

LSE Webinar, October 29th 2020

Pushing on a string?

The past and future of regional economic cooperation in the Western Balkans

Richard Grieveson, wiiw Deputy Director

Overview

1. Point of the study
2. What we did
3. Main findings
4. Assessing the prerequisites (then and now)
5. Policy recommendations

Point of the study: What we wanted to find out

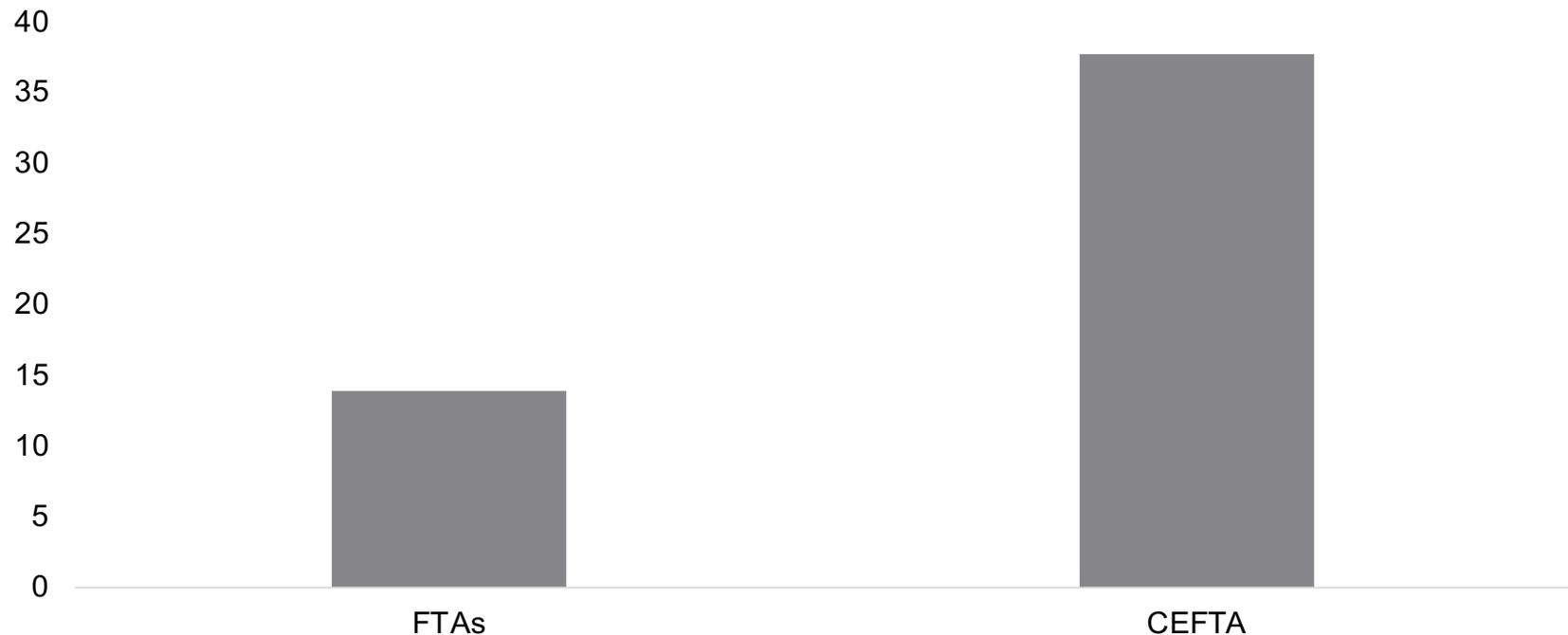
- i. Were the pre-requisites for successful regional cooperation ever there?
- ii. Did the plan lead to greater economic integration?
- iii. Did this economic integration deliver political results?
- iv. What should be done now?

What we did:

- i. Identification and analysis of pre-requisites for regional cooperation
- ii. Econometric analysis of trade and investment initiatives
- iii. Descriptive analysis of infrastructure connectivity initiatives
- iv. Taking stock in 2020: what has been achieved
- v. How could the Western Balkans integrate more with the EU?

Main findings (I): Regional economic integration has increased...

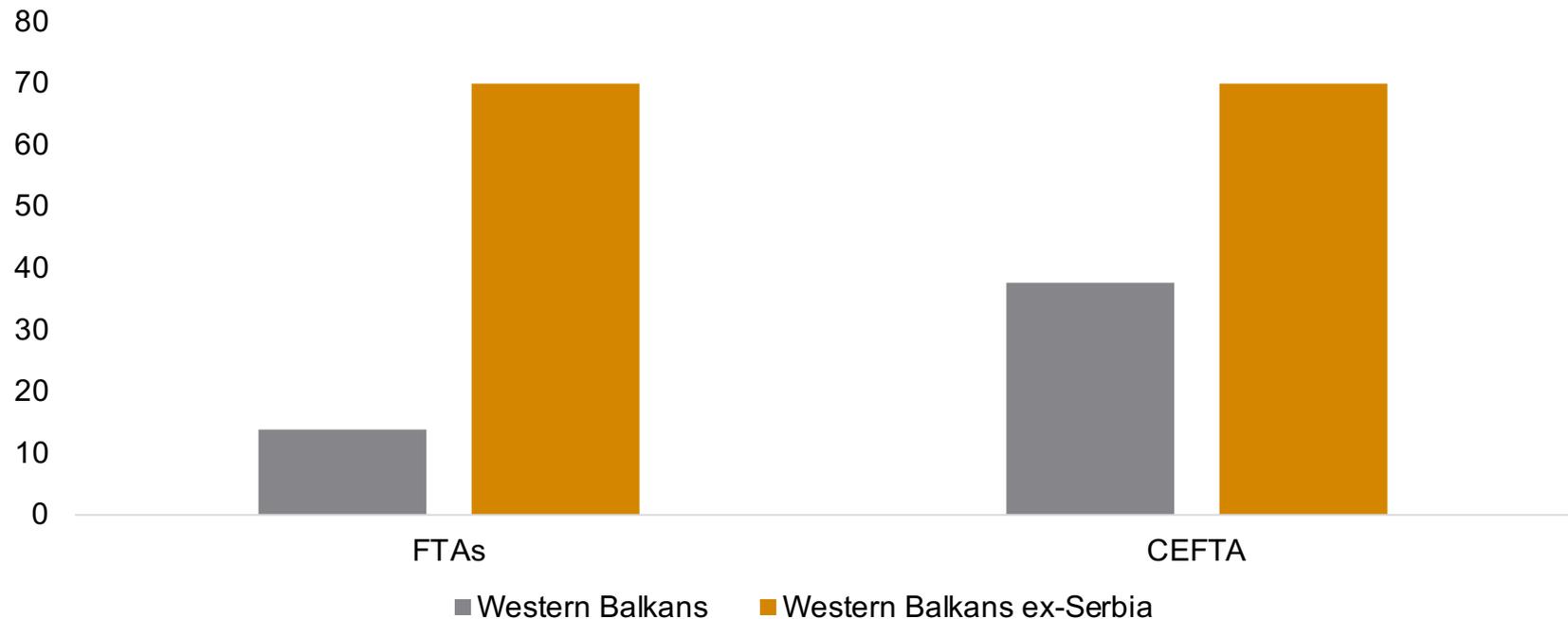
Nominal % change in regional trade flows as a result of FTAs and CEFTA



Source: [Grieveson, Holzner and Vuksic \(2020\), Regional Economic Cooperation in the Western Balkans: The Role of Stabilisation and Association Agreements, Bilateral Investment Treaties and Free Trade Agreements in Regional Investment and Trade Flows](#)

Main findings (II): ...but much less for Serbia than the others.

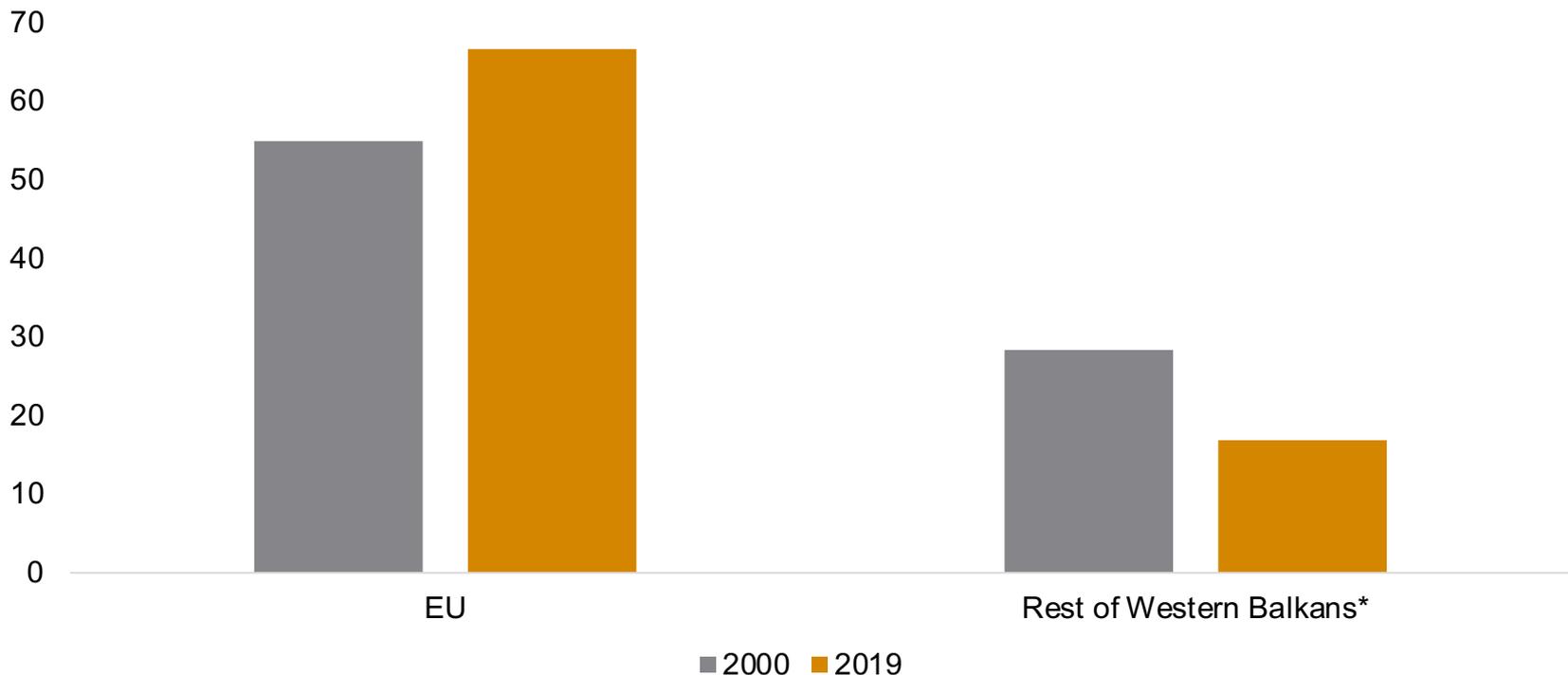
Nominal % change in regional trade flows as a result of FTAs and CEFTA



Source: [Grieveson, Holzner and Vuksic \(2020\), Regional Economic Cooperation in the Western Balkans: The Role of Stabilisation and Association Agreements, Bilateral Investment Treaties and Free Trade Agreements in Regional Investment and Trade Flows](#)

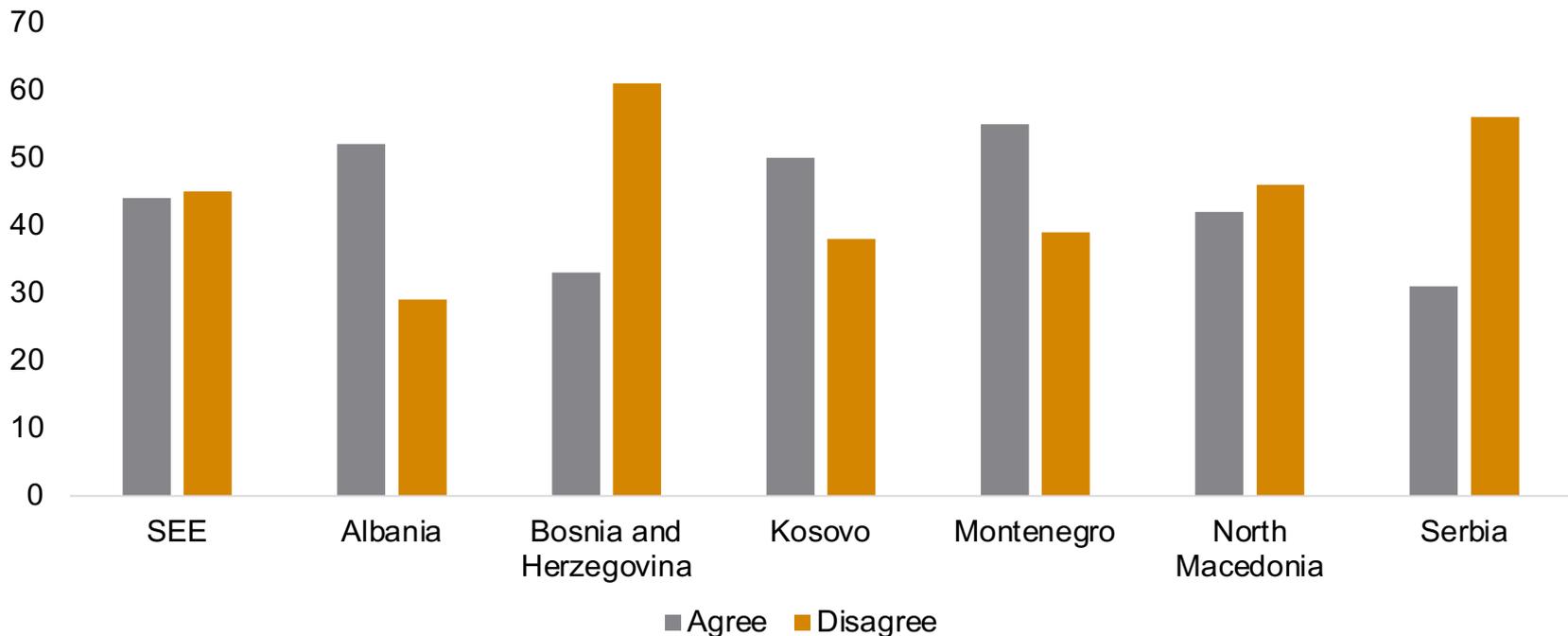
Main findings (III): Serbia is now more integrated with countries outside the region, especially the EU.

Serbian exports by destination, % of total



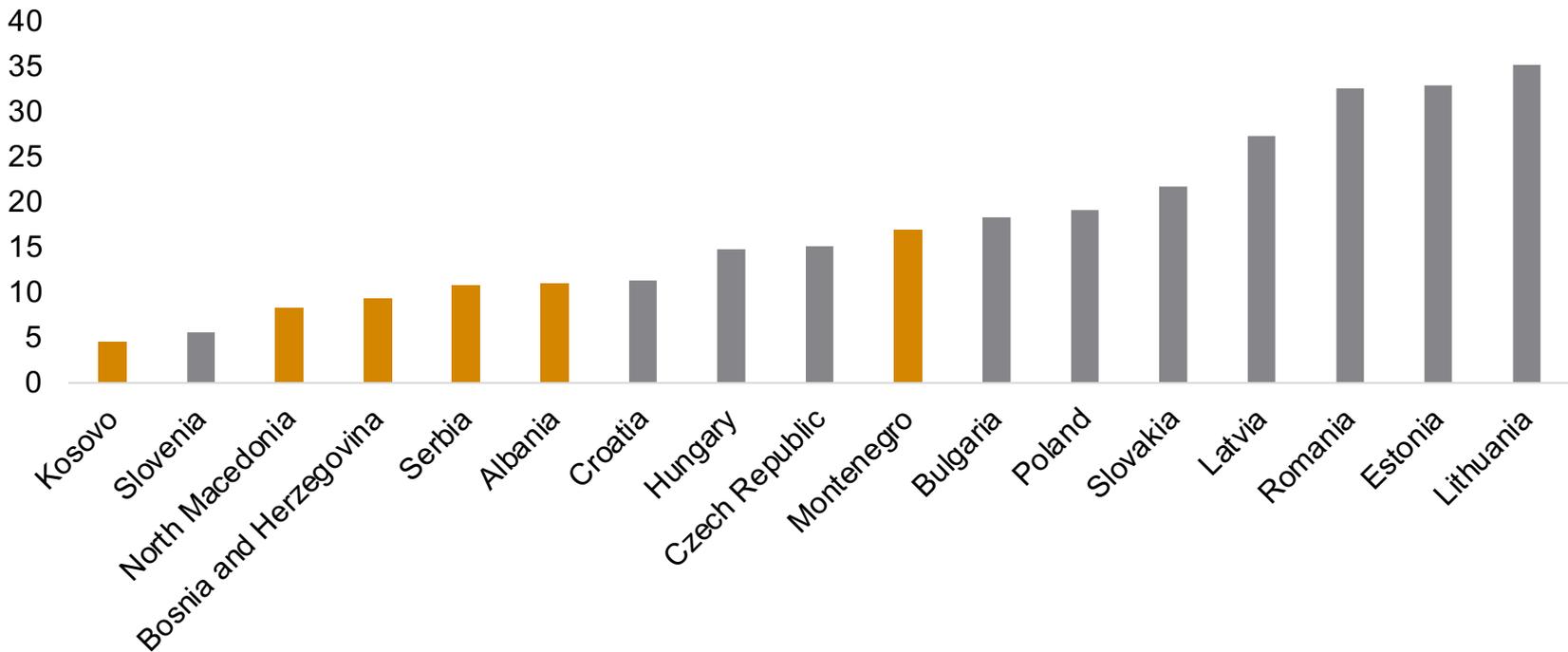
Main findings (IV): Regional integration has not helped to fundamentally break the ‘geography of animosity’.

Do you agree that regional relations in SEE are better than 12 months ago?
% of total respondents



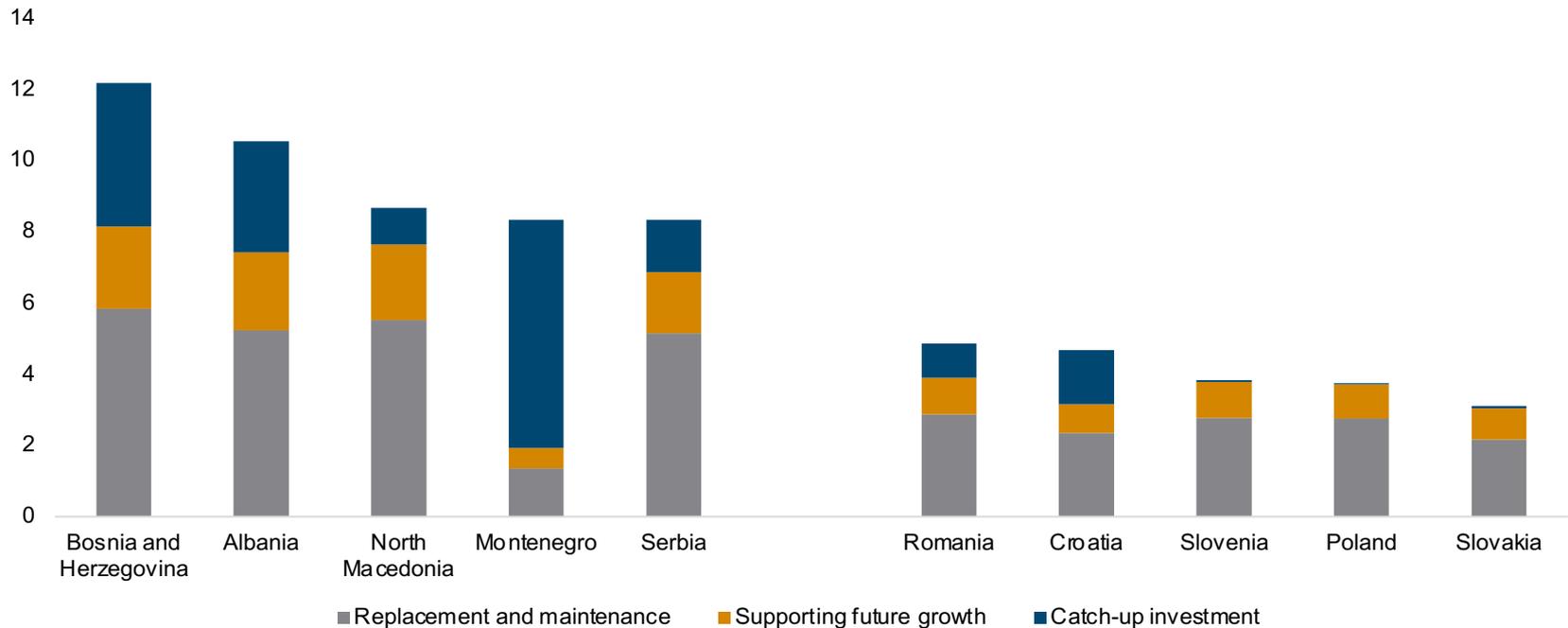
Main findings (V): Integration has not helped the worst economic convergence performance in CEE since 2000.

Change in per capita GDP relative to Germany between 2000 and 2018; percentage points



Main findings (VI): Integration via infrastructure still has a long way to go.

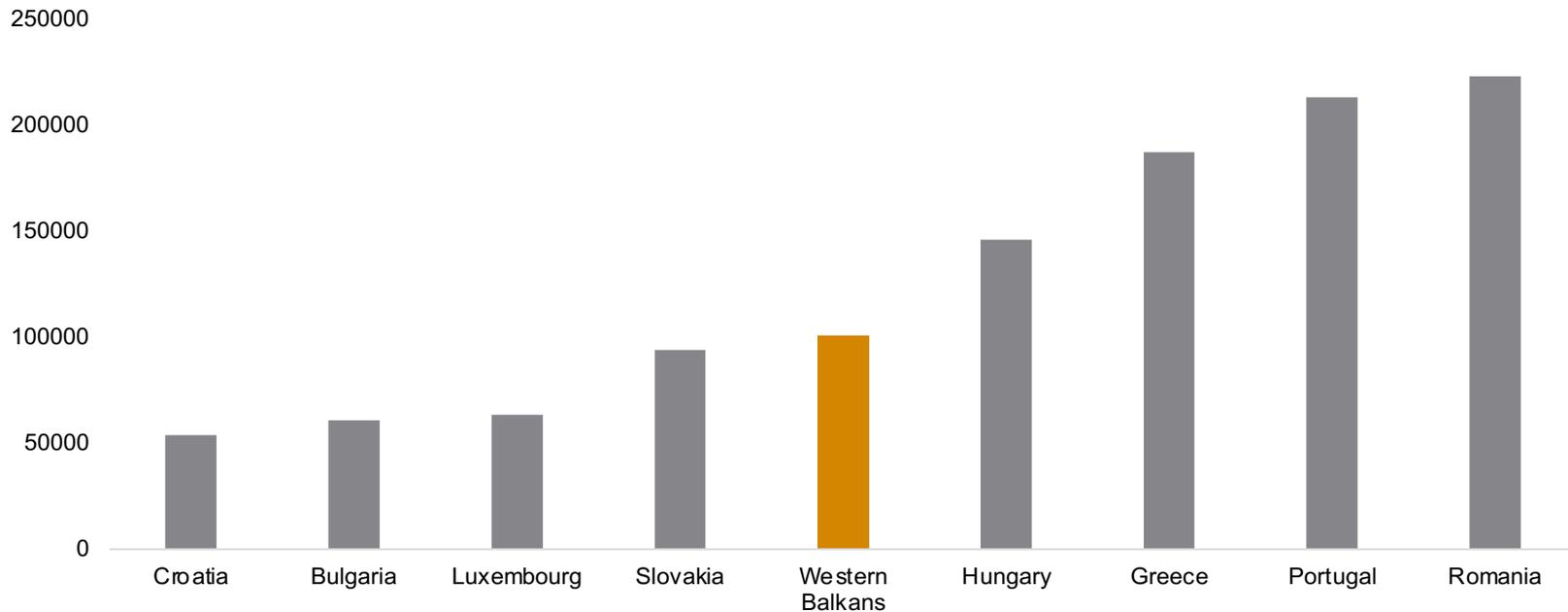
Infrastructure investment needs per year, % of GDP, 2018-22



Source: EBRD.

Assessing the prerequisites (I): Economic fundamentals mostly not supportive of successful integration.

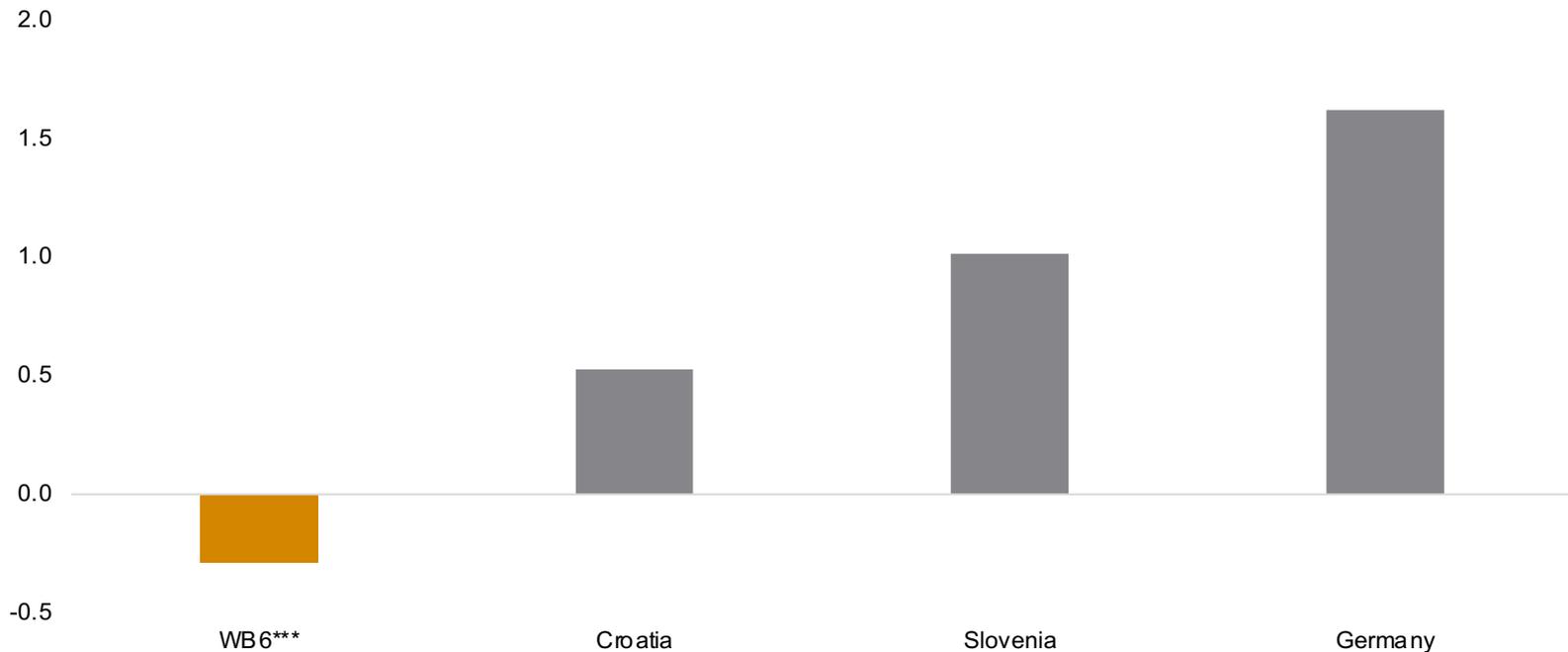
Nominal GDP, EURm, 2019*



Source: Eurostat. *All EU countries ranked by GDP; chart shows four immediately above and below the total nominal value of Western Balkans GDP.

Assessing the prerequisites (II): Institutional fundamentals also generally a hindrance to cooperation.

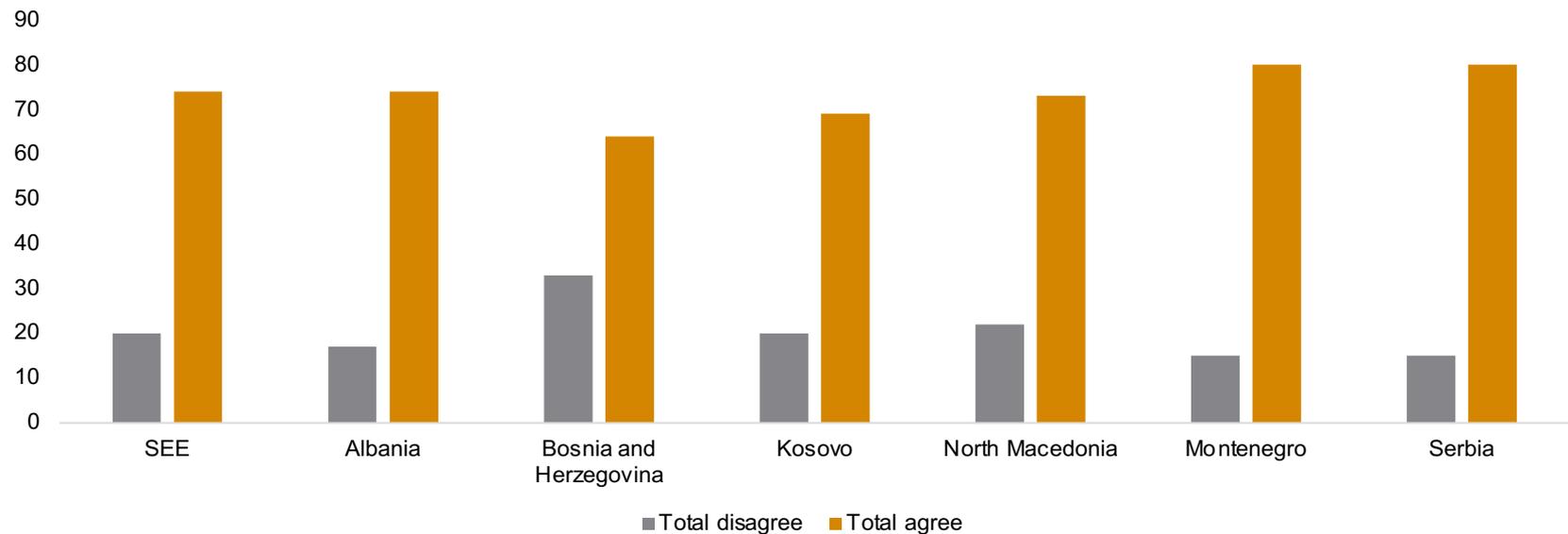
World Bank government effectiveness score**, 2000-18 avg.



Source: Eurostat. **Max = 2.5; min = -2.5. ***WB6 = simple average of all Western Balkan countries for which data are available each year.

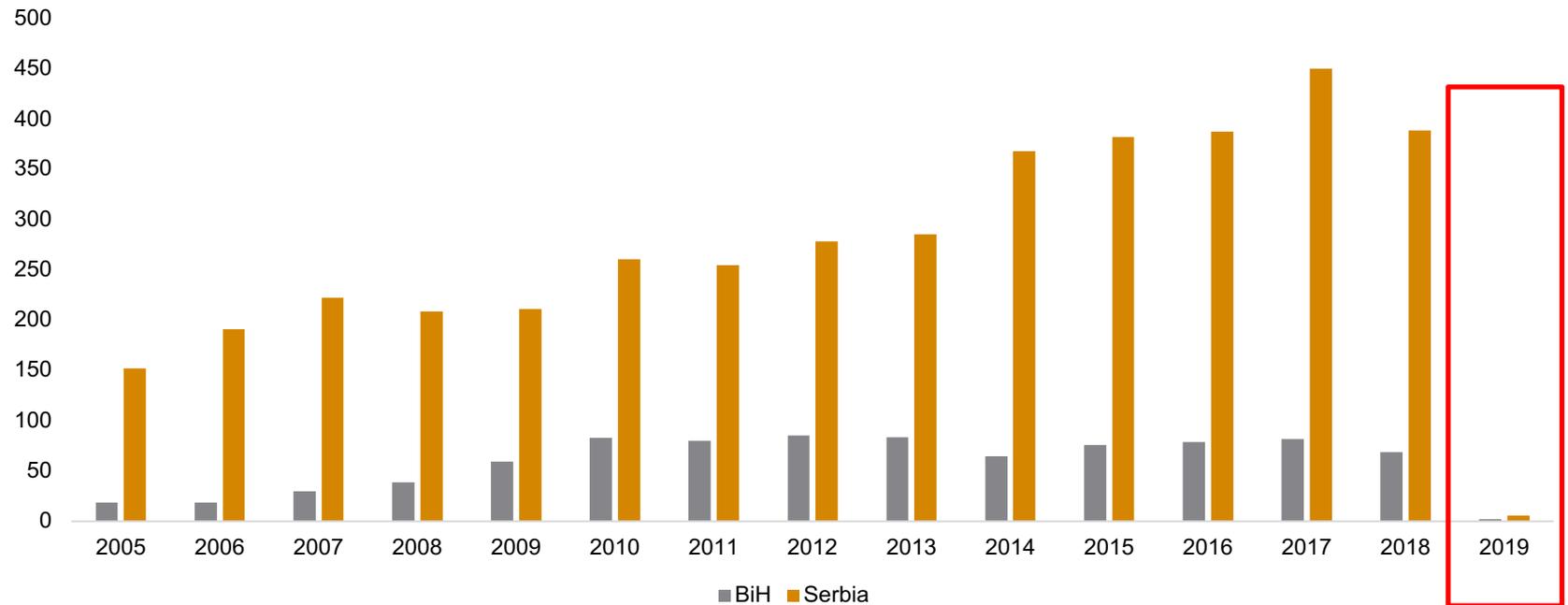
Assessing the prerequisites (III): People in the region value regional cooperation, but this often does not translate into concrete action at elite levels.

Do you agree that regional cooperation can contribute to the political, economic or security situation of your society? % of respondents



Policy conclusion (PC) 1: Economic integration cannot solve anything, or even work properly, without direct political breakthroughs.

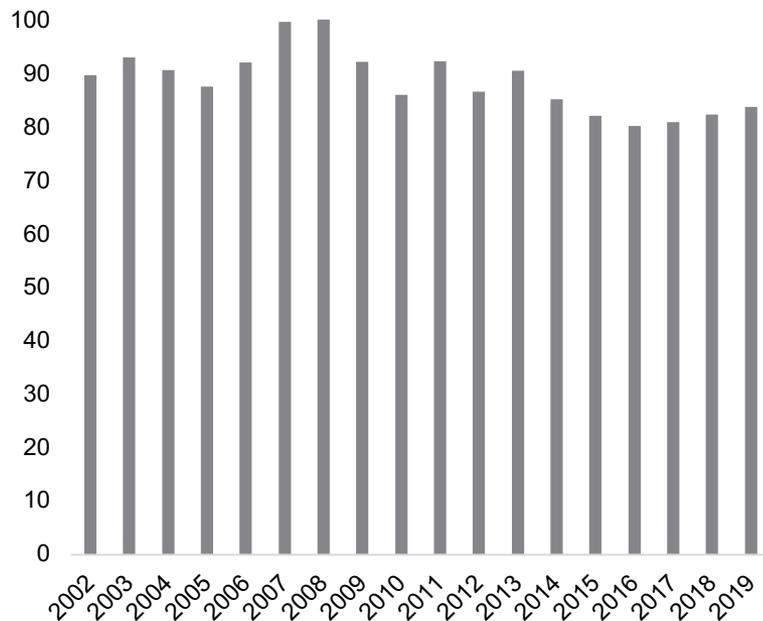
Kosovan imports from selected sources, EURm



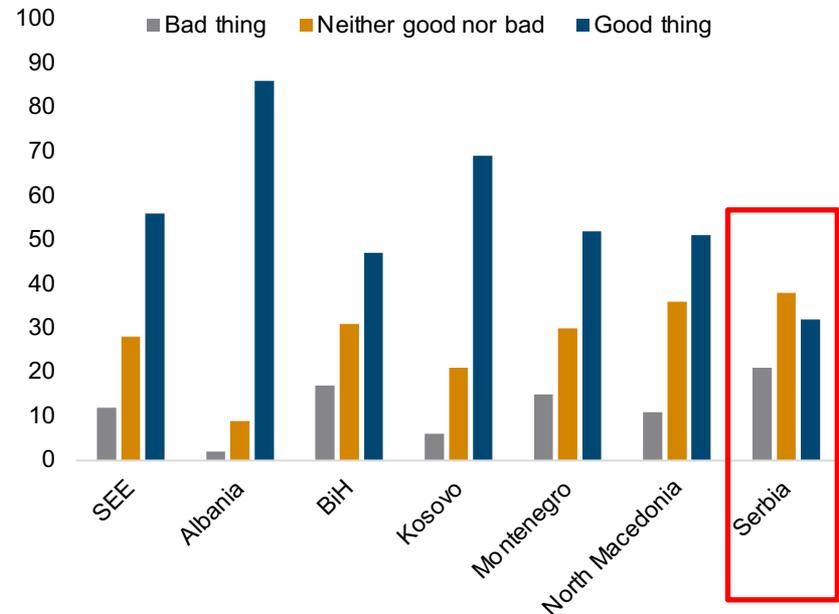
Source: Kosovo Agency of Statistics. Note: Kosovo imposed 100% tariffs on imports from Serbia and Bosnia and Herzegovina in November 2018.

PC 2: Serbia has different options and incentives; the EU needs to find a way to changes its calculations (not easy).

Serbia's nominal GDP, % of other five WB countries combined

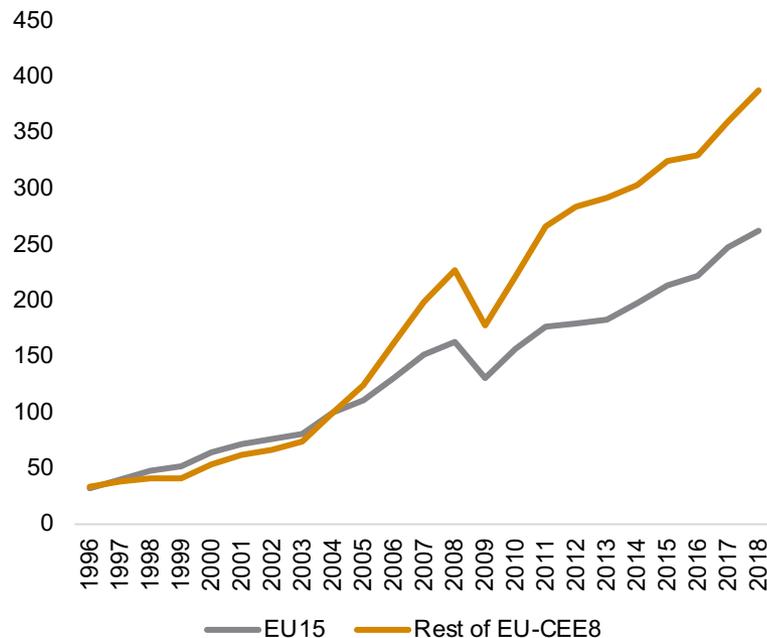


Would EU membership be a good or bad thing for your economy? %

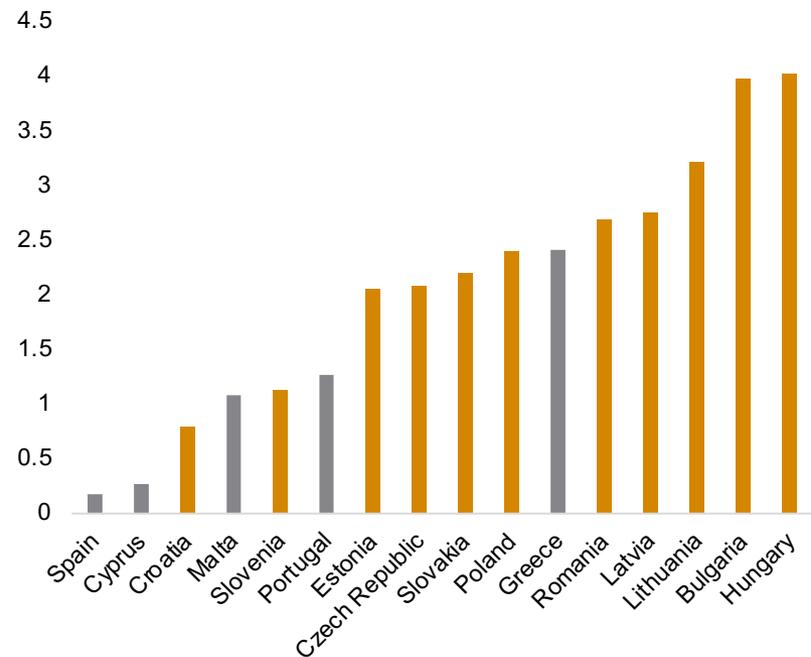


PC 3: Region needs something between the current situation and full membership (following EU-CEE lines).

External trade of EU-CEE-8* countries by partner; 2004=100



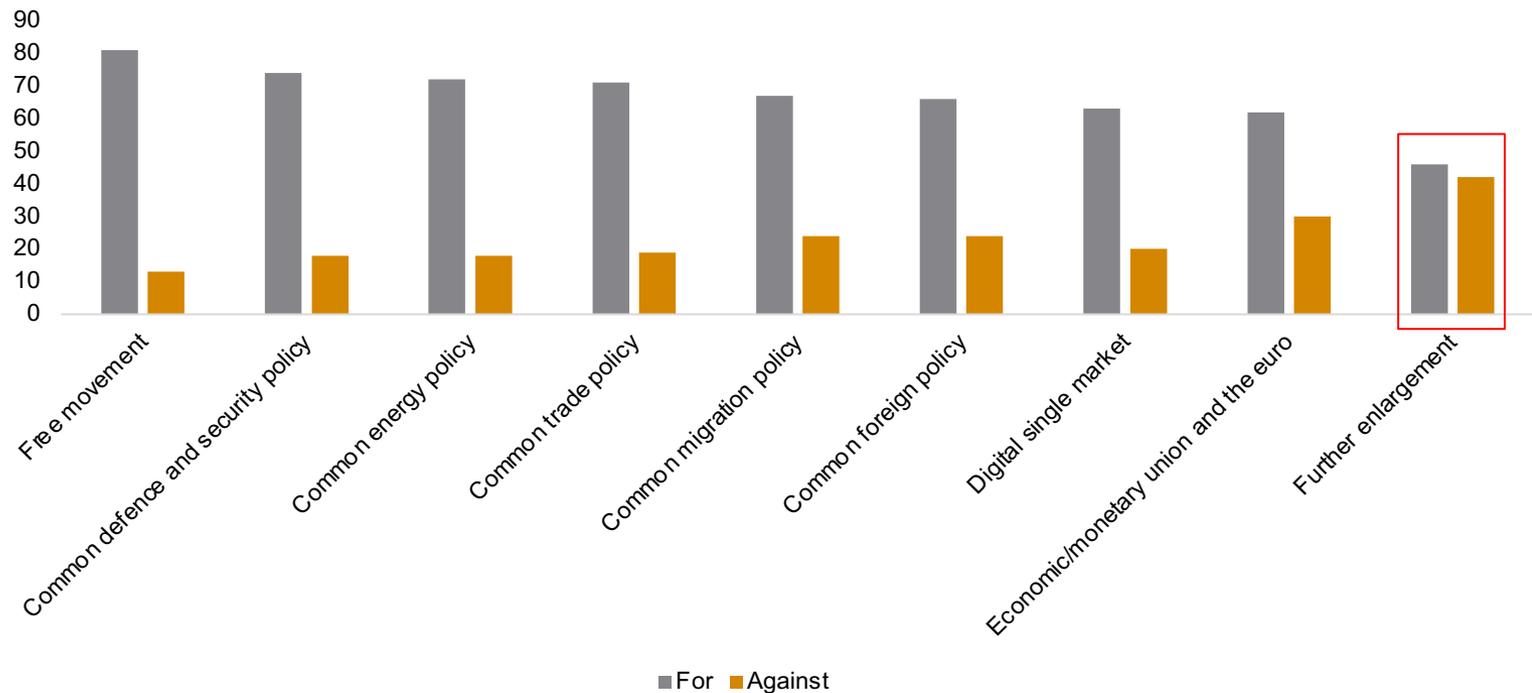
Net operating balance with EU budget, % of GNI**, 2014-18 avg.



Source: wiiw. *EU-CEE-8 = 2004 EU joiners minus Cyprus and Malta. **GNI = Gross National Income.

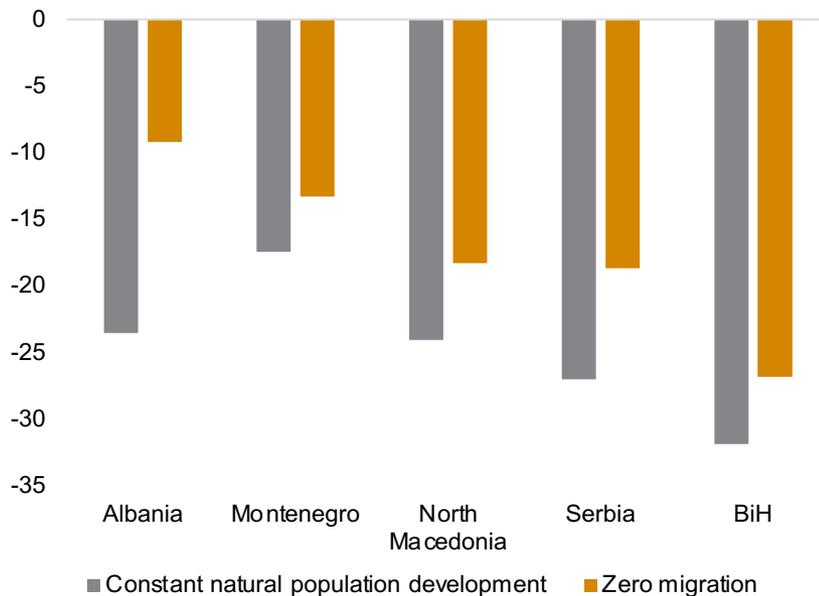
PC 3b: This is important also because of clear enlargement fatigue within the EU.

Views of EU citizens on common policy areas, %

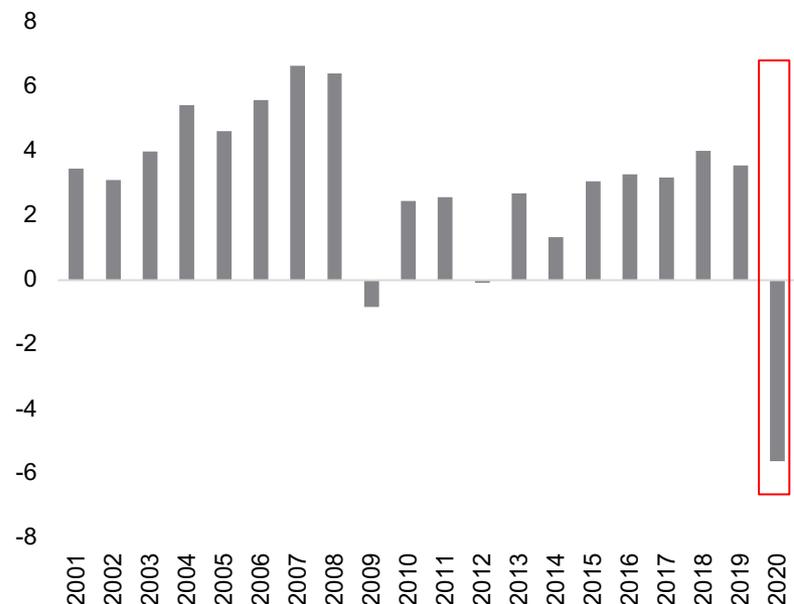


PC 4: Demographic trends, growing outside influence and pandemic impact create a sense of urgency.

Projected change in working-age population, %, 2015-50



Real GDP growth, % per year, simple average of WB countries



Sources: Own calculations based on UN, Department of Economic and Social Affairs, Population Division (2017); national sources; wiiw projections. Note: Population data on Kosovo not available.

Conclusions

1. Region is more economically integrated than it was 20 years ago.
2. But not same for all and overall disappointing results.
3. Achieved integration has not solved economic development problem or main territorial/constitutional disputes.
4. This is often because the prerequisites for success did not exist and do not exist.
5. If EU accession still a long way off, need to think much more about differentiated/phased integration, including budget, infrastructure, goods + services integration, more labour market access.
6. New EU investment plan has some good points, but pledged amount is no game-changer.

Thank you for your attention!

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