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# The Potential of the Growth Plan for the Western Balkan Countries – Recommendations for Implementation

Author:

**Vancho Uzunov**

Department of Business Law & Economics,  
Iustinianus Primus School of Law,  
University Sts. Kiril and Metodij,  
Skopje, Republic of North Macedonia

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## INTRODUCTION

Considering the overall political situation in Europe after the COVID-19 pandemic, the crisis resulting from the Russian invasion of Ukraine, and the current situation in the six Western Balkan countries (WB6)<sup>1</sup>, particularly concerning their progress toward accession to the European Union (EU), the European Commission (EC) proposed a new Growth Plan for the Western Balkans (Growth Plan) in the second half of 2023. The plan is anticipated to be a four-year activity (2024–2027) and is based on four pillars: 1. Enhancing the economic integration of WB6 with the EU's single market; 2. Boosting economic integration within the Western Balkans through the Common Regional Market (CRM)<sup>2</sup>; 3. Accelerating fundamental reforms; 4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the WB.

The starting point of the Growth Plan is that economic convergence is a significant benefit of EU membership, as it has been demonstrated in the past that the highest positive impact on a country's GDP and income arises from the integration with the EU's single market.<sup>3</sup> Yet, despite investments in modernisation and infrastructure, which are often emphasised in the WB6, achieving this goal also demands, even more significantly, fundamental reforms. These include strengthening the rule of law and fundamental rights.

In that context, the EC has identified *seven priority areas* that are offered to the WB6 and are to be implemented through the existing SAAs, targeted complementary agreements, or by amending the Transport Community and Energy Community Treaties. The offer under the seven priority areas is based on its own merits. It is also subject to prior alignment with the EU *acquis* in each area, including having the necessary infrastructures and working institutions.<sup>4</sup>

The seven proposed priority areas are: 1. Free movement of goods; 2. Free movement of services and workers; 3. Access to the Single Euro Payments Area (SEPA); 4. Facilitation of road transport; 5. Integration and de-carbonisation of energy markets; 6. Digital Single Market; and 7. Integration into industrial supply chains.

Notwithstanding this new agenda and activities, beginning in 2014 under the name of the *Berlin Process*, the WB6 has implemented a regional integration agenda. This initiative has entailed the implementation of action plans and activities aimed at creating a single economic space. The last one, which expires this year, is the CRM action plan (CRM AP), agreed at the 2020 Berlin Process Summit. It sets out an extensive programme of actions based on EU rules and standards, intending to establish the four freedoms within the WB. This is accompanied by a Green Agenda and a Digital and Innovation Agenda for the region.

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1 Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

2 The Common Regional Market (CRM) is an initiative agreed by the leaders of the six Western Balkans at the Berlin Process summit in Sofia 2020. The CRM and its action plan are intended to bring the four freedoms of movement within the region.

3 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, *New growth plan for the Western Balkans*, Brussels, 8.11.2023 COM(2023) 691 final.

4 Ibid.

The CRM AP of 2020 envisages targeted actions in *four key policy areas* for the creation of the following: (1) *A regional trade area* (free movement of goods, services, capital and people, and crosscutting measures, such as Green Lanes, to align with EU-compliant rules and standards); (2) *A regional investment area* (for aligning WB6 investment policies to the EU standards and best international practices and promote the region to foreign investors); (3) *A regional digital area* (for integrating the WB6 into the pan-European digital market); (4) *A regional industrial and innovation area* (for transforming the industrial sectors, reshaping value chains, and preparing for the realities of today and the challenges of tomorrow).

It is evident that the goals of expediting the integration of the WB6 into the EU single market and of the CRM AP are highly complementary, actually almost identical. The CRM has two targets: unlocking the region's economic potential and adopting and implementing EU standards. The two are a crucial part of the integration into the single market. Hence, CRM is a stepping-stone towards the EU's single market and a mechanism for making progress in the accession negotiations while reaping early economic benefits. The CRM would lead to integration into the EU's single market, whereas the new growth plan will likely shorten that time span. Furthermore, this alignment is reinforced by the fact that at least half of the activities outlined in the CRM AP are linked to the implementation of the Central European Free Trade Agreement (CEFTA). CEFTA serves as a crucial governing mechanism for reforms, particularly in areas such as trade facilitation, achieved through enhanced regional recognition of standards and certification (in line with EU regulations). These reforms also include reducing the adverse effects of non-tariff measures, opening up service sectors—particularly the emerging domain of e-commerce—and easing the movement of workers through mutual recognition of academic and professional qualifications.

Hence, it is sound to conclude that the speed, efficiency, and effectiveness of the implementation of the CRM will actually drive the speed, efficiency, and effectiveness of the implementation of the Growth Plan and the integration of WB6 in the EU single market. With this in mind, this brief policy note aims to point out some of the obstacles in implementing the CRM, hence avoiding them in enhancing the economic integration of the WB6 with the EU single market.

## THE MAIN OBSTACLES IN THE IMPLEMENTATION OF THE CRM

The main obstacles in the implementation of the regional integration efforts and reforms in the WB6 can be separated into the following five categories<sup>5</sup>: (1) *Insufficient (or maybe even lack of) political will to reform*; (2) *Relatively low quality of the human capital*; (3) *Low institutional and administrative capacities*; (4) *Relatively low competitiveness of domestic private sectors*; (5) *Financial burden/strain of the reforms*.

### Insufficient (or maybe even lack of) political will to reform

The insufficient, often real lack of political will for implementing the reforms agreed upon (often with acclamation) within the regional integration agenda of the WB6 is very evident and impossible to deny (or, rather, not point out). This has actually halted the reforms far too many times and occasionally for an extended period. This is not equally accurate for all WB6—in fact, if truth be told, North Macedonia is one of the exceptions from that rule—but it is inexorable from the whole process. Unsurprisingly, the EC has devised a rule by which “no WB country shall be able to block access to the EU single market of other countries due to lack of its reforms”<sup>6</sup>. Under the premise that the regional economic integration would mean that the WB6 countries will support and complement (in economic terms) each other in their efforts to join the EU single market, it is not clear how reforms under the CRM AP can be sufficiently implemented if some WB countries block their implementation.

The insufficient political will to implement jointly agreed reforms is also perceived with the fact that some WB countries occasionally use the implementation of the regional agenda to put political pressure on solving domestic political issues with neighbouring countries. Yet, the political processes within the WB6 are far from solved or are on the way to being solved. Hence, this issue remains a huge potential barrier to successfully implementing the Growth Plan. It might appear that the rule devised by the EC in this context (“no country shall be able to block the others”) will be reduced to the areas where the EU has the executive power to decide, i.e. to “no country shall be able to block the access to the financial assistance offered by EU due to lack of its reforms.” However, the additional financial support from the EU is only one of the instruments of the Growth Plan rather than its main goal.

Lastly, it is also a fact that the CRM AP expires this year, and a new one is planned to be adopted at the Leaders’ Summit this year. The uncertainty stemming from this situation can pose an obstacle. However, in the absence of more information, it could be suggested that the WB6 should strive to reach an agreement on a document that would strongly complement the objectives of the Growth Plan.

5 The issues presented here are obtained mostly from the author’s engagement in the coordination of the reform activities under those action plans in the case of North Macedonia (in the period 2018–2023). The issues covered are not specific to North Macedonia; rather, they are, more or less, general to all WB6.

6 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, New growth plan for the Western Balkans, Brussels, 8.11.2023 COM(2023) 691 final.

## Relatively low quality of the human capital

The relatively low average quality of the human capital (HC) in the WB6 countries has been a factor in the slower implementation of the CRM AP. It will undoubtedly be an even bigger obstacle in implementing the new Growth Plan. The quality of the HC actually has a twofold negative impact: one is connected to the institutional (administrative) capacities of the WB6, and the other is connected to the competitiveness of the private sector. Another supplementary issue to consider is the challenge of enhancing the overall quality of human capital, which cannot be achieved quickly. Indeed, it necessitates decades of “painful” reforms to be improved. Furthermore, such reforms must be implemented within the context of an unstable political environment. Despite the political rhetoric and promises, the quality of human capital has not been upgraded. It remains not very high on the reform agendas of the WB6 (North Macedonia is not an exception in this context). The ways of mitigating this obstacle, at least to a certain extent, include the requalification of employees, utilisation of a domestic workforce which has been educated and/or qualified abroad, use of digitalisation and automatising of most or all processes and activities, etc. Since it is beyond the scope of this paper, their full presentation is omitted, but it is undoubtedly important to note that this aspect must not be overlooked (as it often is).

## Low institutional and administrative capacities

Directly derived from the previously stated obstacle in implementing the CRM is the low capacity of the administrations in the WB6, North Macedonia not being an exclusion in this context. The most prominent obstacles in this context are due to the rather frequent flow of administrative personnel coupled with a lack of available adequate replacements and the long-lasting implementation of the legal and/or procedural requirements. On the other hand, the regional institutions involved in implementing the CRM AP (like the RCC, CEFTA Secretariat, etc.) have helped mitigate these obstacles. Hence, for implementing the Growth Plan, it would be desirable to have them in place and with improved capacities.

## Relatively low competitiveness of domestic private sectors

Another obstacle derived from the low quality of human capital is the relatively low competitiveness of domestic private sectors in WB6. Stated bluntly, due to the existing structural characteristics of the economies of the WB6 created during their transition to market economies, as well as due to the lack of innovation, creation of new goods and services, etc., the WB6 actually do not have huge quantities and varieties of goods and services to be traded. The economies of the WB6 are more like competitors to each other rather than complementary entities. The analogue pattern is also relevant in the context of the movement of workers. Hence, fully utilising the growth potential from regional integration and integration into the EU single market requires huge structural changes in all the WB6 countries. It is a long-lasting process of reforms, but an even more necessary one.

## Financial burden/strain of the reforms

The financial burden of the reforms was an obstacle to the implementation of the CRM. This will undoubtedly be even more striking when implementing the new Growth Plan. In a most pronounced way, this is true for the financial need to upgrade infrastructure. However, this will be mitigated, at least to a certain degree, with the increased financial assistance to support the reforms through a Reform and Growth Facility for the WB planned with the Growth Plan. The utilisation of the funds is, of course, conditional upon the successful implementation of the reforms.