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The Potential of the New Growth Plan for the Western Balkans



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BACKGROUND

The new Growth Plan for the Western Balkans (Growth Plan) proposed by the European Commission (EC) on 8 November 2023 aims to accelerate economic growth and the enlargement process of the six Western Balkan (WB) countries. It openly recognises that neither the level nor the speed of convergence between the WB and the European Union (EU) has been satisfactory. The Growth Plan rests on four pillars: enhancing economic integration with the EU's single market, boosting integration within the WB region, accelerating fundamental reforms, and increasing financial assistance to the region.

The Growth Plan demonstrates a new awareness on the part of the EC that the policies implemented so far have not been successful and that additional instruments need to be employed to speed up economic development and the integration process of the WB to the EU. The focus is explicitly on accelerating the economic growth of the WB countries as the key ingredient for achieving their faster convergence with the EU, which is most welcome. However, the proposed means to achieve this goal are likely insufficient. The following sections explore the limitations of the Growth Plan and offer some recommendations on how to enhance its effectiveness.

CRITICAL POINTS OF THE GROWTH PLAN

Pillar 1.

Enhancing economic integration with the EU's single market

The 1st pillar is the most substantial part of the Growth Plan, as it contains numerous actions and measures that ought to facilitate economic integration of the WB into the EU's single market. There is sound theoretical and empirical literature that suggests a strong link between economic integration through the liberalisation of markets and the removal of trade and non-trade barriers and economic growth. In the case of the WB, removing the remaining cross-border barriers to the movement of goods and improving access to the single market for services, people, and capital has the potential to bring benefits since these measures are likely to increase competition and generate greater efficiency for WB economies.

In order for the WB to advance in its EU accession process, the EC has identified seven "initial priority actions" that the EU could offer to the WB, which come under seven headings: 1) Free movement of goods, 2) Free movement of services and workers, 3) Access to the single euro payments area, 4) Facilitating road transport, 5) Integration and de-carbonisation of energy markets, 6) Digital single market, and 7) Integration into industrial supply chains. These seven priority actions contain specific sub-groups that add up to 17 measures. A series of complementary measures are also proposed, including the participation of the WB in the relevant EU programmes and Commission-led expert groups, strengthening infrastructure links and implementing the Global Gateway Strategy in the WB.

In addition, seven groups of measures supporting integration into the EU single market are proposed at the end of the document (after the Conclusions), which should offer the WB several "opportunities", each containing various sub-measures. These opportunities are as follows: 1) For businesses, by facilitating entrepreneurship (four measures), 2) For preparing for the single market (two measures), 3) For digitalisation (six measures), 4) For employment and training (six measures), 5) For young people (two measures), 6) For easier tourism, travel, transport, and culture (three measures), and 7) For consumers' protection (three measures). Therefore, a total of 26 measures.

The proposed actions and measures that ought to facilitate access of the WB to the single market render **EU conditionality even more complex and demanding**. Taking into account the 17 measures proposed within the initial seven priority actions and the 26 additional measures that are to support the integration of the WB into the single market, the list of proposed policy areas is rather long, especially for a Growth Plan that ought to be implemented during the next three years. The proposed measures (given at the end of the document) that are to support the seven priority actions are all relevant to improving access of the WB to the EU internal market. Still, it remains unclear how some of them relate to the previously proposed priority actions. The whole package is rather fragmented and unsystematic, making comprehending its core essence challenging.

The actions and accompanying measures of the 1st pillar are presented as a "bold offer" to the WB region that should bring membership benefits in advance of accession. Yet the package will require a **clear political commitment to the process on both sides**. Eventually, their successful implementation will require joint efforts by the EU authorities and the WB governments to adopt amendments to the Stabilisation and Association Agreements and other treaties governing EU-WB relations. In order to be implemented, additional preparatory work is necessary to invent viable legal solutions, change or adapt existing agreements, adopt new laws and regulations and devise appropriate support programmes. The Growth Plan proposal leaves many important aspects to be defined as part of subsequent agreements.

Pillar 2.

Boosting regional economic integration through the Common Regional Market

The 2nd pillar of the Growth Plan invites the WB to recommit to the full implementation of the objectives of the Common Regional Market (CRM) Action Plan (CRMAP): trade facilitation through the recognition of standards and certifications, reducing non-tariff measures, opening up the service sector, and facilitating the movement of workers through mutual recognition of qualifications. Regional economic integration is mentioned as an explicit precondition for implementing the 1st pillar of the Growth Plan. Still, there are no clear indications of which measures should be implemented once the CRMAP expires in 2024.

Some possible policy areas mentioned include the region's integration into the EU's system for consumer protection and market surveillance and participation of the WB in various European committees for standardisation and implementation of the Green, Digital, and Innovation Agenda. However, reforms in most of these policy areas do not necessarily require the preparation of regional programmes but primarily the transposition of EU acquis in these specific areas to the national legislation of the WB countries (something that has already been done, at least partly, in most of the countries) and even more importantly, their effective implementation.

Given the importance attributed to the condition of regional economic integration, it is legitimate to ask how much more can be achieved in the economic integration of the region. Over the past 20 years, the WB countries have adhered to a number of regional initiatives, most of which have contributed to intensifying economic links and to the region's economic integration. For the WB economies today, regional economic integration is far less important than integration into the EU single market, given that the EU has become the region's dominant economic partner. ***The potential for further increasing regional economic integration among the WB countries may have been exhausted.***¹ Although regional cooperation of the WB countries in various areas remains essential for their EU accession, insisting on a further increase in economic integration of the region may not be realistic.

1 More intensive economic links among the WB will probably be established once they become full members of the EU, as was the case with the Central East European (CEE) countries. The CEE countries were not very eager to cooperate with their neighbours in the 1990s, but increased trade and economic cooperation in various areas after joining the EU.

Pillar 3. Accelerating fundamental reforms²

The 3rd pillar is, somewhat surprisingly, the shortest part of the Growth Plan. Despite its fundamental importance, it offers few innovative ideas on how to accelerate these crucial reforms. The WB countries will be invited to prepare a *Reform Agenda* as the key driver of the Growth Plan based on existing recommendations that will identify a limited set of priority reforms related to the fundamentals of the enlargement process. The identified priority reforms will serve as payment conditions, i.e. the release of funds will take place only upon the achievement of the set goals. The payment conditions will be linked to specific reforms related to the fundamentals of the enlargement process, as well as to “specific socio-economic reforms to unlock national and regional growth potential” (which, however, are not defined). The 3rd pillar introduces **stronger conditionality for funding the WB** since payments will be directly linked to the fulfilment of conditions set in the Reform Agendas of the individual countries. Judging from the relatively meagre contents of the 3rd pillar, it might be wrongly concluded that accelerating fundamental reforms is the least important part of the new Growth Plan for the WB, which certainly could not have been intentional.

Pillar 4. Increasing financial assistance

Ongoing WB reforms will be supported by a new Reform and Growth Facility of EUR 6 billion (EUR 2 billion in non-repayable funds and EUR 4 billion in loans) during the 2024–2027 period. Given the numerous criticisms from policy analysts regarding the insufficient financial assistance to the WB, subsequently leading to a limited tangible growth impact, the introduction of an additional financial package is more than welcome. This is particularly significant as it is proposed as a new financial facility for the WB, intended to supplement IPA III.

Nevertheless, although according to the EC, the new financial package represents “significantly increased financial assistance”, it actually proposes a very **small amount of additional financial resources** for the WB. It is certainly insufficient to achieve the desired objectives of accelerated growth and convergence. The grant element (EUR 2 billion) represents a 22% increase concerning the EUR 9 billion of grants allocated to the WB for implementing the Economic and Investment Plan over a seven-year period. Together with the loan’s component, the new facility of EUR 6 billion corresponds to less than 6% of the region’s annual GDP,³ to be divided between the six WB countries over a three-year period. This amount is substantially lower than the amount most WB countries have recently received annually through foreign direct investments or workers’ remittances.

2 The 3rd pillar includes the “fundamentals cluster”: five chapters of the acquis: 23—Judiciary and fundamental rights; 24—Justice, freedom and security; 5—Public procurement; 18—Statistics; 32—Financial control, as well as the Economic criteria, functioning of democratic institutions, and the public administration reform.

3 Namely, 5.68% of the total GDP of the six WB countries (EUR 105.7 billion) in 2020 (Eurostat).

GENERAL LIMITATIONS OF THE GROWTH PLAN & MAIN RECOMMENDATIONS

The critical points raised so far indicate some general limitations of the Growth Plan that can serve to help make recommendations on its implementation.

Sequencing of priorities

Within such a large package of proposed measures—numerous actions and measures to facilitate the WB participation in the internal market, requirements of increasing regional integration, and implementing the crucial reforms of the fundamentals cluster—what is the order of priorities? Over a three-and-a-half-year period (2024–2027), are the WB countries expected to implement all the listed actions and measures of the three pillars in parallel, or are there some top priorities? How important are the priority actions of the Growth Plan's 1st pillar on the internal market in relation to other instruments, such as the Economic and Investment Plan for the WB, the individual country's Economic Reform Programmes, the objectives of the IPA III seven-year packages, the Green Agenda, the Digital Agenda, the Innovation Agenda, or the Smart Specialisation Strategies of individual countries? How are all these initiatives to be coordinated? Which ones are likely to be the most important for the growth prospects of the WB? ***The objectives, actions, and measures are numerous, while the emphasis placed on each of them in the various documents of the EC is very different, not offering a consistent, integrated approach for enhancing the growth potential of the WB economies.*** Thus, indicating a timeframe for the sequencing of various priorities would help in their implementation.

Simplification

The Growth Plan's 1st pillar is presented in a rather unsystematic way. It would be useful if it were simplified and reduced to those policy areas that are primarily important for the inclusion of the WB into the EU's internal market. This could be done by replicating the European Economic Agreement concluded with the EFTA countries.⁴ This would allow a more orderly and systematic presentation of the necessary measures to be included in the countries' Reform Agendas. The implementation of the Reform Agendas could be facilitated by the preparation of a *Single Market Scoreboard for the Western Balkans*, which would present the current situation regarding compliance of each country with the most important policy areas of the single market, giving a clear indication of the specific priority actions for each WB country.

4 The European Economic Area Agreement provides for the extension of the EU's single market to the EFTA countries in the following policy areas: free movement of goods, people, services and capital (the four fundamental pillars of the internal market), competition and state aid rules, consumer protection, company law, environment, social policy, statistics, as well as cooperation in several flanking policies such as research and technological development, education, training and youth, employment, tourism, culture, civil protection, enterprise, entrepreneurship and small and medium-sized enterprises.

A more balanced package of measures

The Growth Plan is rather unbalanced in its content. By far, the largest part of the Growth Plan is dedicated to the 1st pillar, while the 2nd and the 3rd pillars are somewhat under-represented. If the main intention of the Growth Plan was to gradually include the WB in the policy areas of the internal market before EU membership, this should have been stated more explicitly. In this case, the other two pillars should have been presented more in the function of the 1st pillar. The “fundamentals” pillar ought to be more functional towards the WB inclusion into the internal market, emphasising those fundamental reforms that are particularly important for the WB inclusion into the EU’s single market (e.g. judiciary reforms, public procurement).

Integration into supply chains

To accelerate economic growth in the WB countries, one of the most important measures is the proposed integration into industrial supply chains through strategic partnerships. It would be essential to facilitate the establishment of EU–WB strategic partnerships in various sectors (not only the two sectors mentioned in the Growth Plan) based on each country’s comparative advantages and Smart Specialisation Strategies.

Regional economic integration

Notwithstanding the importance of regional cooperation among the WB countries, boosting regional economic integration should not necessarily be a precondition for implementing measures of the Growth Plan’s 1st pillar. Priority must be given to the national reforms in those policy areas that are crucial for WB inclusion into the single market.

Define socio-economic indicators

Since the payment conditions of the Growth Plan will be determined by “specific socio-economic reforms to unlock national and regional growth potential”, it would be important to offer guidelines as to which socio-economic indicators will be used to assess countries’ progress with socio-economic reforms.

Uncertain growth prospects

The Growth Plan is based on unrealistic expectations regarding its potential to significantly contribute to accelerating economic growth in the WBs, which is low in the short to medium term. It will take years to feel the positive effects of the proposed measures of bringing the WB closer to the internal market. The Growth Plan proposal leaves many aspects to be defined as part of subsequent agreements, including the Reform Agendas that will have to be prepared by the WB governments in consultation with the Commission. Many of the proposed measures still have to be designed, translated into appropriate legislation and implemented, so enterprises and citizens from the WB region may have a decade or more before their impact is felt. The EU’s experience implementing the Internal Market Programme has shown that the process has been slow and uneven, remaining incomplete in some areas even today.

In the shorter time perspective, although the WB countries will have higher GDP growth rates than the EU average in the next 2–3 years, it is unrealistic to expect that the existing gap in GDP per capita between the WBs and the EU can be substantially reduced. Over the next few years, the WB growth prospects will be strongly influenced by economic trends in Germany and Italy as their main economic partners, which are expected to be among the slowest-growing economies in the EU in 2024 (GDP growth is projected at 0.5% and 0.7%, respectively). Further downward adjustments of GDP forecasts for the key EU economies could easily jeopardise the WB's current expectations regarding growth prospects.

Impact assessment

The Growth Plan and establishment of the new Reform and Growth Facility for the WB have been proposed without preparing an impact assessment. In the absence of an impact assessment, it is difficult to assess the extent to which the Growth Plan is likely to contribute to achieving the main objectives of accelerating economic integration and convergence of the WB with the EU. It would be useful to undertake an impact assessment of the Growth Plan based on a detailed analytical study.

Explanation of terms and abbreviations

Lastly, in order to facilitate the implementation of the Growth Plan by the WB countries' public administrations, it would be useful to provide a list of terms and abbreviations used in the document, with brief explanations or definitions (e.g. IMI, ERRU, EU trust services, geo-blocking, CEN, CENELEC, e-Surveillance WebCrawler tool, Safety Gate, e-Enforcement academy).