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New Growth Plan for the Western Balkans: Solid Foundations, Shaky Extensions



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INTRODUCTION

The New Growth Plan for the Western Balkans (Growth Plan) that the European Commission (EC) revealed in November 2023 starts on a promising note. The plan's foundations rest on four pillars, which seem to be precisely what the Western Balkans (WB) needs to achieve enhanced growth rates, EU convergence, and social progress. The first pillar supports economic integration within the region via the existing Common Regional Market (CRM), essentially aiming to develop a single market for WB economies inspired by the EU single market model. The second pillar seeks to extend this integration to the level of the European Union (EU), enhancing the economic connection of the region with the EU's single market. The third pillar is focused on providing additional financial assistance to the region to support integration efforts and incentivise the necessary reforms. The fourth pillar is designed to expedite the essential reforms required for the region to meet EU standards, serving as a complement to financial support incentives. Collectively, the pillars address the critical challenges the region is currently facing, such as weak institutions, insufficient reforms, the imperative for investment in infrastructure and public goods, the need to improve economic and political cooperation in the region, and the limited scope of the regional market.

However, a closer examination of the pillars reveals that they are largely lacking in substance, fail to tackle the primary issues within each area, and do not address the critical flaws of previous assistance packages. Therefore, the four pillars represent "more of the same" rather than being a "game changer".

Pillar 1— Common Regional Market

The first pillar focuses on the CRM, an initiative that has existed for a while. Fundamentally, it is a good idea, aimed at creating a common market for the Western Balkans, inspired by the EU single market. This would facilitate the free movement of goods, services, capital, and people within the region, effectively serving as a preparatory step for the Western Balkan countries' eventual accession to the EU single market. A notable change now is that the EC has clearly anchored the CRM within the EU integration process for the region. Previously, this process could have been interpreted as an alternative to EU membership. Now, it is explicitly framed as a prerequisite for accession. Thus, this change in the EC approach is a step in the right direction.

But despite being good on paper, the initiative has failed to make a significant impact, which can be attributed to at least two reasons. The first is the unresolved political disputes in the region, particularly the Belgrade–Pristina dialogue. These have served as a major obstacle so far because politicians have used them as an excuse to obstruct decisions related to the initiative. Without addressing these issues, no great progress should be expected in terms of advancing the CRM. While it is clear that the new Growth Plan cannot promise to resolve these complex issues directly, it could recognise them and commit diplomatic efforts to address them.

The second issue regarding the CRM is the need to expand it to areas beyond the four freedoms of movement, such as common economic and social policies. A common market is not defined only by freedom of movement. It also requires common rules, i.e. common regulations and common economic and social policies. Moreover, the region's most critical challenges—such as severe poverty, inequality, unemployment, high rates of emigration, inadequate education and healthcare systems—cannot be effectively addressed solely through the facilitation of free movement. Addressing these concerns requires increasing social expenditure on poverty reduction, education, and healthcare, raising minimum wages, implementing more progressive taxation, and adopting FDI attraction policies that highlight the region's advantages beyond just cheap labour and low taxes. This necessitates the adoption of common regional policies, or at the very least, policy coordination among countries to prevent any incentive for a 'beggar-thy-neighbour' approach and to circumvent a race to the bottom.

Pillar 2— Access to the EU single market

The second pillar aims to bolster the region's economic integration with the EU single market, a novel initiative that merits praise. Opening the EU market to WB companies and individuals presents a significant opportunity, poised to bring numerous business and non-business benefits, thereby enhancing prosperity. However, a detailed examination reveals a focus on areas of lesser importance or limited impact, overlooking critical issues that require more substantive attention.

Concretely, the pillar targets seven areas: Free movement of goods; Free movement of services and workers; Access to the Single Euro Payments Area (SEPA); Facilitation of road transport; Integration and de-carbonisation of energy markets; Digital Single Market; Integration into industrial supply chains. Among these, the first three are the most important: free movement of goods, services, and workers.

Regarding the free movement of goods, companies from the Western Balkans currently encounter two main challenges when exporting to the EU. The first is the complexity and high cost of obtaining the necessary certificates and documents to demonstrate compliance with EU standards and requirements. The second is the lengthy customs procedures at EU borders that are still in place despite the elimination of most of the tariffs.

The Growth Plan acknowledges these two primary concerns but falls short of proposing measures that will effectively resolve or mitigate them. Specifically, regarding the free movement of goods, the Growth Plan outlines agreements on conformity assessment to unlock the single market for goods manufactured in the Western Balkans following alignment with the relevant horizontal EU product acquis. Additionally, there are improved customs and tax cooperation agreements to streamline customs procedures and diminish waiting times at borders. Measures such as prior exchange of information and other similar actions are proposed to achieve this objective.

The two things are challenging to read, let alone understand. My interpretation of the first point is that it aims to establish agreements between the EU and the WB countries to recognise certificates and other necessary documents for exports to the EU. However, this recognition would be contingent upon the Western Balkans adopting the requisite EU legal standards. Thus, WB countries would first need to harmonise their laws with EU regulations, and only then could they negotiate with the EU for recognition of their national certifications. This implies that the process could be protracted, potentially resulting in minimal to no immediate improvements for WB companies looking to export to the EU. My understanding of the second point is that it indeed intends to simplify customs procedures but through an agreement on cooperation, which would include improved information exchange and other related measures. So, again, the approach hinges on reaching agreements that may take time to materialise, and until that happens, not much will change for Western Balkan companies.

Instead of, or in addition to, the currently proposed measures, the Growth Plan could have suggested providing direct support to companies, both financial and technical, to assist them in obtaining the necessary certificates and documents for exporting to the EU. This approach could have an immediate impact and potentially open the EU market to many WB companies. Concurrently, it could have considered eliminating customs procedures and border controls completely.

Regarding the free movement of services, the Growth Plan specifically highlights e-commerce, parcel delivery, and tourism services. It does not address other sectors such as transport, finance, insurance, IT, professional, and consulting services, which are undoubtedly much more important than the three mentioned services. For instance, the three included services constitute around 10% of the GDP in the WB, whereas services as a whole make up about 60% of the region's GDP. Including these additional services could greatly amplify the plan's impact on economic growth.

Regarding the free movement of workers, the Growth Plan focuses on recognising skills and qualifications between the EU and the Western Balkans. It lacks provisions for eliminating or simplifying work permits for individuals from the WB seeking employment in the EU. Therefore, it is difficult to consider this a move towards the free movement of workers, as people from the WB would still go through the same complicated procedures for obtaining work permits as they are doing now. This situation compels many from the Western Balkans to work illegally in the EU, facing risks such as exploitation, lack of legal protection, and the constant threat of deportation. Additionally, the complexity of legal employment has led to a surge in individuals from the Western Balkans acquiring passports from countries like Bulgaria as a workaround to gain employment in the EU without the legal hurdles. Enabling the free movement of workers would not only mitigate these issues but also benefit the Western Balkans by enhancing the transfer of knowledge and skills, reducing unemployment, and fostering a more dynamic labour market. Workers could respond more readily to labour demands within the EU, promoting economic growth and creating personal development opportunities.

Two further measures from the pillar of the EU single market deserve mentioning: granting the Western Balkan economies access to SEPA, which would simplify and reduce the cost of money transfers, and the elimination of roaming charges. While these initiatives are positive and will simplify some aspects of daily life, they are unlikely to significantly impact the region's overall development.

Overall, the pillar on access to the EU single market for the WB represents a symbolically positive shift by discussing the opening of the EU market to the WB economies. Still, it falls short of offering any tangible measures that would produce any real change. Consequently, it appears likely that the situation will remain unchanged for the foreseeable future.

Pillars 3 and 4— Increasing financial assistance to the region and accelerating reforms

The third and fourth pillars are interconnected, drawing on the well-known metaphor of the carrot and the stick. They propose offering the region a larger carrot through increased financial support while also wielding a larger stick by implementing greater conditionality for disbursing funds. This approach aims to motivate regional authorities to undertake the challenging and often uncomfortable reforms necessary to enhance living standards in their countries and align closer to EU standards. Rewarding them for their efforts amplifies the positive impact and encourages sustained progress.

However, a closer examination of the Growth Plan quickly leads to disappointment. The proposed 'carrot' amounts to just EUR 6 billion for the entire region over a four-year period, with EUR 2 billion in grants and EUR 4 billion in loans. This sum is modest compared to the Economic and Investment Plan for the Western Balkans, launched in 2020, which totalled around EUR 30 billion (EUR 9 billion in grants and EUR 20 billion in loans). Despite its larger scale and despite having been in place for three years, the Economic and Investment Plan has yet to yield significant results. One then cannot help but wonder how the financial support from the new Growth Plan, which is smaller and comes with much stricter conditions, would make a difference.

Moreover, the grant component totals merely EUR 500 million per year for the entire region. This amounts to just about 0.3–0.4% of the region's annual GDP. It's challenging to envision how an amount that might be considered a statistical margin of error could significantly impact living standards or motivate politicians in the WB to implement difficult reforms that could potentially hurt them and their allies.

To further underscore the small scale of the financial assistance, consider Croatia, which has a population four times smaller than that of the Western Balkan countries. It is set to receive over EUR 6 billion from the NextGenerationEU fund in grants alone. Per capita, this is 12 times more than what the WB countries are expected to receive.

At the same time, the bigger stick is that each WB country will have to prepare a Reform Agenda, which will be agreed upon with the EC, whose fulfilment will serve as a basis for disbursing the money. In essence, if the countries fail to implement the reforms they have pledged to undertake, they will not receive the additional financial support. Although this strategy seems reasonable in theory, the carrot offered is too insignificant to truly motivate politicians from the WB. Consequently, it is highly probable that no substantial changes will occur.

CONCLUSION

Overall, the Growth Plan has its merits. It introduces fresh elements to the discussion, thereby acknowledging the need for a revised EU approach towards the region. It accurately pinpoints the primary challenges faced by the Western Balkans, and based on these, it proposes four pillars that could form a strong foundation for further expansion.

However, the specifics of the plan and the concrete measures it suggests are somewhat disappointing. To speak plainly, it falls short of converting the chances it creates into goals. Key areas where the Growth Plan could see improvement include the following: (i) stepping up diplomatic efforts to resolve ongoing political disputes in the region; (ii) broadening the scope of the CRM to encompass common economic and social policies; (iii) providing direct financial and technical assistance to WB companies for acquiring the necessary export certificates and documentation for accessing the EU market; (iv) eliminating border controls for entering the EU for companies from the Western Balkans; (v) eliminating or preferably reducing work permit requirements for citizens from the Western Balkans seeking employment in the EU; (vi) significantly enhancing the financial proposal to the region, possibly through providing access to the EU budget.

If these improvements are made, the plan could truly be turned into a game changer for the Western Balkans.