



wiiw

The Vienna Institute
for International
Economic Studies

| BertelsmannStiftung

PRESS RELEASE

14. September 2020

New Bertelsmann Stiftung & wiiw study:

A change of EU strategy in the Western Balkans is long overdue

20 years of trying to drive political reconciliation via regional economic integration in the Western Balkans has produced disappointing results. New forms of differentiated integration with the EU provide a more promising route to increase economic development. A more decisive step forward in regional integration and the eventual admission of the six Western Balkan countries into the EU will require Brussels to tackle much more directly the major constitutional and territorial disputes in the region.

The Bertelsmann Stiftung and Vienna Institute for International Economic Studies (wiiw) published a new study evaluating regional economic cooperation initiatives in the Western Balkans over the past two decades. The key findings of the study are:

- After two decades, it is clear that the EU's hopes of driving political reconciliation via economic integration in the Western Balkans have not been fulfilled. This is hardly surprising; as the study outlines, many of the key pre-requisites for effective regional cooperation never existed in the Western Balkans.
- Regional economic integration has advanced in the Western Balkans over the past 20 years, but not in the same way for all countries. Most importantly, Serbia--the key player in the region--has integrated less economically with the rest.
- Increased economic integration has had little discernible impact on the most serious constitutional and territorial disputes in the Western Balkans.
- In terms of per capita GDP relative to Germany, during the last 20 years the Western Balkans have mostly fallen further behind the EU member states in CEE. Large-scale outward migration indicates a lack of hope for future economic prospects among many Western Balkan citizens.
- Further regional economic integration is unlikely on its own to drive progress in solving constitutional and territorial disputes in the region, nor will it significantly increase development levels. The potential boost to economic growth via increased economic integration among six small and fairly poor countries is necessarily low.
- By contrast, the study outlines how targeting deeper economic integration with the EU ahead of full accession provides a more hopeful path towards decisively improving living standards in the Western Balkans. Moreover, the example of the Visegrad countries shows that deeper EU integration can itself spur deeper regional ties.
- More concrete steps towards EU accession will require a direct EU role in solving the most intractable constitutional and territorial disputes in the region.

Regional economic integration has increased for most Western Balkans countries in the last two decades, but much less so for Serbia.

The bilateral trade and investment agreements between Western Balkan countries in the early 2000s had a limited positive impact on regional economic integration, with the initial bilateral free trade agreements (FTAs) driving a 13.9% increase in regional exports. The new Central European Free Trade Agreement (CEFTA), which entered into force in 2007, had much more significant effects, increasing intra-regional trade by 37.7%. Excluding Serbia from the results, both the initial bilateral FTAs and CEFTA has created a much bigger, positive impact on trade between the countries. Over this period Serbia has achieved much stronger economic integration outside the region, and especially with the EU.

The increased economic integration with the EU has not delivered the same benefits as for EU member states in Central and Eastern Europe (CEE).

The Stabilisation and Association Agreements (SAAs) signed by the Western Balkan countries have increased Western Balkans exports by 24.6% and inward FDI from the EU by 46.2%. However, the Western Balkan countries have not been able to attract the same value of FDI from Western Europe as the Visegrad countries before their EU accession. With very few exceptions, large Western multinational investors have been notable for their absence in the Western Balkans. Despite some successes, infrastructure development and connectivity in the Western Balkans still has many gaps. Although the Western Balkan countries are among the poorest in CEE, they have mostly also experienced the region's weakest economic convergence relative to Germany over the past two decades.

Many of the pre-requisites for effective regional economic cooperation still do not exist in the Western Balkans.

The potential upside to regional economic integration – for both trade and investment – is low. All countries are still very poor and, with the partial exception of Serbia, very small. Non-tariff barriers to trade and weak connectivity have also been major obstacles. A genuine leap forward in terms of regional economic integration would have also required significant policy coordination. However, political incentives needed for effective regional cooperation have not always been aligned. There has been a persistent tension between regional cooperation and the bilateral EU accession process with Brussels. Weak institutional and governance standards have also been an obstacle to regional economic cooperation.

The EU's focus on regional economic cooperation in the Western Balkans over the past two decades has provided many reasons for disappointment.

The increased trade, investment and infrastructure integration has not had a strongly positive impact on economic development and convergence. Per capital GDP among Western Balkan countries is largely between 20-40% of the German level, far below the levels of most EU members states in CEE. Western Balkan economic integration has also not had any material impact on breaking the most intractable aspects of the region's territorial and constitutional disputes. Continued strong outward migration indicates a lack of hope among younger, educated people, and bears testament to the generally disappointing outcomes of the last 20 years.

A push towards deeper economic integration with the EU may have a larger positive economic impact.

The potential upside from stronger integration with the EU is much higher than from attempts to further deepen economic relations between the Western Balkan countries. While regional cooperation in the Western Balkans should certainly continue - especially in the political, social and youth dimensions – in the economic sphere it would make sense to focus efforts on the maximum level of integration possible with the EU. Even if full EU accession is many years away, steps to economically integrate the Western Balkans more fully into the bloc should be considered in the meantime. The Western Balkans constitute less than 1% of the EU's pre-Brexit GDP, or only slightly more than that of Slovakia, and so even a moderate increase in economic integration with the bloc and access to EU financing could have significant economic spillovers. This must, however, be accompanied by stringent conditionality related to governance and the rule of law.

A significant increase in Western Balkans economic integration and development will require a more direct approach by the EU to tackle the most intractable constitutional and territorial disputes in the region.

Ultimately, economics can only provide part of the answer. The settling of open constitutional disputes, agreement on territorial questions, and the normalisation of relations between all countries of the region, are also central pre-requisites to effective regional cooperation in the Western Balkans. In particular, this means between Serbia and Kosovo and within Bosnia and Herzegovina. Given Serbia's centrality to many of the most intractable issues, and its dominant position in economic terms (its GDP is over 80% of the other five Western Balkan countries combined), Brussels will need to find a specific solution for this country if it wishes to advance the EU accession process for the region as a whole.

Contacts

Richard Grieveson, Author and wiiw Deputy Director (grieveson@wiiw.ac.at)

Stefani Weiss, Senior Expert EU Governance, Foreign and Security Policy (stefani.weiss@bertelsmann-stiftung.de)

The study

[‘Pushing on a string? An evaluation of regional economic cooperation in the Western Balkans’](#), Bertelsmann Stiftung and Vienna Institute for International Economic Studies (wiiw), DOI 10.11586/2020047, September 2020

Download link: <https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/pushing-on-a-string-en>