

From Regional Cooperation to Regional Integration – How do development funds support the regional integration process in the Western Balkans?

Abstract

In the past few years, the European Union and European and US development agencies have invested in total approximately 6 billion euros in numerous projects in the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia). Broken down to the population of the region, in total, over the past six years, at least EUR 2.100 were invested per capita. Mapping these projects has shown that most of them, particularly in the private sector, remain at the national level and there has so far been comparatively less financial support for interregional economic cooperation projects. At the same time, there is evidence that EU investments, as well as the quality and quantity of transport infrastructure, have a statistically significant positive effect on GDP growth in the Western Balkans. One suggestion is, therefore, maximising the use of EU financial support in the field of infrastructural projects that will eventually enable the region to make a transition from economic cooperation of separate markets towards economic integration. One aspect of that is the joint appearance of the Western Balkans countries in other markets.

Funding Overview

Over the past years, various initiatives aimed at reinforcing and strengthening political, cultural but also economic ties between the six so-called Western Balkan countries (WB6) Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Since 2014, the European Union has granted more than EUR 4.2 billion financial assistance to the WB6 countries and EUR 2.98 billion to multi-country programmes¹. The European Union is “[...] at the forefront of promoting regional cooperation and opening its markets to Western Balkan countries [...]. International financial institutions such as the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and World Bank have invested, and continue to invest, in major cross-border infrastructure projects as well as promoting trade and investment through other instruments”.²

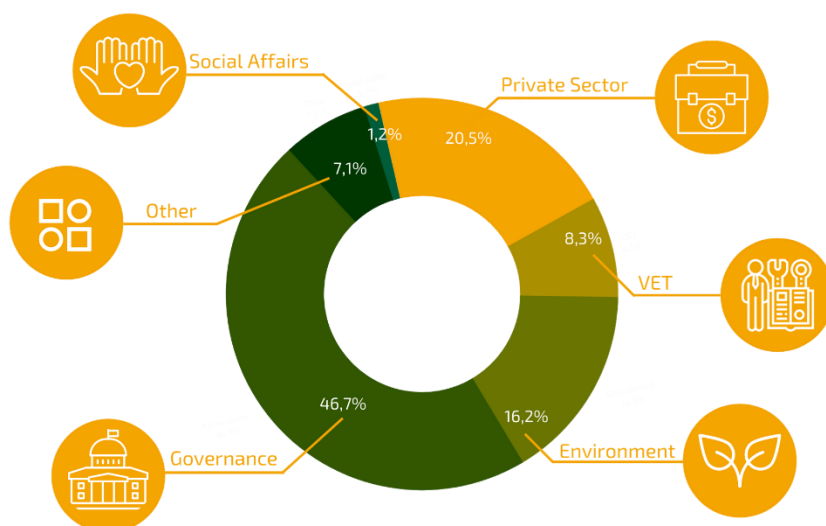
In addition to the EU, however, many other organizations are active in the Western Balkans and support projects in various sectors. Since 2012, Swiss, Austrian, German, and US American development agencies and United Nations Development Programme (UNDP) invested more than **EUR 1,5 billion** in over **350 projects** in the Western Balkans. Altogether, over the past years more than **EUR 6 billion** were invested in the following main sectors³:

¹ https://ec.europa.eu/neighbourhood-enlargement/instruments/multi-beneficiary-programme_en

² Sanfey, Peter; Milatovic, Jakov (2018): The Western Balkans Regional Economic Area. From Economic Cooperation to Economic Integration. In: Osbild, Reiner; Will Bartlett: Western Balkan Economies in Transition. Recent Economic and Social Developments, pp. 15-28; p. 15f.

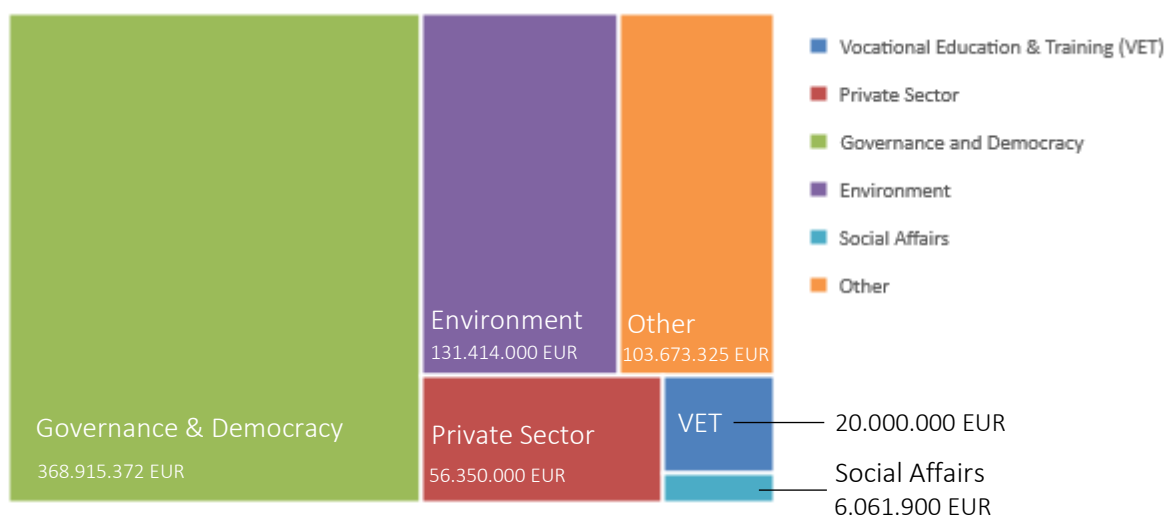
³ Source: Own calculations based on the information provided by the organizations on their websites: <https://www.giz.de/en/worldwide/europe.html>; <https://www.entwicklung.at/en/projects/current-projects/map/>; <https://www.eda.admin.ch/deza/en/home/activities-projects/projekte-fokus.html>; <https://explorer.usaid.gov/query>

Figure 1:



The graph makes clear that investments are primarily made in projects to **strengthen governance** in the individual countries. In all six countries, the largest amount of money flows into this sector with a total of almost EUR 3 billion, followed by the **private sector** with a total of EUR 1.3 billion. However, many of these projects, particularly in the private sector, remain at national level. Investments in cross-border projects are particularly being made in the development of democratic structures and environmental and climate protection. However, there has so far been comparatively less financial support for **inter-regional economic cooperation** projects (Fig. 2).

Figure 2: Financing volume of cross-border projects in the Western Balkans by sector

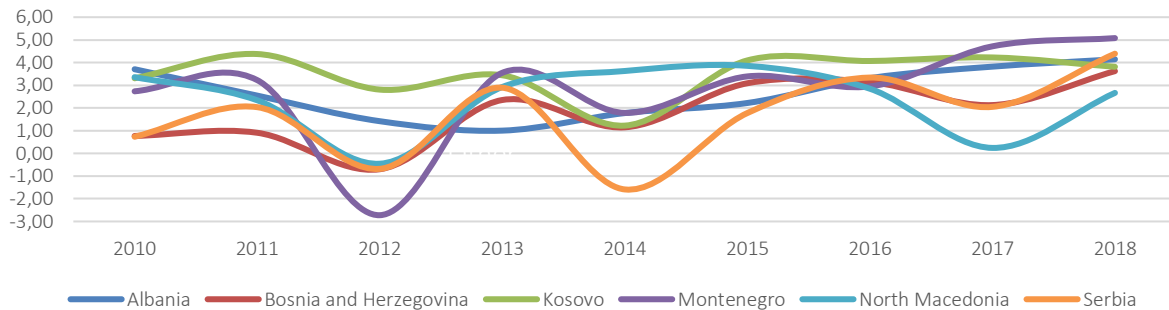


Source: Own calculations

Investment in regional cooperation and economic growth

At the same time, investment in cross-border projects already has proven to have a positive impact on economic activities in the Western Balkans as it increases regional cooperation and EU approximation.⁴ World Bank data on economic development of the Western Balkans suggests that in terms of GDP the region experienced slow but steady economic growth over the past few years.

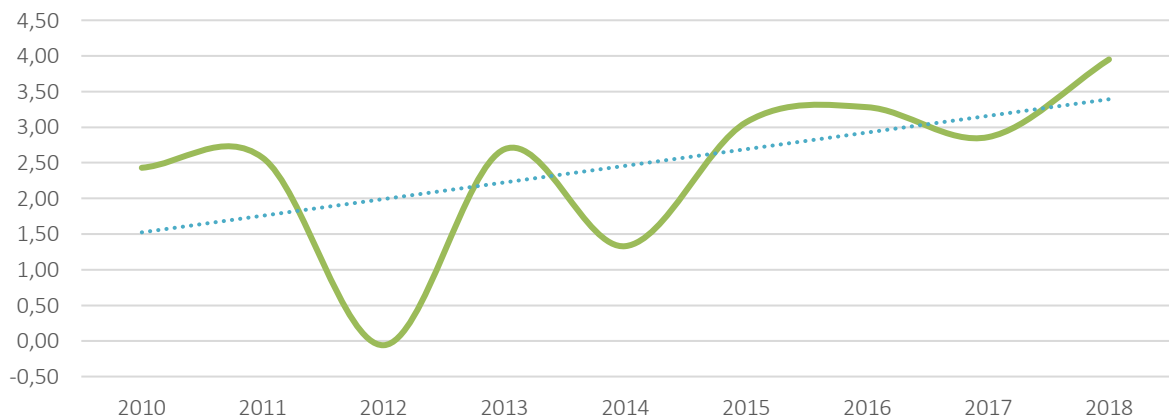
Figure 3: GDP growth in the six countries of the Western Balkans between 2010 and 2018 (annual %)



Source: <https://data.worldbank.org/>

The GDP development appears to be quite volatile in all six countries, but the overall trend shows that so far, there is steady growth:

Figure 4: Average GDP growth of the six Western Balkans Countries between 2010 and 2018 (annual percentage)



Source: <https://data.worldbank.org/>

Statistical studies backup this assumed positive influence of EU investments and GDP growth: Goran Popović and Ognjen Erić found out that there is a statistically significant **relationship** between **GDP per capita** and **EU investments** in the Western Balkans.⁵ Their study also shows that the length of the road

⁴ Sanfey, Peter; Milatovic, Jakov (2018): The Western Balkans Regional Economic Area. From Economic Cooperation to Economic Integration. In: Osbild, Reiner; Will Bartlett: Western Balkan Economies in Transition. Recent Economic and Social Developments, pp. 15-28; p. 16

⁵ Popović, Goran; Erić, Ognjen (2018): Economic development of the Western Balkans and European Union investments. In: Economic Research - Ekonomska Istraživanja, 31 (1), pp.: 1539-1556; p.1539

network has a significant positive impact on GDP development of the region as well: “Important factors for attracting investments are quality, quantity and the position of transport infrastructure. Research papers have confirmed the relationship between infrastructure and F.D.I. (Foreign Direct Investments, SK). [...] Transport and telecommunication infrastructure represent essential factors for attracting foreign investments”.⁶ Popović and Erić, therefore, conclude their study with the recommendation that trade openness of the region should focus on „regional economic cooperation and joint appearance of the Western Balkans countries in other markets“.⁷ They also suggest maximising the use of EU financial support in the field of infrastructural projects and completing key travel routes.

Important steps towards regional integration have already been taken: In 2017, at the Trieste Summit, the Leaders of the six Western Balkans countries endorsed the Multi-annual Action Plan on a **Regional Economic Area** in the Western Balkans (MAP REA) which aims at improving regional cooperation in the fields of digital integration, mobility, trade and investment. All six Western Balkans countries are committing to deepening their collaboration within the Central European Free Trade Agreement (CEFTA) “to the point where goods, services, investments and skilled people can move freely within the region without tariffs, quotas, or other non-necessary non-tariff, and other, barriers”.⁸

When it comes to supporting the business sector in terms of cooperation, handling exports and imports of goods and removing barriers, of course, the respective national chambers of commerce play an important role. There are a few cross-border projects including all regional chambers of commerce. Concurrent with the endorsement of MAP REA at the Trieste Summit the **Chamber Investment Forum (CIF)** was founded as an umbrella organization for all national WB6 chambers of commerce. Furthermore the **Regional Cooperation Council (RCC)** and the **Chamber Partnership Western Balkans (KVP)**⁹ are working closely together with CIF and the national chambers to improve the organizational capacity of the Western Balkan chambers of commerce, deepening political dialogue, and establishing a joint representation of the region as an economic area. All projects set their accents in their work and yet they also share common work priorities that are closely interlinked, such as supporting small and medium-sized enterprises (SME), regionality and capacity building.

New challenges and new opportunities after the Corona crisis

Amid the ongoing **Corona pandemic**, however, these first steps towards regional cooperation are facing particular challenges. Public life and economic activities are currently severely restricted, which will depress the hitherto positive GDP development in the Western Balkans¹⁰. In the future, however, the

⁶ Ibid.: 1540

⁷ Ibid.: 1552f.

⁸ Sanfey, Peter; Milatovic, Jakov (2018): The Western Balkans Regional Economic Area. From Economic Cooperation to Economic Integration. In: Osbild, Reiner; Will Bartlett: Western Balkan Economies in Transition. Recent Economic and Social Developments, pp. 15-28; p. 17

⁹ <https://www.dihk.de/de/ueber-uns/dihk-service-gmbh/projekte/kammer-und-verbandspartnerschaften-westbalkan> & <https://www.linkedin.com/company/chamber-partnership-western-balkans/>

¹⁰ While the European Commission expects the Serbian economy to shrink by 4.1 per cent, other organisations are somewhat more optimistic: "The International Monetary Fund (IMF) is expecting the GDP to fall by 3 per cent. Serbian President Aleksandar Vučić is convinced that the minus can be limited to 1 to 2 percent", concludes German Trade and Invest (GTAI).

(<https://www.gtai.de/gtai-de/trade/wirtschaftsumfeld/wirtschaftsausblick/serbien/nur-corona-bremst-boomende-wirtschaft-in-serbien-246976>)

crisis can also be seen as an important opportunity for the region if the European economy rethinks existing value chains and regional proximity and if cooperation is further strengthened.

In April 2020, Marko Cadez, President of Western Balkans Six CIF Managing Board, has already made a push in this direction during a telephone conversation with Matthew Palmer, US Deputy Assistant Secretary of State and US Special Representative for the Western Balkans. Cadez brought up the idea of the establishment of a special fund for supporting activities aiming at strengthening regional cooperation: “This fund can greatly contribute to the strengthening of the process of regional and European Integration of the Western Balkans, and also can lead to a faster recovery of Western Balkans economies”.¹¹ Cadez said that

“The problems faced by our economies during the current health crisis have even more emphasized the value in the establishment of a Regional Economic Area, based on the free movement of people, goods, services and capital, and stressed the need for implementing it as soon as possible to ensure faster recovery of Western Balkan economies. At the same time, these new circumstances have further strengthened the general awareness of the importance of a stronger regional integration in the coming period, but also reaffirmed the willingness of the Western Balkan economies to cooperate more closely. One example of this is the establishment of green corridors for faster and easier transportation of goods in the region”.¹²

Sanfey and Milatović also stressed once again the importance of supporting a common economic area, because according to them despite the above-mentioned positive economic developments, the levels of trade and investment in the Western Balkans remain below those of comparable regions.¹³ Especially during the Corona crisis, this approach can prove valuable, as “economic integration can facilitate access to a larger consumer base, a greater pool of qualified workers, additional sources of financing, and new technologies”.¹⁴ In this context, the automation and digitalization of cross-border processes in the region should not be underestimated, especially during the corona crisis. According to Evdokia Moisé and Silvia Sorescu, automation of trade formalities could save alone two per cent in trade costs.¹⁵ This figure is particularly significant for the Western Balkans economies, where export duration is sometimes three times longer than for the EU on average. For imports, it is even eight times longer.¹⁶

¹¹ <https://www.wb6cif.eu/2020/04/22/palmer-and-cadez-regional-cooperation-in-the-western-balkans-has-never-been-more-important/>

¹² Ibid.

¹³ Sanfey, Peter; Milatovic, Jakov (2018): The Western Balkans Regional Economic Area. From Economic Cooperation to Economic Integration. In: Osbild, Reiner; Will Bartlett: Western Balkan Economies in Transition. Recent Economic and Social Developments, pp. 15-28; p. 16

¹⁴ World Bank (2018): Higher but Fragile Growth. In: Western Balkans Regular Economic Report Nr. 14: <http://pubdocs.worldbank.org/en/194301538650996304/rev2-WBRER14-WQ-web-ENG.pdf>, p. 34

¹⁵ Moisé, Evdokia and Sorescu, Silvia (2013): Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade. In: OECD Trade Policy Papers, No. 144, OECD Publishing, Paris, <https://doi.org/10.1787/5k4bw6kg6ws2-en>

¹⁶ Time to export in terms of documentary compliance is for Albania 6 hours, for Bosnia and Herzegovina 4 hours, Kosovo and Montenegro 5 hours and for North Macedonia and Serbia 2 hours. The EU time average for importing goods is 2,1 hours. Exporting goods takes in terms of documentary compliance 8 hours in Albania and Bosnia and Herzegovina, 6 hours in Kosovo and Montenegro and 3 hours in North Macedonia and Serbia. In the EU it takes instead 1,1 hours in average.
World Bank Doing Busine Report: <https://www.doingbusiness.org/en/data/exploretopics/trading-across-borders>

One of the aims of the **Chamber Partnership Western Balkans** project is therefore to facilitate the cooperation between the six chambers of commerce by developing **a joint digital signature platform**, which will make trading in the region more efficient in the future.

Overall, it can be summarized that regional integration of the Western Balkans, that is the cooperative development of common institutions and rules, has even increased in importance since the Corona pandemic. The economic impact of the pandemic can only be countered as a common economic area rather than as small, nationalized, and fragmented markets. Furthermore, it remains to be seen to what extent the Western Balkans will become more attractive to the western and central European market with the change of previous value chains. Therefore, carrying out regional analyzes about **nearshoring** options could provide further information about future connectivity options to the western market.