

# The Idea of Balkan Regional Economic Integration

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Regional economic integration in the Balkans is not a new idea, but it has received new attention in recent years with the “Berlin Process” and the renewed engagement of the European Union with the six Western Balkan countries: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The paper will first recall the historical background and previous initiatives and then describe the recent re-launch of regional economic integration in the Western Balkans to end with a few concluding remarks.

### Regional Economic Integration in the Balkans: Historical Background

The objective of regional economic cooperation and integration in southeast Europe has been pursued by the European Union for over two decades. The disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) in mid-1991 was accompanied by extreme political and economic instability. In addition to military conflicts – in Slovenia (1991), Croatia (1991-1992) and Bosnia and Herzegovina (1992-1995) –, the SFRY successor states registered a sharp drop in GDP, foreign trade implosion and hyperinflation world records in the early 1990s (Uvalic, 2010).

As a response to these events, the European Commission announced its Regional Approach for the West-

ern Balkans in 1996, intended to promote economic reconstruction, democracy and regional cooperation. In 1997, regional cooperation and respect for international obligations were added to the list of conditions that the Western Balkan countries have to fulfil in order to intensify their relations with the European Union (in addition to the standard Copenhagen accession criteria formulated in 1993). At that time, however, the political conditions prevented any meaningful regional cooperation. On the contrary, there were further conflicts in the region – the NATO intervention in Serbia/Kosovo in 1999 and the civil war in Macedonia in 2001. Despite instability, some trade links had been preserved among the countries of the former Yugoslavia (Uvalic, 2001).

The long-term EU strategy for the Western Balkans launched after the end of the Kosovo conflict in 1999 – the Stabilization and Association Process (SAP) – again rests on regional cooperation among the Balkan countries as a fundamental condition for achieving stability and economic recovery. The Western Balkan countries have to demonstrate a willingness to cooperate with neighbouring countries in order to benefit from the various components of the SAP: financial assistance, trade liberalization, technical assistance, contractual relations through the signing of Stabilization and Association Agreements, prospects of EU membership.

A number of regional projects were initiated soon after, under the umbrella of the EU-led Stability Pact for southeast Europe. A Memorandum of Understanding on trade liberalization was endorsed by the foreign trade ministers of eight southeast European countries<sup>1</sup> in June 2001 in Brussels, leading to the signing

<sup>1</sup> The initiative included five Western Balkans countries – Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia (consisting of Serbia with Kosovo and Montenegro) and the Former Yugoslav Republic of Macedonia (today North Macedonia) – as well as Bulgaria, Romania and Moldova. After the separation of Montenegro from Serbia in 2006 and Kosovo’s unilateral declaration of independence in 2008, the agreements signed by the Federal Republic of Yugoslavia were transformed into separate agreements.

of bilateral free trade agreements that envisaged the progressive elimination of all trade barriers. In order to harmonize trade regulations, these bilateral free trade agreements were transformed into a multilateral agreement in 2006 – the Central European Free Trade Agreement 2006 (CEFTA 2006).<sup>2</sup> These agreements enabled the full liberalization of trade in both industrial and agricultural products.

Nevertheless, there are still a number of barriers that impede stronger economic integration in the Western Balkans. Physical barriers to trade derive from long waiting hours for trucks on border crossings due to burdensome bureaucratic procedures. Fiscal barriers derive from different fiscal norms: in order to attract FDI, governments have been competing by lowering taxes and offering various incentives to foreign investors. Technical barriers consist of different sanitary and phytosanitary standards, norms regarding pharmaceuticals, food origin labelling criteria or labour legislation.

Although the Western Balkans are today strongly (and primarily) integrated with the EU, the regional market remains relatively important, especially as an export destination (Uvalic, 2019). The shares of the Western Balkans Six's (WB6)<sup>3</sup> intra-regional exports in 2016 ranged from 12% for Macedonia, 14% for Albania, 15% for Bosnia and Herzegovina and 18% for Serbia, to as much as 43% for Montenegro and 47% for Kosovo. The shares of WB6 intra-regional imports are much lower: 4% for Serbia, 7% for Albania, 10% for Macedonia, 13% for Bosnia and Herzegovina, 27% for Kosovo and 29% for Montenegro. Although for these countries the regional market is considered a “second-best” solution, it has been a welcome destination in cases of limited competitiveness in EU markets.

### **Current Initiatives for Balkan Countries’ Economic Integration**

While the Balkan states’ objective of regional economic integration has long been on the agenda, it has

acquired renewed attention during the past decade. The global financial crisis has brought structural weaknesses of the Western Balkan economies to the surface: low external competitiveness, inflexible labour markets, strong deindustrialization and low levels of economic development – only Montenegro is presently at 45% of the EU28 average GDP per capita. Since late 2008, the Western Balkans have experienced an abrupt fall in foreign capital inflows – i.e. foreign direct investment, workers’ remittances, foreign bank loans – and export demand, which led to double and triple-dip recessions and rising unemployment. Economic recovery over the past decade has been sluggish. In addition, the EU-Western Balkans integration process has been extremely slow. Although all Western Balkan countries have by now signed Stabilization and Association Agreements with the EU, only one country, Croatia, has been able to join it, in 2013. The lack of a clear perspective of EU enlargement for the Western Balkans has diminished the incentives for domestic reforms, contributing to backsliding in important areas of reform.

### **The global financial crisis has brought structural weaknesses of the Western Balkan economies to the surface**

These are some of the reasons behind the recent EU re-engagement with the Western Balkans region, which started to emerge with the German-led inter-governmental initiative known as the “Berlin process” (Die Bundestag, 2014). Launched in 2014, this initiative is meant to provide a platform for some EU members and Western Balkan leaders to discuss unresolved issues and promote new initiatives, particularly regarding regional cooperation and connectivity. There have been five Summits of EU and Western Balkan leaders: in Berlin (2014), Vienna (2015), Paris (2016), Trieste (2017) and London

<sup>2</sup> The original CEFTA agreement was signed in 1992 by the Czech Republic, Poland, Slovakia and Hungary and was later extended to the other central eastern European countries. Countries that joined the EU – e.g. Bulgaria and Romania in 2007, and Croatia in 2013 – are no longer parties to the CEFTA 2006, as they have adopted the EU’s external trade policy.

<sup>3</sup> This grouping is made up of the six countries mentioned in the introduction of this article: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

(2018). Particularly important was the Trieste Summit held on 12 July 2017, which led to the adoption of the consolidated Multi-annual Action Plan for a Regional Economic Area (MAP REA) in the WB6 (Regional Cooperation Council, 2017).

The MAP REA rests on four main areas of regional economic cooperation among the Western Balkan countries: trade, investment, labour mobility and digital integration. The free flow of goods, services, capital and highly skilled labour ought to make the region more attractive for investment and trade and accelerate convergence with the EU. The initiative is coordinated by the Regional Cooperation Council (RCC),<sup>4</sup> an international organization in charge of regional initiatives in southeast Europe. The RCC has the responsibility, together with the WB6, to implement the objectives of the MAP REA in the areas of investment, labour mobility and digital integration, while the trade component has been assigned to the CEFTA Secretariat. The MAP REA objectives build on the commitments agreed within CEFTA and other regional initiatives, and are based on EU rules, as reflected in the Stabilization and Association Agreements. A number of regional projects have already been implemented in the area of infrastructure (transport, energy, environment) with the support of the Western Balkan Investment Framework, which, since 2009, provides technical assistance for mobilizing financial resources from international institutions for strategic investments in the Balkans. In addition, the RCC adopted the 2020 South East Europe Strategy, mirroring the Europe 2020 Strategy for a Smart, Inclusive and Sustainable Growth. This sets concrete objectives and targets to be realized by southeast European countries by 2020.

Along the lines traced out by the “Berlin Process,” the European Commission presented a new strategy for the Western Balkans on 6 February 2018 (European Commission, 2018). The EU Strategy plans to enhance sectoral cooperation with the region, targeting transport and energy connectivity, a digital agenda, socio-economic development, rule of law, security and migration, reconciliation and good neighbourly relations. These objectives are fully aligned with

the Western Balkan countries’ Economic Reform Programmes, as the key mid-term programming documents requested by the European Commission since 2016. In this way, the MAP REA has been directly embedded within the EU accession process. The strategy also indicates the year 2025 as a potential date for Montenegro and Serbia’s EU membership, the two countries that are already deeply into EU accession negotiations. Albania and North Macedonia may open EU negotiations in June 2019,<sup>5</sup> while Kosovo and Bosnia and Herzegovina are lagging behind in the EU integration process (see Bonomi, 2019).

Further steps were taken at a high-level Summit held in Sofia in May 2018, where the leaders of the EU and the Western Balkans met for the first time in 15 years. The Summit reconfirmed the priorities of the MAP REA and announced the launch of a Digital Agenda, including a roadmap to facilitate lowering the cost of roaming and the provision of substantial technical assistance for the identification of potential digital investments.

Although it is too early to evaluate the results of these recent initiatives, some progress has been made (see Regional Cooperation Council, 2018). Within CEFTA 2006, the Additional Protocol 5 on Trade Facilitation, which deals with the simplification of customs formalities and clearance procedures, has been adopted by all countries and has entered into force in three of them (North Macedonia, Moldova and Montenegro). An agreement has been reached to launch negotiations on a trade dispute settlement mechanism. However, little progress has been achieved regarding the Additional Protocol 6 on Trade in Services. Next, the Regional Investment Reform Agenda has been adopted and is being translated into national action plans, in order to promote the Western Balkans region as a unique investment destination. Priority sectors will be identified that represent added value opportunities for the development of regional value chains. Regarding labour mobility, the EU and the WB6 have completed the technical preparations for opening negotiations on the Mutual Recognition Agreement of Professional Qualifications for Doctors of Medicine, Dentists and Architects. In the area of digital in-

<sup>4</sup> The Regional Cooperation Council is the successor of the Stability Pact for southeast Europe. It was established in February 2008 in Sarajevo (Bosnia and Herzegovina) in order to enable “regional ownership,” and the implementation of all regional projects by Western Balkan countries themselves.

<sup>5</sup> This article was finished in April 2019.

tegration, Western Balkan countries have progressed in the transposition of the “EU acquis” in the area of electronic communications and information society and have advanced in harmonizing regional roaming policies. The Digital Summit organized in April 2018 in Skopje reaffirmed the countries’ commitment to work on digital integration.

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While these initial results suggest a certain determination to carry forward the MAP REA agenda, unresolved political issues risk undermining its implementation. Kosovo’s politically motivated decision to impose a 100% tariff on all goods from Serbia and Bosnia and Herzegovina in December 2018,<sup>6</sup> represents a breach of Kosovo’s obligations endorsed within CEFTA 2006, thereby reversing long-term efforts and concrete results achieved from trade liberalization among the Western Balkan countries.

### Concluding Remarks

Regional economic integration among the Western Balkan countries 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. Creating a more integrated Regional Economic Area is not an alternative to the Western Balkans’ integration with the European Union, but ought to facilitate their smoother integration with the EU

economy once they become full members. As such, it is a welcome initiative.

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<sup>6</sup> The decision essentially reflects Kosovo’s protest regarding Serbia’s non-recognition of Kosovo’s unilateral declaration of independence.