

# Differentiated growth models in the Western Balkans amid changing EU priorities

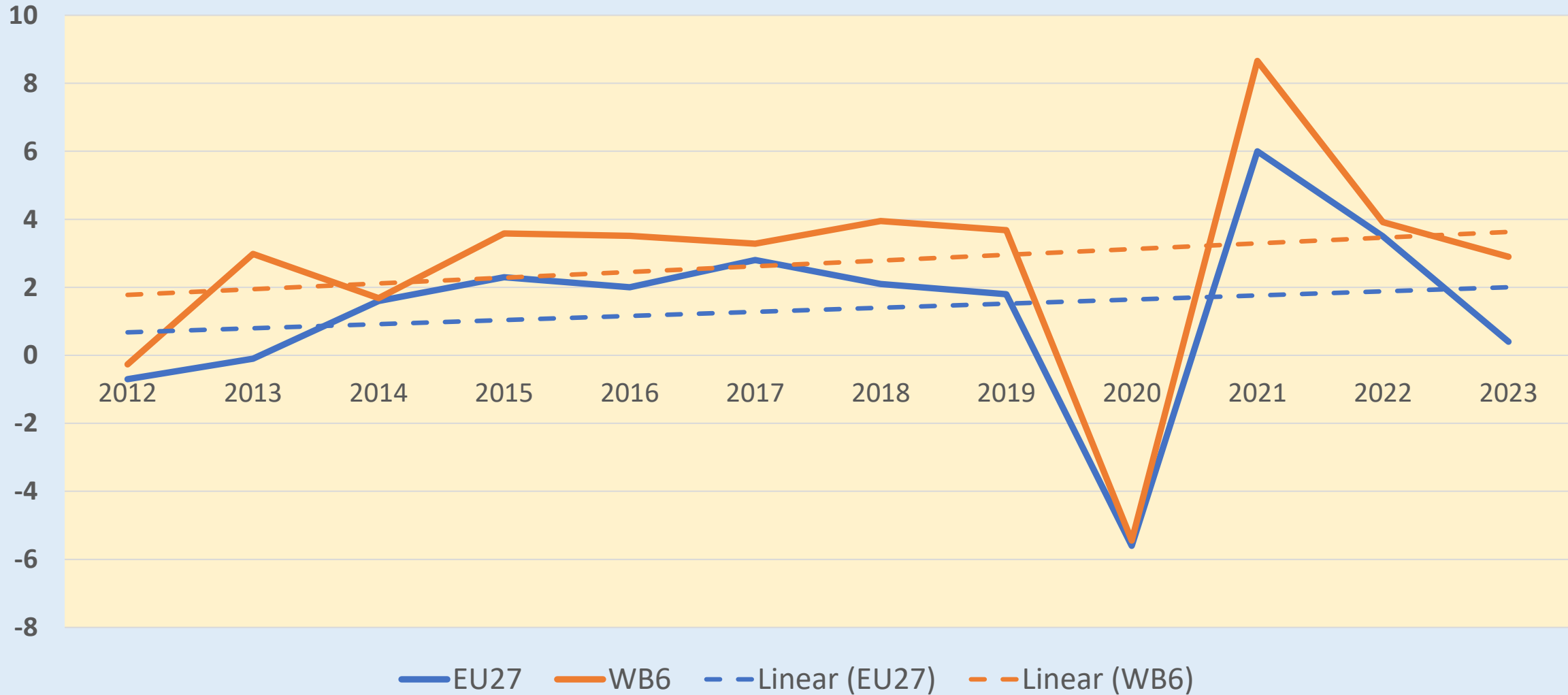
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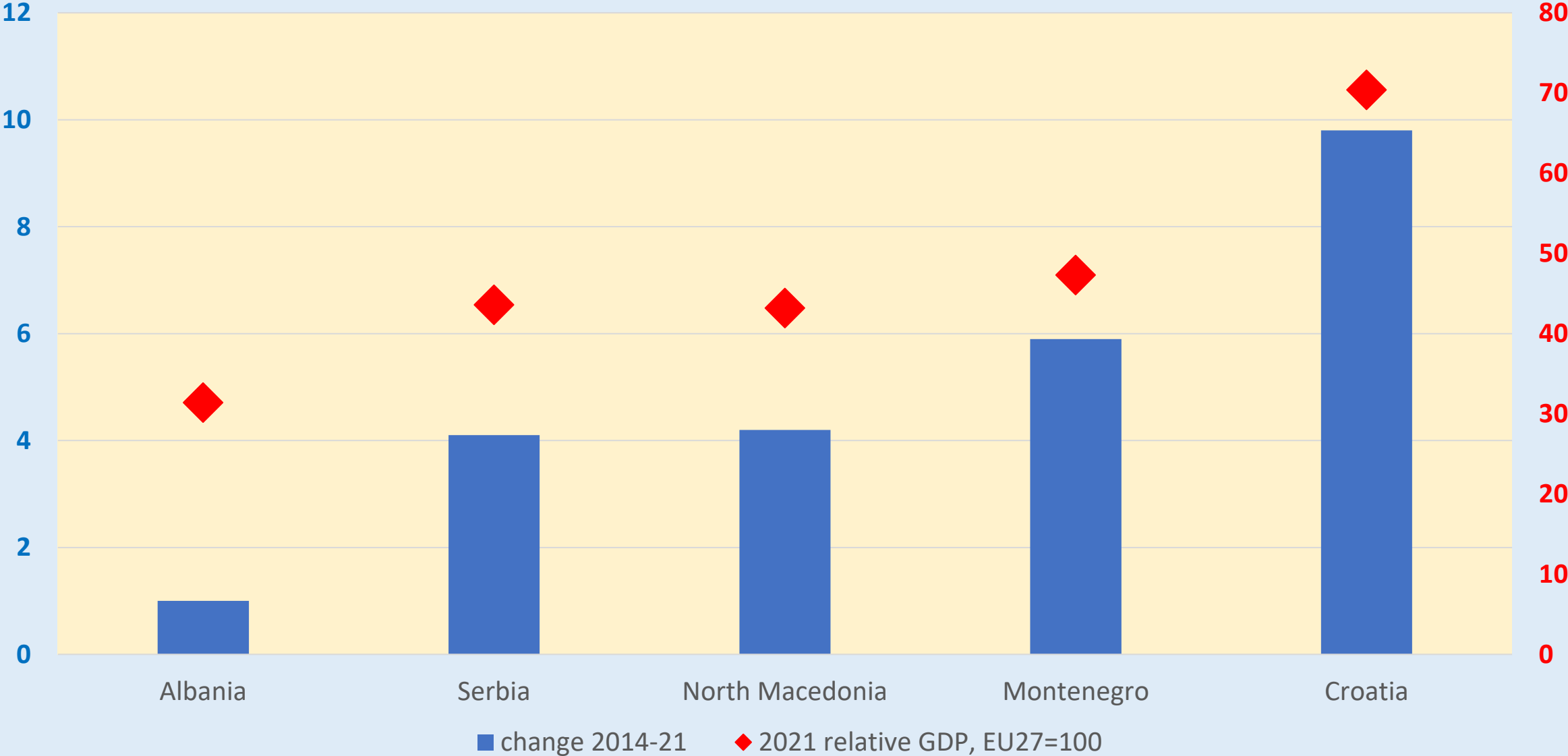
# Background

- Growth in the Western Balkans has recovered over last decade since the 2009-2012 eurozone crisis
- Western Balkan economies essentially follow EU27 growth path due to high levels of trade integration, migration and inward FDI
- Generally, WB6 growth rates about 1.5pp above EU27 => catch-up
- More prosperous countries catching up faster, as do countries more advanced on EU integration path

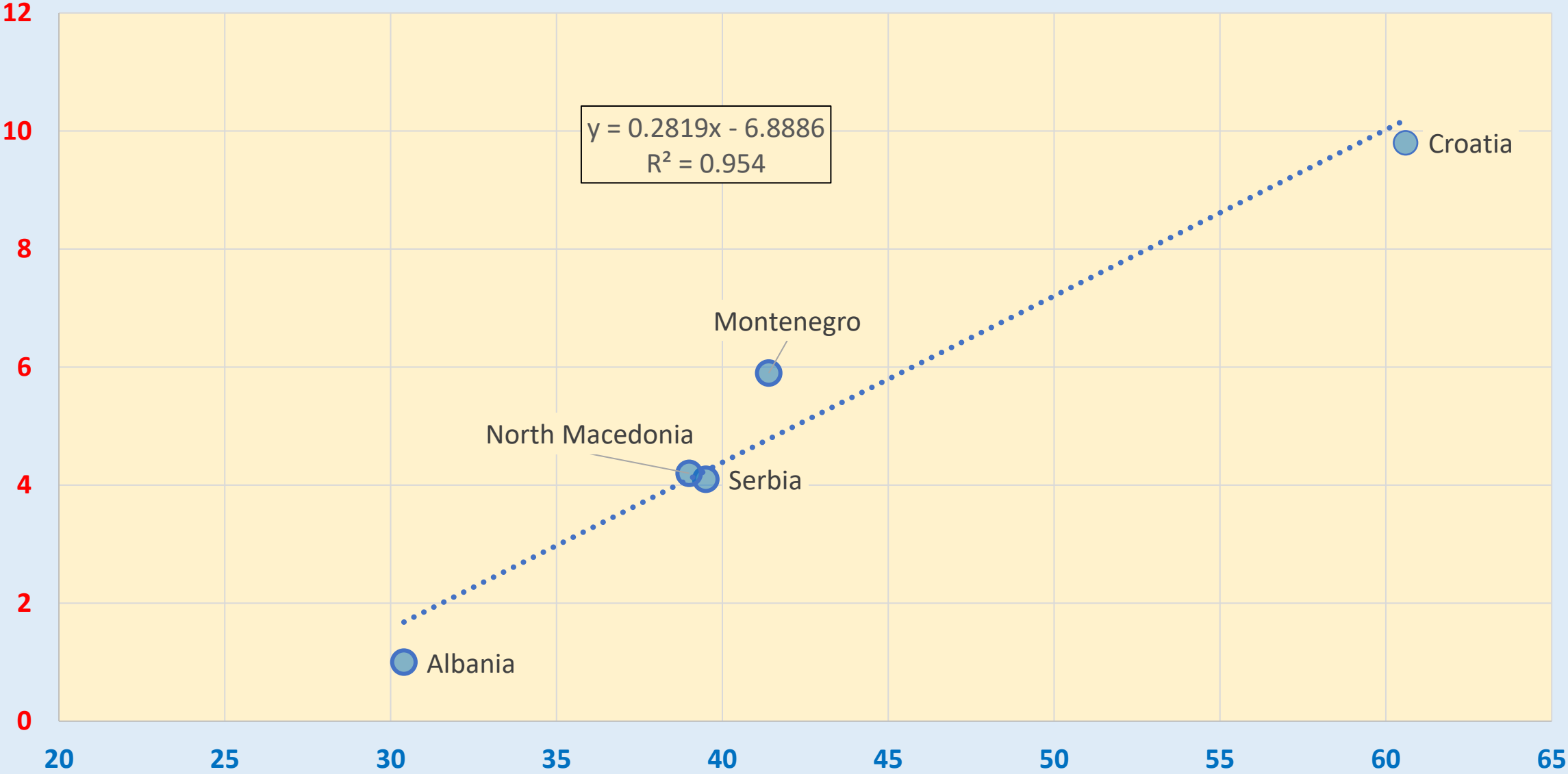
# Real GDP growth 2012-2023, WB6 & EU27 (%)



Relative GDP (absolute %) and (p.p. change) 2014-2021 (EU27=100)



# Relative GDP: pp change(2014-2021) vs. % of EU27(=100) (2014)



# Infrastructure, regional cooperation and growth in the Western Balkans

- The EU strategy for growth in the Western Balkans has changed over time from an emphasis on institutional reforms to a new emphasis on infrastructure investment
- This is in part due to perceived competition from “new actors” such as China and its Belt and Road Initiative, and its increasing investments in the region.
- This change in approach can be traced through the development of the Berlin Process:
  - Multi-annual Action Plan for a Regional Economic Area (MAP REA, 2017)
  - Common Regional Market (CRM, 2020)
  - Economic and Investment Plan (EIP, 2020)
  - New Growth Plan (NGP, 2023)

# MAP-REA

- Digital integration (Western Balkan roaming agreement)
- Mobility (mutual recognition of professional qualifications)
- Trade (additional CEFTA protocols on trade facilitation and services)
- Investment (Regional Investment Reform Agenda and regional investment promotion programme)
  - A response to post-eurozone-crisis competitive industrial policies introduced by individual economies, in particular North Macedonia and Serbia
  - These involved investor subsidies, tax breaks, and special economic zones; all designed to attract FDI, leading to allegations of a “race to the bottom”

## Industrial policies – attraction FDI to export processing zones

Industrial policies have been oriented to attracting foreign direct investment (FDI) for several years

In Serbia, Bosnia and North Macedonia, Special Economic Zones (SEZs) have been established to attract multi-national companies

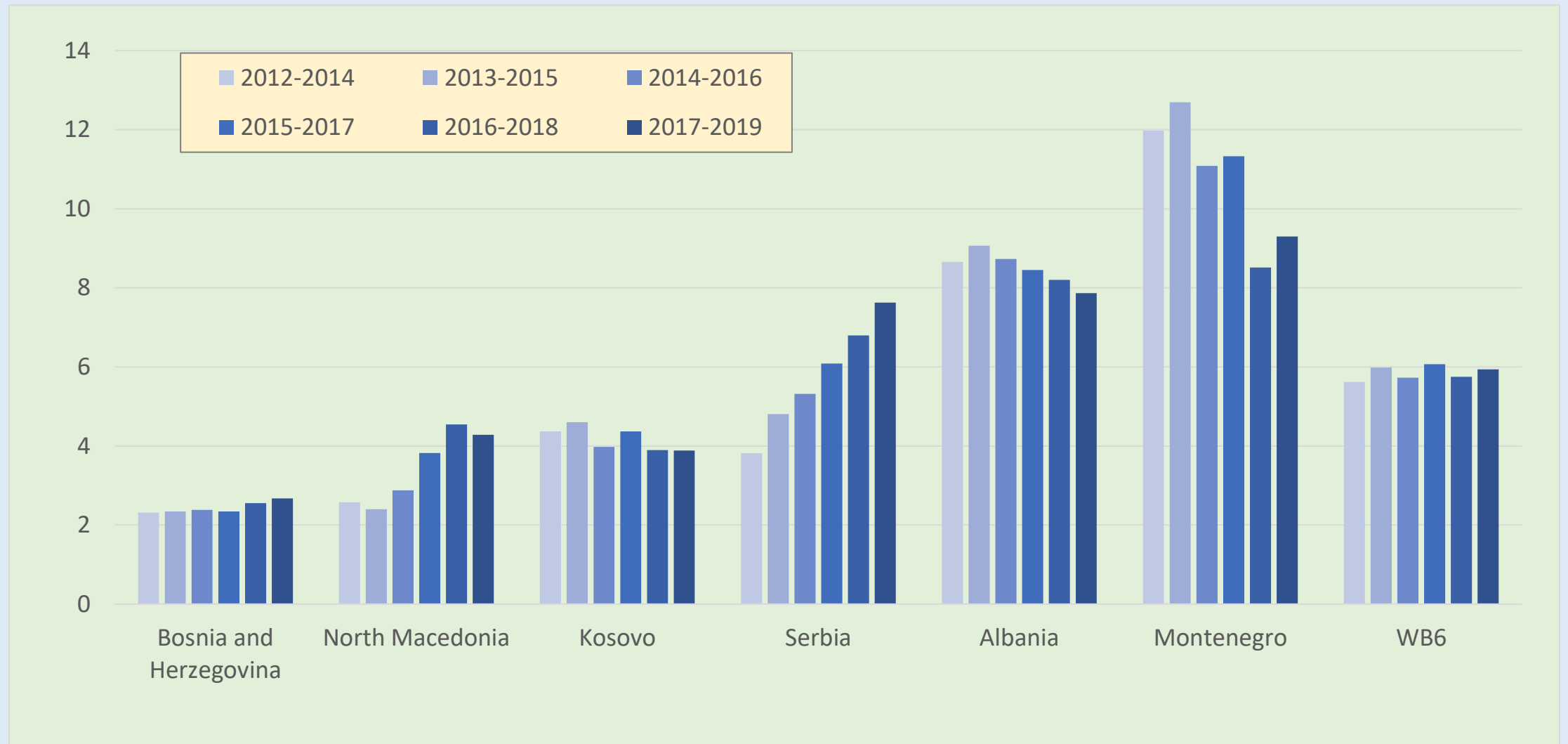
Industrial policy has been based on low corporate profit tax rates, and investment and employment subsidies

This has mainly been oriented towards efficiency-seeking investment

Country	Name of EPZ
Albania	“Technology and Economic Development Areas” (none active)
Bosnia	“Free Zones” (4 active SEZ)
Kosovo	“Industrial Zones” (no SEZ)
Macedonia	“Technological Industrial Development Zones (8 active SEZ)
Montenegro	“Free Zones” (2 active but not SEZ)
Serbia	“Free Zones” (14 active SEZ)

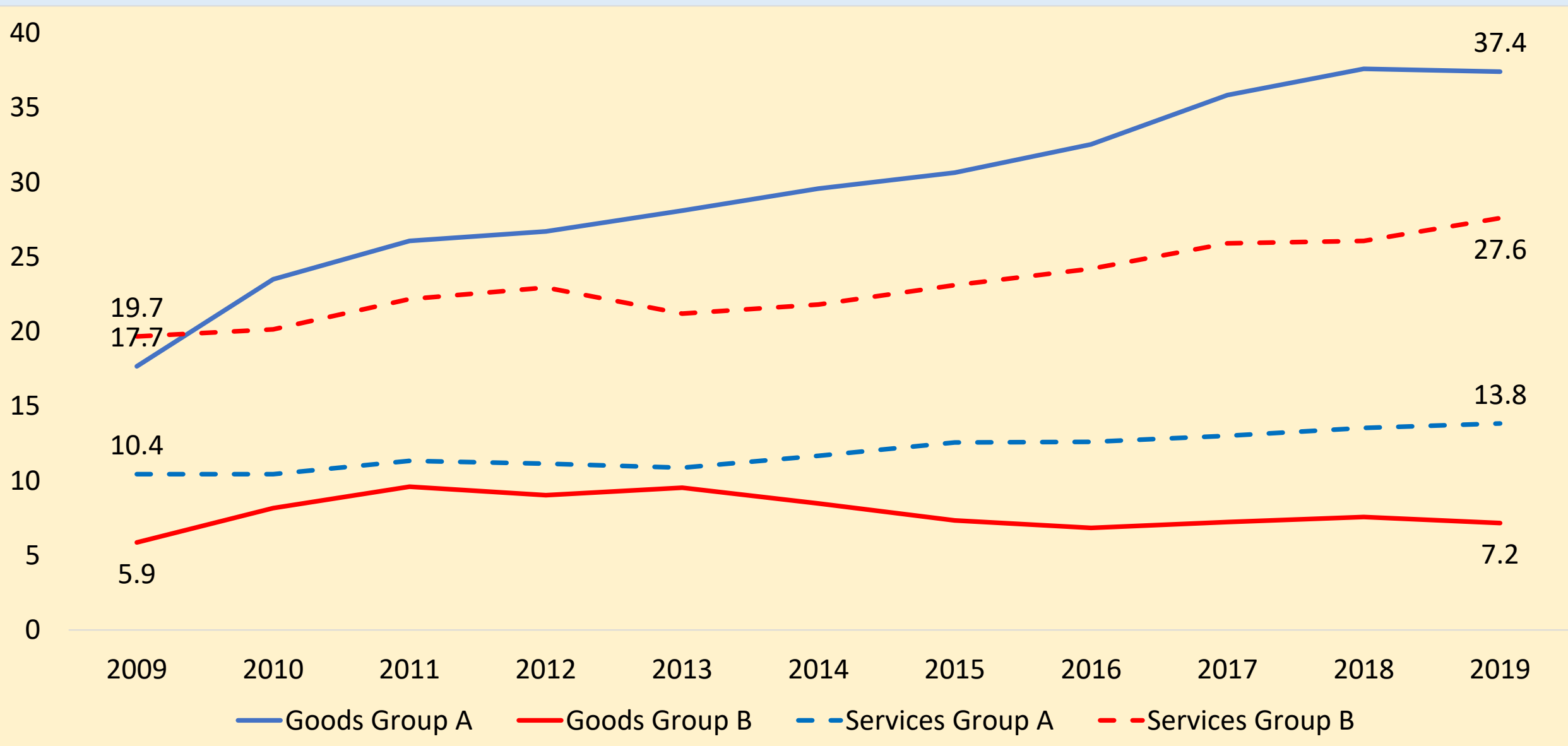


# FDI/GDP 3-year moving average (%), 2012-2019



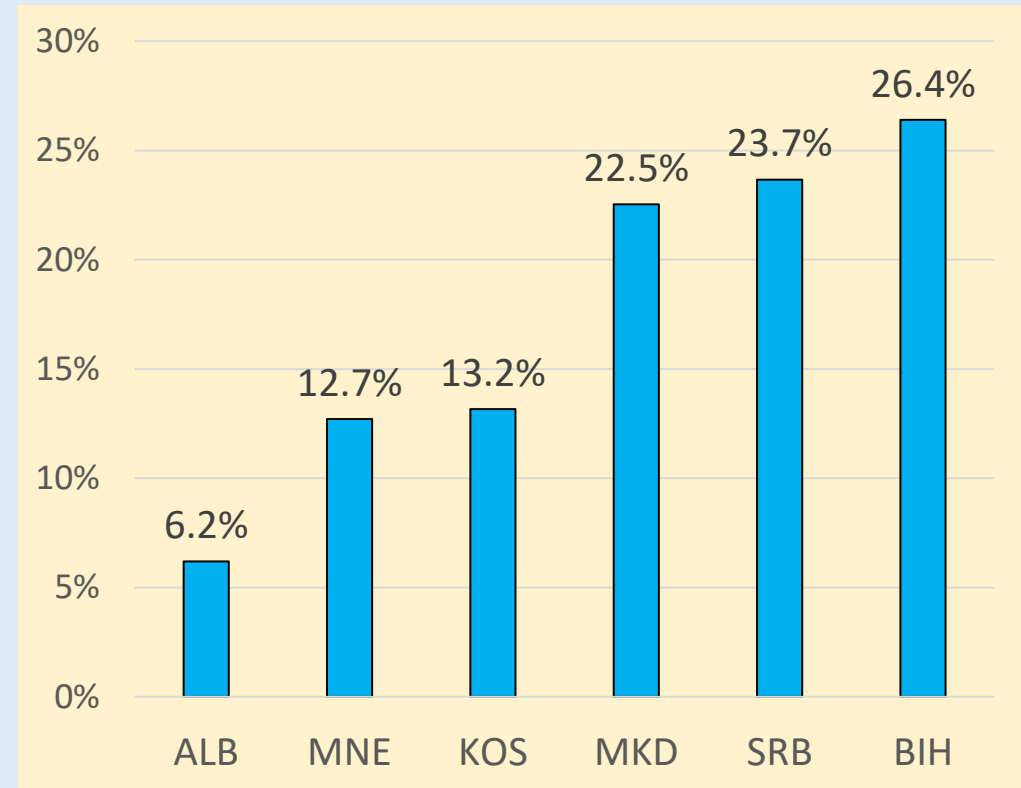
# Exports/GDP (%) goods trade vs. services trade

Country group: A (BA, MK, RS) and B (AL, XK, ME)



# Skill Shortages in the Western Balkans

- Since the economies have different economic structures, the pattern of skill shortages differs between them
- Severe skill shortages are found in more industrialised economies
- Skill shortages especially in ICT sectors
- Education systems are not well aligned with the needs of the labour markets
- *[Source: ILO - % under-educated from LFS, 2019]*



# Common Regional Market

- The CRM Action Plan consists of targeted measures along the four key areas:
  - Regional Trade Area
  - Regional Investment Area
  - Regional Digital Area
  - Regional Industrial and Innovation Area
- It is claimed that “the CRM will add 10% regional GDP to the Western Balkan economies over time” (EC factsheet on New Growth Plan)
  - However, the article by Gomez et al (2023) on which this is based only predicts a 1.5%-3.0% increase in real incomes (in the long run) from trade facilitation reforms.
  - It also predicts a 5% (or 7% with EU membership) from investment in “roads” over a ten-year period (not part of CRM as such).
  - Perhaps the 10% comes from adding the (max) 3% and the (max) 7%?

# Economic and Investment Plan

- The EUR 9 billion grants of EIP come from IPA III funding for the 2021-27 period (64.6 % of the planned seven-year allocations).
  - To be supplemented by EUR 20 billion loans from EIB, EBRD and others
- 10 Flagship projects organised within six overarching themes:
  - sustainable transport
  - clean energy
  - environment and climate
  - digital future
  - private sector
  - human capital
- The aim is to boost economic growth in the region by investing in infrastructure, the
- Almost 50 % of the WBIF portfolio quotes railways and roads as the largest sub-sectors.
- The EIP aims to supplement the Common Regional Market (CRM) programme

# New Growth Plan (NGP)

- A €6 billion Reform and Growth Facility for the Western Balkans for 2024-2027, combining grants and concessional loans. This complements the IPA III.
  - €2 billion grants + €4 billion of concessional loans
  - €3 billion through WBIF + €3 billion to Governments based on reforms
- Enhancing economic integration with the EU Single Market
- Boost regional integration through CRM
- Accelerating the reforms through “Reform Agendas” to:
  - Improve economic growth including through attracting foreign investments
  - Help the Western Balkans partners move ahead towards EU membership

# Conclusion

- With the IPA III, the EIP, the CRM and the NGP, the European Commission has made a significant policy shift in its support for the Western Balkans
  - This shift is away from institutional reform to a greater focus on economic growth through regional cooperation and infrastructure investments
- However, there are at least two distinct growth models in the region, one based on a service economy and the other on a manufacturing economy
  - The latter relies heavily on subsidy-based FDI attraction policies, the former on tourism and labour export
- The the EIP, the CRM and the NGP may not succeed if a “one size fits all” approach to economic growth is applied to the region

Thank you for your attention