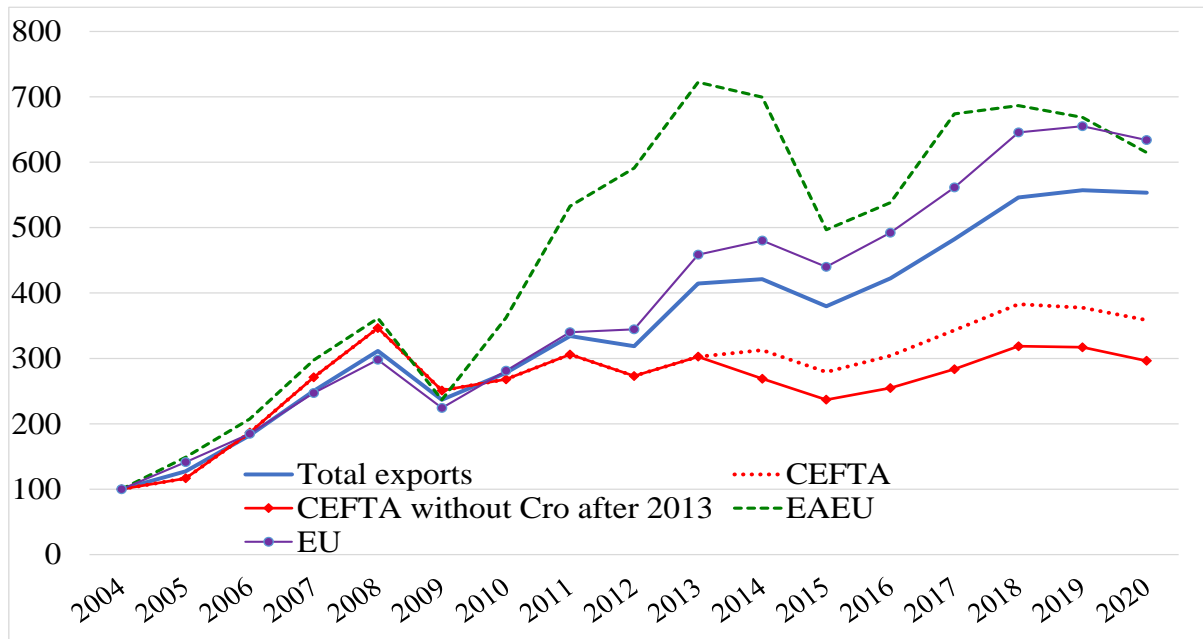
Other trade partners of Serbia include **the Eurasian Economic Community (EAEU)**, with Russia as a largest member country, EFTA countries, Turkey, China and USA. When dynamics of Serbian export was researched<sup>276</sup>, comparing the dynamic of Serbia's exports by destinations: EU, CEFTA 2006 and EAEU, we can observe that the fastest growth in the whole observed period (2004-2020) was towards the EU followed by EAEU: average growth rates were 12.2% and 12%, being above total Serbia's export growth (11.3% annually). On the other side, Serbia's exports to CEFTA 2006 grew by 7% annually. From 2009 larger differences in Serbia's export growth toward CEFTA 2006 on one side and to the EAEU and the EU on the other side were registered (Graph 3).

<sup>274</sup> More in: Predrag Bjelic, "Pravila o poreklu robe kao nova granica spoljnotrgovinske liberalizacije" *Revija Kopaoničke škole prirodnog prava*, No.1/2019, str. 295-307.

<sup>275</sup> See: Ivan Marković, Ivana Popović Petrović, Predrag Bjelić, Elimination of Non-Tariff Barriers in Regional Trade Integrations: The CEFTA 2006 Experience, *Teme*, Vol. XLV, No 2, 2021, pp.601-620.

<sup>276</sup> Radmila Dragutinović Mitrović, Serbia between the European Union and the Euroasian Economic Union: What does trade statistics demonstrate?, Proceedings of the 12th SCF International Conference on "Contemporary Issues in Social Sciences" Antalya, Turkey, 07 -10 October 2021, pp. 120-132.

Figure 35. Serbia's export dynamics towards the EU, CEFTA and EAEU, 2004-2020



Source: Radmila Dragutinović Mitrović, Serbia between the European Union and the Euroasian Economic Union: What does trade statistics demonstrate? Proceedings of the 12th SCF International Conference on "Contemporary Issues in Social Sciences" Antalya, Turkey, 07 -10 October 2021, Figure 4, p. 127.

But at the end, the dynamics of Serbian export to the EU surpassed all other export destinations demonstrating a **strong trade potential in trade between Serbia and the EU**. When we analysed<sup>277</sup> the effects of trade measures, such as ATMs, SAA and CEFTA 2006 on Serbia's bilateral trade, we found that preferential trade regimes are important determinant of Serbia's trade and that significant liberalization of trade regime with the USA as untraditional trade partner, even asymmetrical to Serbia's favour, didn't diverted trade flows from traditional partners in the long-run.

But variations and asymmetry in trade regimes play also very important role, as research<sup>278</sup> has demonstrated. Trade regime variations from asymmetry to reciprocity had impact not only on Serbia's bilateral exports, but on all Western Balkan (WB) candidate countries. Asymmetrical trade preferences granted to the WB acceding countries were significant in boosting their bilateral exports, but later variations in trade regime introduced by SAA were not significant at least in the early period after introducing reciprocity. This implies that gradual introduction of symmetry in EU-WB trade regime in the initial period lower their bilateral exports, due to their smaller international competitiveness.

### 3. Trade with Višegrad-4

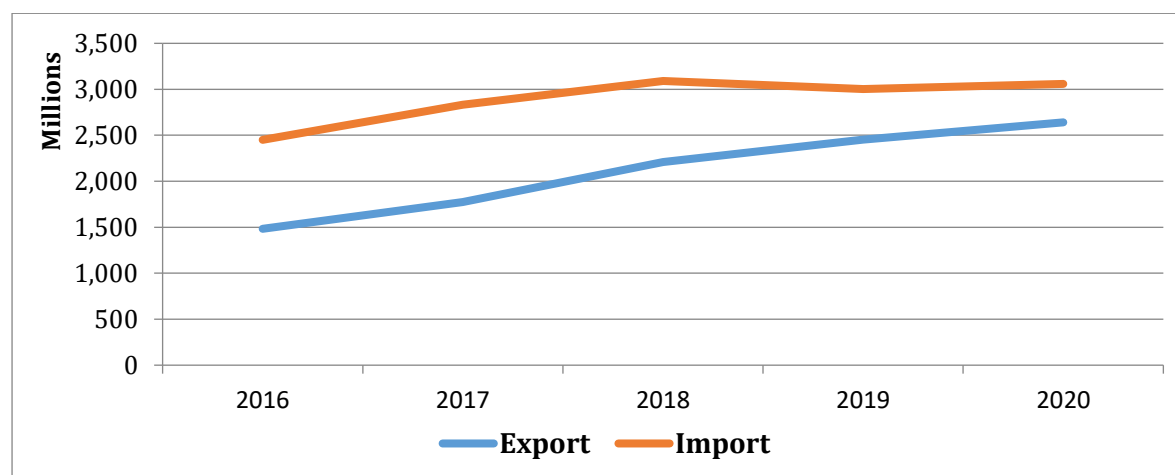
Main trade partner in the group of EU members for Serbia are traditionally Germany and Italy. Other EU partners include France, but also former Yugoslav republics Croatia and Slovenia. Serbia

<sup>277</sup> More in: Bjelić P. and Dragutinović Mitrović R. (2012), The effects of competing trade regimes on bilateral trade flows: Case of Serbia, *Proceedings of Rijeka Faculty of Economics: Journal of Economics and Business*, Volume 30, Issue 2, pp. 267-294.

<sup>278</sup> More in: Dragutinović Mitrović R. and Bjelić P. (2015), Trade regimes and bilateral trade in the EU enlargement process: Focus on the Western Balkans, *Acta Oeconomica*, Vol. 65 (2), pp. 249-270.

trade with four **Visegrad countries**, Hungary, Poland, Czechia and Slovakia, was around 4 billion USD in 2016, rising to more than 5.5 billion USD in 2020. Serbia records deficit in trade with these countries. Trade of Serbia with Višegrad-4 has become more prominent when these countries joined the EU.<sup>279</sup> Reason is that these countries started to apply EU trade preferences toward Serbia.

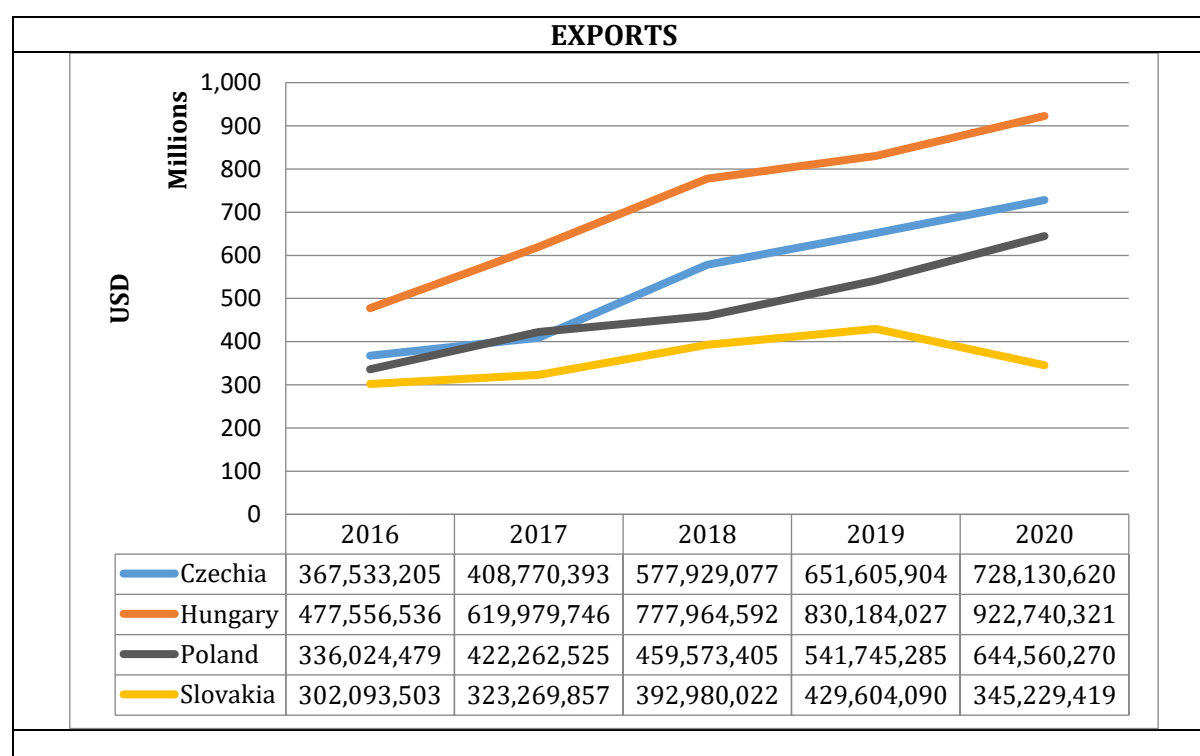
Figure 36. Serbia trade with Višegrad-4



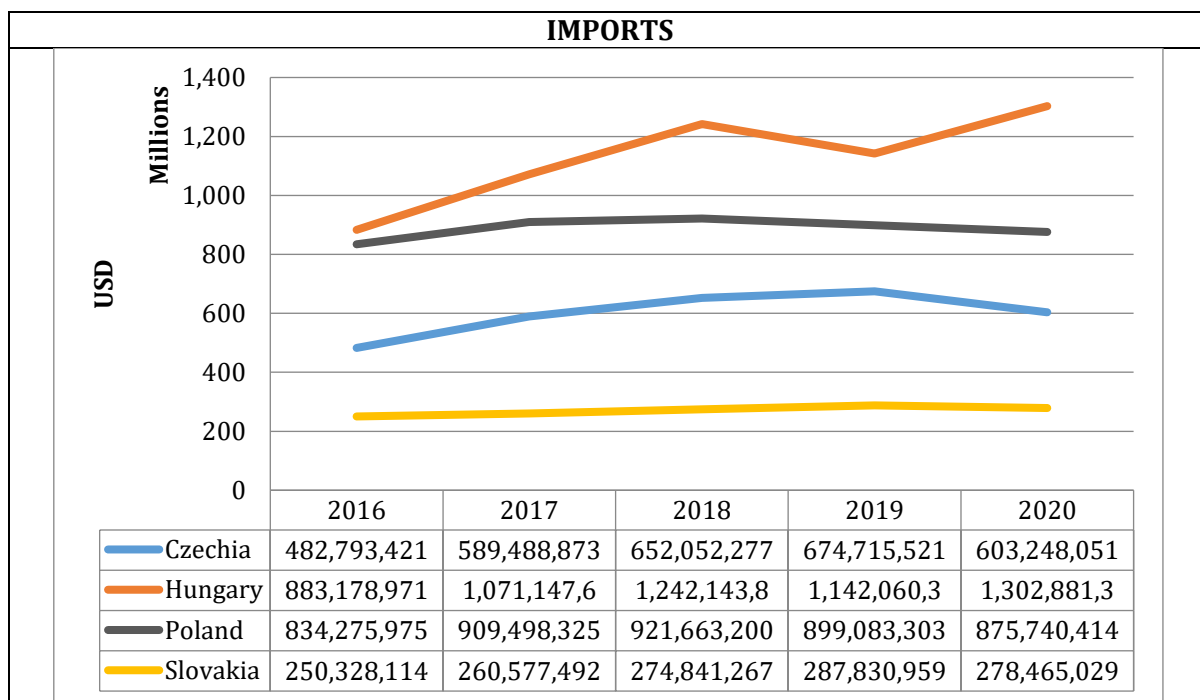
Source: Authors representation of UN/COMTRADE data

Main trade partner in the group of Višegrad-4 is **Hungary**, since Serbia exported nearly 1 billion USD and imported more than 1.3 billion USD in 2020. On the second position is Czechia in export of Serbia and Poland in import of Serbia from this group.

Figure 37. Serbia trade with individual Višegrad-4 countries



<sup>279</sup> This was researched in detail in: Dragutinović Mitrović R. and Bjelić P. (2015), Trade regimes and bilateral trade in the EU enlargement process: Focus on the Western Balkans, *Acta Oeconomica*, Vol. 65 (2), pp. 249–270.



Source: Authors representation of UN/COMTRADE data

#### 4. Regional Cooperation in the Western Balkans

Ever since Croatia became the EU member state in 2013, the political climate for further enlargement has dramatically changed. In spite of some reform efforts, the Western Balkan countries face a difficult period because of confusion over the future development of the EU itself. Paradoxically, further enlargement appears less forthcoming than in 2003 when the EU declared that “*the future of the Balkans is within the European Union.*”<sup>280</sup> Two decades later, EU accession is tied to the internal dynamics, willingness, and political decision of the EU. In other words, negotiations are an open-ended process and the EU has refrained from announcing a time frame for potential accession of the Western Balkan countries.

In 2018, European Commission came up with “A credible enlargement perspective for and enhanced EU engagement with the Western Balkans,”<sup>281</sup> which stated that **Serbia and Montenegro could join EU in 2025**, while other Western Balkan countries could catch up, but it has remained highly ambitious best-case scenario proposed by the European Commission, and not endorsed by the Council. Any further enlargement is dependent upon institutional reform of the EU, and the geopolitical circumstances. This has significantly reduced appetite for necessary reforms in candidate countries, opening the doors to the so-called “third actors”, namely China, Russia, Turkey and some Arab countries, which try to fill the gaps in economic development of Western Balkan countries, as well as to exert political influence whenever possible. Despite billions of Euros the EU has either donated or invested in the Western Balkans, this region faces a major convergence challenge — it will take decades to catch up to average standards of living

<sup>280</sup> EU-Western Balkans Summit Thessaloniki, 21 June 2003, Declaration, at [https://ec.europa.eu/commission/presscorner/detail/en/PRES\\_03\\_163](https://ec.europa.eu/commission/presscorner/detail/en/PRES_03_163)

<sup>281</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, “A credible enlargement perspective for and enhanced EU engagement with the Western Balkans”, 6 February 2018, at [https://ec.europa.eu/info/sites/default/files/communication-credible-enlargement-perspective-western-balkans\\_en.pdf](https://ec.europa.eu/info/sites/default/files/communication-credible-enlargement-perspective-western-balkans_en.pdf)

in the EU — even in optimistic scenarios.<sup>282</sup> Large scale outward migration indicates a lack of hope for future economic prospects among many Western Balkan citizens and bears testament to the generally disappointing results of the last two and a half decades of the transition.<sup>283</sup>

In addition to implementing reforms, **regional cooperation** is also one of the prerequisites for a successful European integration of the Western Balkan countries, as well as a powerful tool for the overall relaxation of political tensions. The EU promoted this policy not only in the Western Balkans, but also in Central Europe and the Baltic countries both before and after they joined the Union (Benelux, Nordic Council, V4, etc.). But for those countries regional cooperation was encouraged, and not required. Western Balkan countries have also had to achieve benchmarks in terms of their mutual relations, along with their bilateral accession process with Brussels.<sup>284</sup> Keeping the balance between the regional cooperation and bilateralism has proved to be challenging. The foundations and the main directions of regional cooperation have so far been either exclusively or predominantly established by EU or some of its member states, and the USA, and while the awareness of the genuine need for regional cooperation of all countries in the region has been raised, it has not yet been transformed into consistent action. Regional cooperation tended to be viewed as an imposed requirement that, if dealt with sufficiently or even to a bearable extent, would lead to a faster integration into the EU. Regional cooperation has often been seen as a substitute for EU integration, which is still the biggest fear of the Western Balkan countries.<sup>285</sup> The EU has constantly been reiterating that regional cooperation is not an aim in itself — “**The EU is built on a foundation of regional cooperation...Integration in the EU is only possible if future members can demonstrate they are willing and able to interact with their neighbours as EU member states do.**”<sup>286</sup> What has not been accentuated and perceived sufficiently is the fact that regional cooperation is a need of the countries in the region themselves, regardless of their stage of integration to the EU, and that good neighbourly relations are indispensable to their national interests.

## 5. Regional Initiatives

Although the number of initiatives in the region exceeds the number of critical analyses on them, we could say that the international community took a good strategic course towards the long-term preparation of the Western Balkan countries for membership in the EU. Creation of the Stabilization and Association Process (SAP), and the formation of **the Stability Pact for South-Eastern Europe (SPSEE)** in 1999 to “*foster peace, democracy, respect for human rights and economic prosperity*”<sup>287</sup> for stability in the region, marked the arrival of “new regionalism” to the Western Balkans. In 2008, this internationally driven framework of the Stability Pact was

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<sup>282</sup> Sanfey, Peter and Milatovic, Jakov. 2018. “The Western Balkans in Transition: diagnosing the constraints on the path to a sustainable market economy”, *Background Paper for the Western Balkans Investment Summit*, hosted by EBRD, 26 February, 2018

<sup>283</sup> Leitner, M. Sandra, “Net Migration and its Skills Composition in the Western Balkan Countries between 2010 and 2019: Results from a Cohort Approach Analysis”, *Working paper No. 197*, March 2021, The Vienna Institute for International Economic Studies, at <https://wiiw.ac.at/p-5695.html>

<sup>284</sup> Bertelsmann Stiftung. 2020. *Pushing on a string? An evaluation of regional economic cooperation in the Western Balkans*, at <https://www.bertelsmann-stiftung.de/en/publications/publication/did/pushing-on-a-string-en>

<sup>285</sup> North Macedonian PM Zaev: “Regional Cooperation Not Substitute for EU Membership”, European Western Balkans, at <https://europeanwesternbalkans.com/2017/07/23/zaev-regional-cooperation-not-substitute-eu-membership/>

<sup>286</sup> Brussels 03.04.2002, COM(2002) 163 final, Report from the Commission, The Stabilization and Association Process for South East Europe, First Annual Report.

<sup>287</sup> European Commission, “Stability Pact for South Eastern Europe”, at [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/stability-pact-south-eastern-europe\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/stability-pact-south-eastern-europe_en)

transformed into **the Regional Cooperation Council (RCC)**<sup>288</sup>, coordinated by the South-East European governments in cooperation with the South-East Cooperation Process (SEECp).<sup>289</sup> This transformation from an externally driven to an internally driven approach was celebrated by the international community as an important step in the region's assuming ownership over its own affairs.<sup>290</sup> This wave of the "new regionalism" in the Western Balkans has resulted in abundance of regional initiatives in the last two decades — it is estimated that there are over 60 — in which the Western Balkan countries were expected to actively participate.<sup>291</sup> Meanwhile, some of those initiatives have transformed into multilateral intergovernmental organizations on a contractual basis (CEFTA 2006, Energy Community Treaty, Transport Community Treaty, Regional Cooperation Council, etc.).

The new additional qualitative change in the area of regional cooperation has come with the **Berlin Process**. It is a diplomatic initiative linked to the future accession of the Western Balkans Six (WB6) to the EU, initiated by former German Chancellor Angela Merkel in 2014, in the light of increased Euroscepticism and serious slowdown of the accession process. Two of its main objectives are to intensify regional cooperation and to increase prosperity through sustainable economic growth. The latter is expected to be achieved via strengthened transport and energy infrastructure, as well as the more efficient use of EU pre-accession funds in the WB6.<sup>292</sup> To support this initiative, the European Commission in 2015 set the Connectivity Agenda<sup>293</sup> and earmarked an additional 1 billion Euros from pre-accession funds<sup>294</sup> to key infrastructure investments. The Berlin Process provided high-level framework enforcing many previous achievements of regional initiatives, and instigating new ones. Although it was initially designed for a period of four years (ending in 2018), it has persevered to this date, as there is a need for the continuation. But it is yet to be seen whether the new German Government will view it as a priority, given the departure of Angela Merkel who was personally behind the Berlin Process, hosting the last (virtual) Summit in July 2021.<sup>295</sup>

One of the most important outcomes of the Berlin Process was the creation of **Regional Economic Area (REA)**, presented by RCC at the Summit in Trieste in 2017, which Multiannual Action Plan (MAP REA) has opened the doors for a closer regional cooperation in the areas of trade, investment, labour market, and digital integration. The MAP REA aims to "*enable the unobstructed flow of goods, services, capital and highly skilled labour.*"<sup>296</sup> Within the Regional Economic Area (REA), the roaming charges were firstly progressively reduced in 2019 and then eliminated in July 2021. The Regional Investment Reform Agenda (RIRA) was launched in 2018 with the aim of harmonizing WB6 investment policies with the EU standards and best practices, within the framework of CEFTA and the EU pre-accession process.<sup>297</sup> The implementation of MAP REA has experienced many challenges, proving that regional cooperation cannot substitute for the resolution of bilateral issues, such as the Belgrade-Pristina (Serbia-Kosovo) dispute and the

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<sup>288</sup> Regional Cooperation Council, at <https://www.rcc.int/>

<sup>289</sup> South-East European Cooperation Process, at <https://www.seecp.info/>

<sup>290</sup> Friedrich Ebert Stiftung. 2009. *Dialogues: Ownership for Regional Cooperation in the Western Balkan Countries*.

<sup>291</sup> Cooperation and Development Institute, Tirana, at: <https://cdinstitute.eu/orc/orc-database/>

<sup>292</sup> The Berlin Process, at: <https://berlinprocess.info/about/>

<sup>293</sup> Western Balkans Investment Framework (WBIF) Connectivity Agenda, at: <https://www.wbif.eu/sectors/connectivity-agenda>

<sup>294</sup> Ibid.

<sup>295</sup> Chancellor Merkel hosts Berlin Process Leaders Summit: <https://www.berlinprocess.de/en/chancellor-merkel-hosts-berlin-process-leaders-summit>

<sup>296</sup> RCC, *Multi Annual Plan for Regional Economic Area*, full document at: [https://www.rcc.int/priority\\_areas/39/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans--map](https://www.rcc.int/priority_areas/39/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans--map)

<sup>297</sup> Ibid.



complexity of Bosnia and Herzegovina. For example, the Mutual Recognition of Professional Qualifications was not acceptable to Serbia and it was removed from the agenda of the Summit in Poznan 2019,<sup>298</sup> whereas the then Kosovo government did not consider that regional cooperation is in full line with European integration, and such a position has continued to this date. Unresolved border issues and visa barriers remain at the centre of disagreements in the region.<sup>299</sup> On top of political, there are also administrative and technical obstacles which are impeding the full implementation of MAP-REA. The Berlin Process also generated the Regional Youth Cooperation Office (RYCO), the Transport Community Treaty (TCT) and Common Regional Market (CRM). It has promoted “green corridors” in the Western Balkans, the cooperation during the COVID-19 pandemic, digital transformation, migration issues, Roma integration, education, research and innovation, reconciliation and the fate of the missing persons from the conflicts in the 90’s, etc.<sup>300</sup>

**The Mini-Schengen initiative** was launched in October 2019 in Novi Sad by Serbian President Vucic, Albanian Prime Minister Rama and North-Macedonian Prime Minister Zaev, aiming to enable the free movement of people, goods, services and capital in the Western Balkans.<sup>301</sup> The initiative was supported by the former U.S. Special Envoy for the Western Balkans Richard Grenell. Meetings were held in November 2019 in Ohrid, North Macedonia, and in December 2019 in Tirana, Albania, discussing proposals to implement “the four freedoms” of the EU, and adopting the agreement for civil emergencies, known as the Durres Protocol.<sup>302</sup> Although in the White House Summit in Washington in September 2019, Kosovo agreed to take part in the Mini-Schengen, the new government refused to join the initiative, as well as Montenegro and Bosnia-Herzegovina. In November 2020 at an online summit, three leaders signed a Memorandum of Understanding enabling border crossing with ID cards, and providing free care for citizens in any of the three countries if they are infected by COVID-19.<sup>303</sup> At the Skopje Economic Forum on Regional Cooperation held on 29 June 2021, leaders of North Macedonia, Albania and Serbia unveiled a new name for what was known as Mini-Schengen, which will be officially called **the Open Balkan initiative**.<sup>304</sup> They signed one interstate Agreement and two Memorandum of understanding, deepening political and economic ties between three countries, enabling joint response to natural and other disasters, allowing citizens to work in one another’s countries and helping goods move without delays.<sup>305</sup> Next meeting was held in Belgrade on 4 November 2021, and the leaders signed a joint statement “The future of enlargement – a view from the region.”<sup>306</sup> The last summit was in Tirana, on 10 December 2021, which ended with signing several agreements on the free access to labour market, electronic identification, the lifting of non-tariff

<sup>298</sup>Western Balkans Summit Poznan, Chairs Conclusions, <https://www.gov.pl/web/diplomacy/western-balkans-summit-poznan-chairs-conclusions>

<sup>299</sup> The movement of Western Balkans’ citizens inside the region continues to be challenging due to passport restrictions as in the case of travelling between Kosovo and Serbia, and visa regime between Bosnia-Herzegovina and Kosovo.

<sup>300</sup>Djukanovic, Dragan, Dasic, Marko, “Modeliranje regionalne saradnje na Balkanu nakon 1999.godine: evropska iskustva i njihova primena”(Modeling regional cooperation in the Balkans after 1999: European experiences and their application) in: *Medjunarodni problemi/International Problems*, Beograd, No. 4/2021. Vol. LXXIII, pp. 617–637.

<sup>301</sup> The President of the Republic of Serbia official page: <https://www.predsednik.rs/en/press-center/news/president-vucic-meets-the-prime-minister-of-the-republic-of-north-macedonia-and-the-prime-minister-of-the-republic-of-albania>

<sup>302</sup> Government of the Republic of North Macedonia: <https://vlada.mk/node/19500?ln=en-gb>

<sup>303</sup> European Western Balkans, “North Macedonia, Albania and Serbia signed a memorandum to fight coronavirus” November 9, 2020 at: <https://europeanwesternbalkans.com/2020/11/09/north-macedonia-albania-and-serbia-signed-a-memorandum-to-fight-coronavirus/>

<sup>304</sup> Government of the Republic of North Macedonia, *Joint Statement of the Leaders of Open Balkan*: <https://vlada.mk/node/26063?ln=en-gb>

<sup>305</sup> Ibid

<sup>306</sup> Government of the Republic of North Macedonia, *The future of enlargement – the view from the region*: <https://vlada.mk/node/26945?ln=en-gb>



barriers for business, collaboration in the field of food safety, among other things.<sup>307</sup> They had previously agreed to abolish customs controls as of 1 January 2023.<sup>308</sup> But going ahead without all six Western Balkan partners taking part might backfire and create new divisions in the region.

The Open Balkan initiative builds on an already achieved level of regional cooperation established with the implementation of **the Common Regional Market (CRM)**,<sup>309</sup> but offers a substantial contribution to further regional integration. CRM was endorsed by the leaders of WB6 at the Berlin Process Summit in Sofia on 10 November 2020.<sup>310</sup> It builds upon the achievements of the Regional Economic Area (REA), which had mixed results in implementation. Action Plan for CRM should be implemented by the end of 2024, in the areas of trade, investment, digital and industry and innovation.<sup>311</sup> At the Sofia Summit, **the Green Agenda for the Western Balkans** was also endorsed, which will be supported by the Economic and Investment Plan for the Western Balkans, previously adopted by the European Commission on 6 October 2020.<sup>312</sup>

## 6. Conclusion and recommendations

The EU is the most important and dominant trade partner of Serbia and trade potential for Serbian exports remains strong to this export destination. Other important partners are the neighbours grouped within CEFTA 2006. Trade with Višegrad-4 countries is significant and has become important after these countries joined the EU. CEFTA 2006 is a regional agreement on free trade at the level of free trade zone. But there are several initiatives that envisage deepening of the cooperation in the Western Balkans. Serbia has a free trade agreement with the EU, creating a free trade zone between the two, and it is on the path of EU integration.

These three latest regional initiatives — **Regional Economic Area (REA)**, **Open Balkan** and **Common Regional Market (CRM)** try to implement the “four freedoms” of the European Union, and to ensure the free flow of goods, services, investments, and skilled people without quotas, tariffs, or any other barriers. **None of them should become just a substitute for the lack of commitment of the EU**, an alternative to accession of all WB6, or a consolation prize. They should make the Western Balkans’ annoyance with the slow European integration process more bearable, particularly Albania and North Macedonia, which cannot start the accession negotiations, despite the several recommendations by European Commission.

Even with only three countries involved, the Open Balkan initiative brought the issue of regional cooperation back to the public discourse, since the CEFTA or the Berlin Process have

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<sup>307</sup> The Government of the Republic of Serbia: “Several agreements signed at Open Balkans Summit in Tirana”, at <https://www.srbija.gov.rs/vest/en/182854/several-agreements-signed-at-open-balkans-summit-in-tirana.php>

<sup>308</sup> European Western Balkans, “Rama, Zaev and Vucic sign multiple agreements at the Open Balkan summit in Albania”, at <https://europeanwesternbalkans.com/2021/12/21/rama-zaev-and-vucic-sign-multiple-agreements-at-the-open-balkan-summit-in-albania/>

<sup>309</sup> Privredna komora Srbije/Serbian Chamber of Commerce, “Western Balkans Leaders Declaration on Common Regional Market”, at <https://api.pks.rs/storage/assets/Western%20Balkans%20%20Leaders%20Declaration%20on%20Common%20Regional%20Market%202021-2024.pdf>

<sup>310</sup> European Commission: “Western Balkans Summit in Sofia: important steps taken to advance regional cooperation to boost socio-economic recovery and convergence with the EU”, at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_2051](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2051)

<sup>311</sup> RCC, Common Regional Market Action Plan, 9 November 2020, at <https://www.rcc.int/docs/543/common-regional-market-actionplan>

<sup>312</sup> European Commission, *Guidelines for the Implementation of the Green Agenda for the Western Balkans*, 6 October 2020, at [https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green\\_agenda\\_for\\_the\\_western\\_balkans\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf)

never had the necessary attention. It remains opened to Kosovo, Montenegro and Bosnia-Herzegovina to join anytime soon, as the Western Balkans is a small region, roughly the size of Romania in terms of population and territory, with the GDP which equals the one of Slovakia, and it needs **no further fragmentation**.<sup>313</sup> Ultimately, regional economic integration initiatives can only provide part of the answer on the Western Balkans. The resolution of **open issues**, including the agreements on territorial questions, and the normalization of relations between all WB6, is key prerequisite to effective regional cooperation. Without political breakthroughs, no amount of regional cooperation initiatives can change the situation for the better.

Taking into account that **the “clear perspective” of EU membership** represents the strategic goal of Western Balkans, thus providing ground for the commitment of local political elites to the necessary reforms for a sincere transformation of the region, development of a comprehensive enlargement strategy with a roadmap to the EU membership, becomes the main priority. Genuine local ownership of the regional cooperation process, helping the region become self-sufficient, could be realized only if there is a speeding up of the Western Balkans’ association to the EU.

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<sup>313</sup> Kittova, Z., Steinhauser, D. (2018). The International Economic Position of Western Balkan Countries in Light of their European Integration Ambitions. *Journal of Competitiveness*, 10(3), 51–68, at <https://doi.org/10.7441/joc.2018.03.04>

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## **CONCLUSIONS AND RECOMMENDATIONS**

## CONCLUSIONS AND RECOMMENDATIONS

The most recent wave of the COVID-19 pandemic, the sharp spike in global energy prices and a new inflation wave, the aggression of Russia to Ukraine and the deteriorating security situation are stern reminders that Europe (and the world) faces unprecedented crises. These **global challenges**, together with others, such as Brexit pose major tests of European unity. In that context, “the Visegrád countries have shown solidarity and support in the most difficult times and have proven that their cooperation rests on strong foundations. With their robust growth, V4 countries also significantly **contribute** to the economic recovery of the European Union reinforcing its stability, security and competitiveness”.<sup>314</sup>

The six Western Balkan countries: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia can **learn a lot from the experience of political and economic cooperation within the Visegrad group**.

**The CEFTA 2006** has significantly improved overall environment for trade, cooperation and investment in the region. Since 2014, **the Berlin Process** has aimed to improve and intensify regional integration in the WB region. It is designed to help accelerate the entire region’s closer alignment with the EU. The Berlin Process concentrates in this context on areas such as infrastructure development and connectivity, business, regional youth exchanges, reconciliation and science. With the establishment of the Regional Youth Cooperation Office (RYCO), the agreement to develop a Common Regional Market, the signing of the Regional Roaming Agreement and the creation of “green lanes” to speed up border procedures with key goods in the time of the COVID-19 pandemic, the Berlin Process has brought significant results that are tangible for the people in the region and that are intended to prepare the region for accession to the EU.

Regional economic integration among WB6 could have a number of **beneficial effects**, which are well known in economic theory: it could stimulate growth, competition, FDI and longer-term development, thereby increasing their competitiveness and accelerating convergence with more developed countries. The WB6 are already a free trade area, but they could become a more integrated regional market by removing many non-tariff barriers on the free flow of goods, services, capital and labour. However, creating a more integrated Common Regional Market is **not an alternative to the Western Balkans’ integration with the EU**, but ought to facilitate their smoother integration with the EU economy once they become full members<sup>315</sup>.

Although the Visegrád Group served as **an inspiration** for the Western Balkans, one of the main **differences** between the two is that in the V4 case, political cooperation was created first, and the countries’ leaders only agreed on the economic cooperation afterward. In the WB6, the opposite could be observed, with a high level of achieved regional economic integration but with a little political will to deeper political cooperation and strengthen mutual trust. What connects these countries is the strategic path of integration towards the EU, but on the principle of a regatta, not a convoy.

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<sup>314</sup> Statement of the Presidency of the Visegrád Group, 13/12/2021

<sup>315</sup> Uvalic M., The Idea of Balkan Regional Economic Integration (<https://www.iemed.org/publication/the-idea-of-balkan-regional-economic-integration/>)

Comparing the experience of the Visegrád Group with the Western Balkan 6 in terms of developing their regional cooperation offers deeper insight into **the protracted EU accession negotiations** of the latter. The WB6 followed the path of the V4, starting in the CEFTA and working its way up to the new CRM plan, which can be the important steppingstone toward the EU Single Market.

**Important lessons learned from V4 to WB6** are also the following:

- Free trade exercise itself is not always the most significant challenge. Adapting early to the conditions of free international trade is of course very useful, but **pressing for convergence of rules and implementation of reforms** has proved even more useful;
- The integration process brings better chances for the uptake of innovation and technology from foreign countries. Still, **the “dependent growth” phenomenon** needs to be avoided;
- Both in the pre-accession phase and during the EU membership, V4 managed to benefit quite significantly from **capital transfers from the EU** (despite chronic difficulties with the implementation of these resources). The recommendation is to preserve these capital resources as one of the pillars of public investment but not to make them an almost exclusive source.

The ongoing COVID-19 pandemic had adverse effects on both regions, but there are already plans to “not waste a good crisis”. This means that both the V4 and WB6 plan to incorporate **green transition and digitalisation** into the process of rebuilding their economies, which is another potential field for their cooperation.

**The Green and Digital Agenda for the Western Balkan** can be a solution, inter alia, including the following:

- **incorporating WB6 countries** into the EU economic cooperation space more efficiently;
- **reducing the GVCs** by bringing subsidiary companies to the WB6 countries instead of delocalizing some of their activities to the far-away countries in South Asia;
- **more FDI and infrastructural projects** supported by the European banks;
- **tourism sector cooperation and development**, effective promotion of WB6 as a tourist destination for V4 and the EU (including reducing of generating GHG of tourism from numerous long-hauls air travels of tourism with a high level of CO<sub>2</sub> emissions);
- **cooperation between chambers of commerce** and networking, as recently established WB6 Chamber Investment Forum;
- more presence of **the innovative SMEs** from V4 to WB6;
- **Engage more actively in regional initiatives**, such as Berlin Process and Three Seas Initiative, and intensify collaboration with **V4 countries** in wide range of areas.
- **Make better use of the EU programs** aimed at developing regional infrastructure (e.g., expanding green lanes) and improving digital tools (launching the e-commerce platform for CEFTA countries).
- mutually recognise Authorized Economics Operators (**AEOs**);
- **Focus on removing NTBs within existing free trade agreements** and take appropriate step to reduce their impact on trade flows between WB and other



partners. Identify and develop a common approach towards the most pressing types of NTB.

- Take appropriate steps towards **inclusion of the region into the common area of competition policy**, after the adoption of an appropriate section of the EU law by all WB6. This will enable the protection of European companies in the CEFTA area and will enable the regulation of the activities of companies from the Western Balkans group in the EU + CEFTA area.

Institutions like **the International Visegrád Fund and the Visegrád Youth Forum** were also replicated in the WB6 (WB fund and RYCO), signalling that behind the success of the Visegrád countries, there is **genuine and voluntary cooperation** not just in an economic sense but also in the civil society. In this sense, a collaboration between the V4 and the WB6 can be observed in funding joint projects through the IVF.

## ANNEX

## ANNEX

Table 20. Export structure of V4 countries for selected years (%)

	EXPORT in %								
<b>CZECH REPUBLIC</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Hungary	2.2	1.88	1.9	2.3	2.6	3.1	2.5	2.98	3.26
Poland	2.7	5.74	5.4	4.8	5.1	5.9	5.8	5.87	6.03
Slovakia	21.5	12.92	7.7	8	8.3	8.7	9	9.00	7.57
<b>VISEGRAD</b>	<b>26.4</b>	<b>20.54</b>	<b>15.0</b>	<b>15.1</b>	<b>16.0</b>	<b>17.7</b>	<b>17.3</b>	<b>17.85</b>	<b>16.86</b>
EU-15, and EU-24 (2015, 2019)	49.4	59.93	68.5	69.8	68.7	64.4	64.2	65.41	66.71
Rest of the world	24.2	19.53	16.5	15.1	15.3	17.9	18.5	16.74	16.43
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

	EXPORT in %								
<b>HUNGARY</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	1.9	1.59	1.7	2.1	2.4	3.8	3.2	3.90	4.29
Poland	1.8	2.62	2.1	2.3	2.9	4.2	3.8	3.76	4.24
Slovakia	1.4	1.27	1	2	1.9	4.2	5	4.98	5.24
<b>VISEGRAD</b>	<b>5.1</b>	<b>5.48</b>	<b>4.8</b>	<b>6.4</b>	<b>7.2</b>	<b>12.2</b>	<b>12</b>	<b>12.64</b>	<b>13.77</b>
EU-15, and EU-24 (2015, 2019)	58.1	69.87	75.1	73.7	70.7	59.6	59.1	66.47	67.13
Rest of the world	36.8	24.65	20.1	19.9	22.1	28.2	28.9	20.89	19.1
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

	EXPORT in %								
<b>POLAND</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	2.4	3.55	3.8	4	4.3	5.5	5.8	6.52	6.16
Hungary	1.2	1.49	2.1	2.4	2.6	2.9	2.7	2.66	2.77
Slovakia	1.2	1.22	1.4	1.6	1.8	2.2	2.3	2.52	2.61
<b>VISEGRAD</b>	<b>4.8</b>	<b>6.26</b>	<b>7.3</b>	<b>8</b>	<b>8.7</b>	<b>10.6</b>	<b>10.8</b>	<b>11.7</b>	<b>11.54</b>
EU-15, and EU-24 (2015, 2019)	69.2	64.31	69.9	68.8	67.3	62.9	64	67.12	68.12
Rest of the world	26	29.43	22.8	23.2	24	26.5	25.2	21.18	20.34
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

	EXPORT in %								
<b>SLOVAKIA</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	42.4	25.49	17.2	12.8	13.4	12.6	12.9	12.25	11.01
Hungary	4.5	4.47	4.9	4.9	5.2	6	6.4	6.11	6.41
Poland	2.9	2.55	5.9	4.8	5.5	6.2	7.2	8.29	7.49
<b>VISEGRAD</b>	<b>49.8</b>	<b>32.51</b>	<b>28.0</b>	<b>22.5</b>	<b>24.1</b>	<b>24.8</b>	<b>26.5</b>	<b>26.65</b>	<b>24.91</b>
EU-15, and EU-24 (2015, 2019)	29.5	45.98	59.2	60.8	59.6	58.3	55.8	58.32	59.17
Rest of the world	20.7	21.51	12.8	16.7	16.3	16.9	17.7	15.03	15.92
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: World Bank, trade data, country profiles for respective years; <https://wits.worldbank.org/CountryProfile/en/>

Table 21. Import structure of V4 countries for selected years (%)

	IMPORT in %								
<b>CZECH REPUBLIC</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Hungary	1.4	1.31	1.6	2	2.1	3	2.4	2.37	2.37
Poland	2.5	3.2	3.6	4.1	4.8	6.3	7	7.93	7.63
Slovakia	17.5	8.36	6.1	5.2	5.5	6.3	6.6	5.14	4.39
<b>VISEGRAD</b>	<b>21.4</b>	<b>12.87</b>	<b>11.3</b>	<b>11.3</b>	<b>12.4</b>	<b>15.6</b>	<b>16</b>	<b>15.44</b>	<b>14.39</b>
<b>EU-15, and EU-24 (2015, 2019)</b>	<b>64.7</b>	<b>63.88</b>	<b>62.8</b>	<b>58.9</b>	<b>66.6</b>	<b>63.1</b>	<b>59.7</b>	<b>50.21</b>	<b>48.16</b>
Rest of the world	13.9	23.25	25.9	29.8	21	21.3	24.3	34.35	37.45
TOTAL	100	100	100	100	100	100	100	100	100

	IMPORT in %								
<b>HUNGARY</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	2.1	2.27	2	2.4	2.8	3.5	3.6	4.82	4.95
Poland	1.2	1.67	2	2.8	3.2	3.9	4.1	5.52	5.77
Slovakia	1.9	1.88	1.8	1.9	2	3	4.1	5.28	4.9
<b>VISEGRAD</b>	<b>5.2</b>	<b>5.82</b>	<b>5.8</b>	<b>7.1</b>	<b>8</b>	<b>10.4</b>	<b>11.8</b>	<b>15.62</b>	<b>15.62</b>
<b>EU-15, and EU-24 (2015, 2019)</b>	<b>54.4</b>	<b>62.44</b>	<b>58.4</b>	<b>55</b>	<b>57.8</b>	<b>55.6</b>	<b>53.3</b>	<b>61.26</b>	<b>58.25</b>
Rest of the world	40.4	31.74	35.8	37.9	34.2	34	34.9	23.12	26.13
TOTAL	100	100	100	100	100	100	100	100	100

	IMPORT in %								
<b>POLAND</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	1.9	3.12	3.2	3.4	3.8	3.9	4	3.35	3.39
Hungary	0.9	1.36	1.6	1.8	2	2.2	1.9	1.64	1.64
Slovakia	0.9	1.23	1.5	1.5	1.6	1.9	2.4	1.79	1.83
<b>VISEGRAD</b>	<b>3.7</b>	<b>5.71</b>	<b>6.3</b>	<b>6.7</b>	<b>7.4</b>	<b>8</b>	<b>8.3</b>	<b>6.78</b>	<b>6.86</b>
<b>EU-15, and EU-24 (2015, 2019)</b>	<b>64.7</b>	<b>63.88</b>	<b>61.1</b>	<b>61.1</b>	<b>65.6</b>	<b>63.3</b>	<b>61.8</b>	<b>51.89</b>	<b>50.04</b>
Rest of the world	31.6	30.41	32.6	32.2	27	28.7	29.9	41.33	43.1
TOTAL	100	100	100	100	100	100	100	100	100

	IMPORT in %								
<b>SLOVAKIA</b>	1993	1997	2000	2003	2004	2007	2009	2015	2019
Czech Republic	35.9	21.35	14.9	14.4	18.4	17.3	18.8	11.06	10.26
Hungary	1.3	2.07	2.1	3.4	3.8	6.7	7.1	4.96	5.33
Poland	1.9	5.24	3.1	3.5	4.3	4.9	4.9	5.13	5.8
<b>VISEGRAD</b>	<b>39.1</b>	<b>28.66</b>	<b>20.1</b>	<b>21.3</b>	<b>26.5</b>	<b>28.9</b>	<b>30.8</b>	<b>21.15</b>	<b>21.39</b>
<b>EU-15, and EU-24 (2015, 2019)</b>	<b>27.9</b>	<b>43.49</b>	<b>49.1</b>	<b>51.5</b>	<b>50.8</b>	<b>43.9</b>	<b>41.9</b>	<b>34.49</b>	<b>37.17</b>
Rest of the world	33	27.85	30.8	27.2	22.7	27.2	27.3	44.36	41.44
TOTAL	100	100	100	100	100	100	100	100	100

Source: World Bank, trade data, country profiles for respective years; <https://wits.worldbank.org/CountryProfile/en/>

Table 22. CEFTA trade in goods, 2020

SERBIA			2020	ALBANIA			2020	NORTH MACEDONIA			2020
Export (000€)	17,054,500		Exp. %	Export (000€)	2,242,514		Exp. %	Export (000€)	5,777,900		Exp. %
EXPORT to WB5	2,894,928		17.0%	EXPORT to WB5	370,770		16.5%	EXPORT to WB5	636,898		11.0%
AL	179,600		1.1%	BA	14,397		0.6%	AL	74,635		1.3%
BA	1,210,400		7.1%	ME	42,643		1.9%	BA	78,936		1.4%
ME	687,200		4.0%	MK	73,017		3.3%	ME	26,261		0.5%
MK	644,300		3.8%	RS	51,782		12.0%	RS	223,289		3.9%
KS	173,428		1.0%	KS	188,930		9.7%	KS	233,777		4.0%
IMPORT	22,957,600		Imp. %	IMPORT	4,490,930		Imp. %	IMPORT	7,594,530		Imp. %
IMPORT from	904,178		3.9%	IMPORT from	412,476		9.2%	IMPORT from	731,512		9.6%
AL	61,300		0.3%	BA	21,275		0.4%	AL	69,423		0.9%
BA	532,800		2.3%	ME	18,932		0.4%	BA	64,479		0.8%
ME	64,500		0.3%	MK	74,825		1.5%	ME	5,993		0.1%
MK	216,800		0.9%	RS	189,419		5.2%	RS	558,344		7.4%
KS	28,778		0.1%	KS	108,025		1.4%	KS	33,272		0.4%
WB5 surplus in trade with WB5	1,990,750		52%	Deficit < 10% in trade with WB5	-41,706		-5%	Deficit < 10% in trade with WB5	-94,614		-7%

BOSNIA AND HERZEGOVINA			2020	KOSOVO			2020	MONTENEGRO			2020
Export (000€)	5,379,385		Exp. %	Export (000€)	439,143		Exp. %	Export (000€)	366,128		Exp. %
EXPORT to WB5	859,604		16.0%	EXPORT to WB5	204,520		46.6%	EXPORT to WB5	165,036		45.1%
AL	19,998		0.4%	AL	108,025		24.6%	AL	12,969		3.5%
ME	150,139		2.8%	BA	6,920		1.6%	BA	22,364		6.1%
MK	64,617		1.2%	ME	18,360		4.2%	MK	5,117		1.4%
RS	589,043		11.0%	MK	42,420		9.7%	RS	100,997		27.6%
KS	35,807		0.7%	RS	28,778		6.6%	KS	23,589		6.4%
IMPORT	8,633,822		Imp. %	IMPORT	3,271,150		Imp. %	IMPORT	2,105,170		Imp. %
IMPORT from	1,094,213		12.7%	IMPORT from	610,283		18.6%	IMPORT from	606,358		28.8%
AL	19,779		0.2%	AL	188,930		5.8%	AL	39,726		1.9%
ME	18,882		0.2%	BA	36,516		1.1%	BA	119,352		5.7%
MK	77,691		0.9%	ME	24,003		0.7%	MK	25,708		1.2%
RS	969,265		11.2%	MK	187,406		5.7%	RS	414,899		19.7%
KS	8,596		0.1%	RS	173,428		5.3%	KS	6,674		0.3%
Deficit > 10% in trade with WB5	-235,633		-12%	Deficit in total WB5 trade	-405,763		-50%	Deficit in total WB5 trade	-441,322		-57%

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