

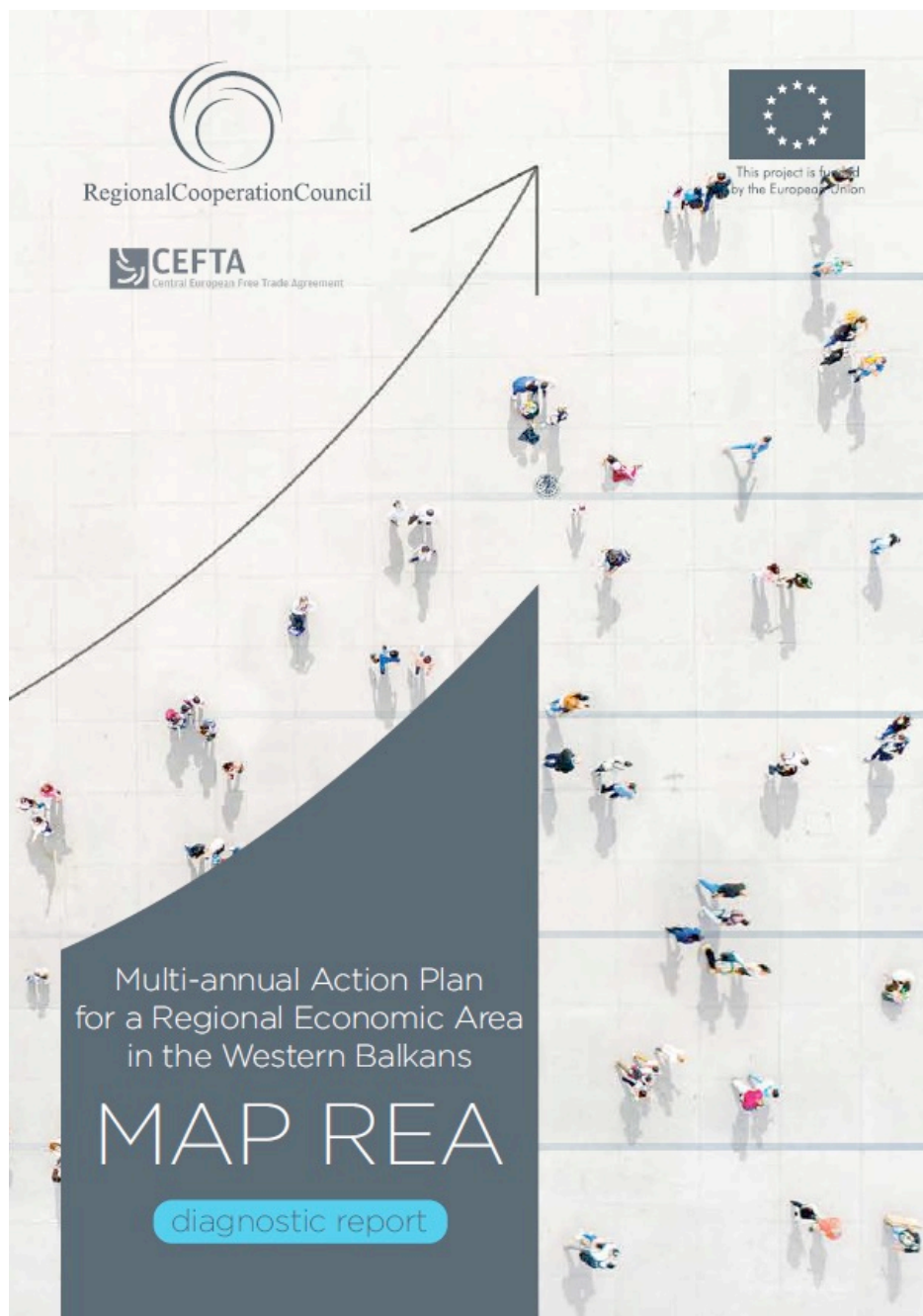
3rd LSEE-CEFTA Academic Network Workshop

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# The Regional Economic Area in the Western Balkans and the CEFTA 2006 agreement

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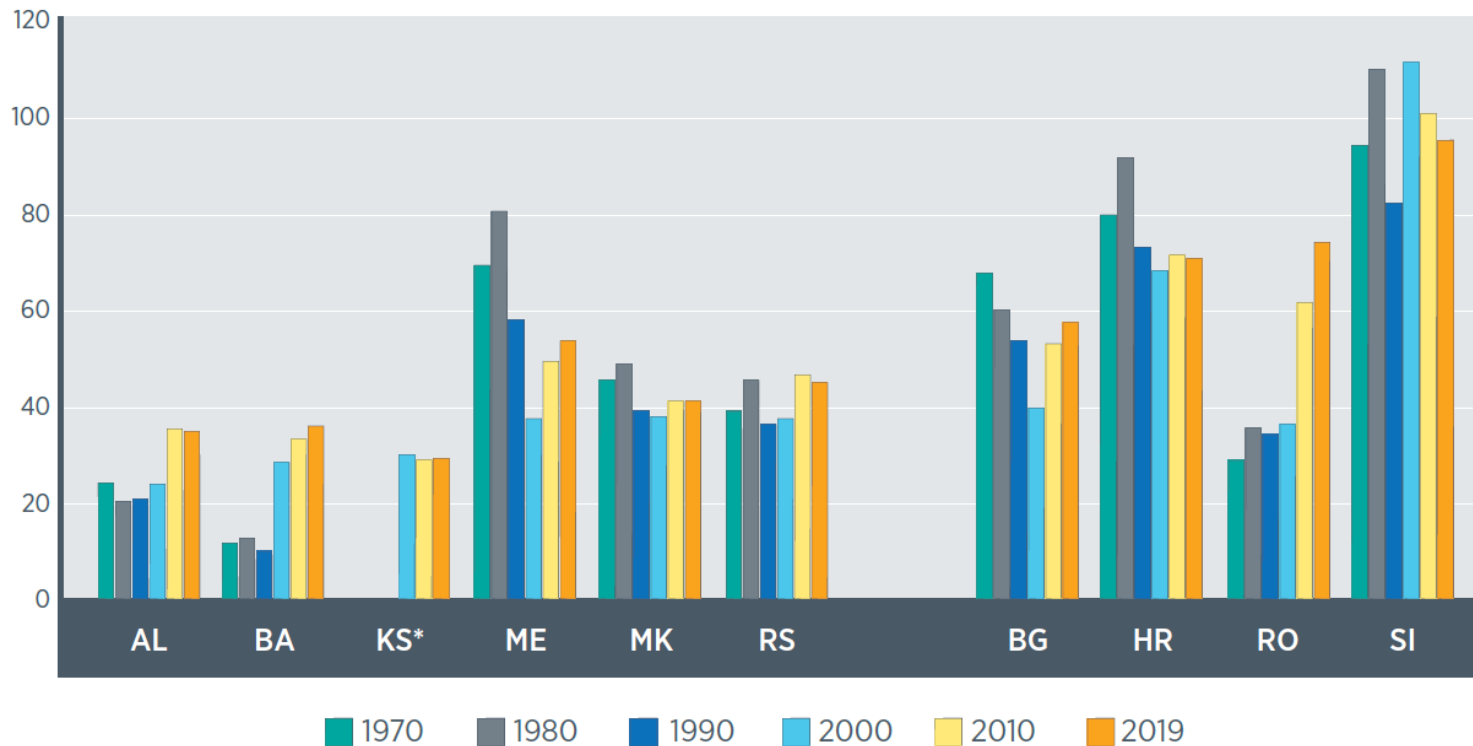


## Contents

1. Introduction	5
2. Trade component	16
2.1. Context	16
2.2. Measurable indicators	22
2.3. State of play for each measure	35
2.4. Potential new measures, actions and objectives	44
2.5. Potential new data, analysis and monitoring tools	47
3. Investment component	49
3.1. Context	49
3.2. Measurable indicators	53
3.3. State of play for each measure	62
3.4. Potential new measures, actions and objectives	67
3.5. Potential new data, analysis and monitoring tools	70
4. Mobility component	72
4.1. Context	72
4.2. Measurable indicators	81
4.3. State of play for each measure	98
4.4. Potential new measures, actions and objectives	103
4.5. Potential new data, analysis and monitoring tools	107
5. Digital Component	111
5.1. Context	111
5.2. Measurable indicators	117
5.3. State of play for each measure	124
5.4. Potential new measures, actions and objectives	136
5.5. Potential new data, analysis and monitoring tools	138
6. Lessons learned from MAP REA	141
7. Summary and policy recommendations	144
7.1. Future regional economic agenda	145
8. Bibliography	157

## Slow convergence after major setbacks

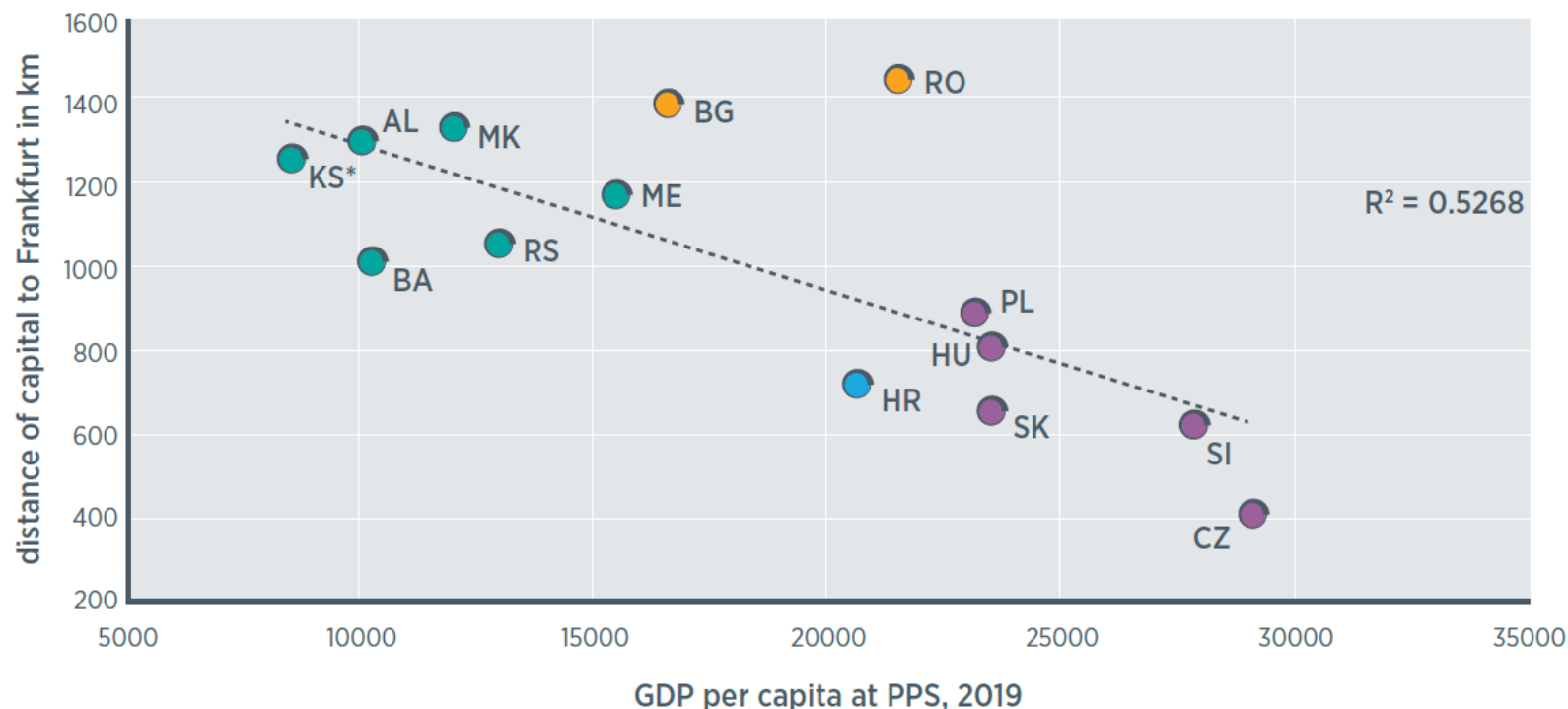
**Figure 1.1** / GDP per capita at PPP in Southeast European economies, in % of Czech level, 1970-2019



Source: Maddison Project Database 2018 before 2000; wiiw Annual Database 2000 and later.

## Geography matters for growth – integration too

**Figure 1.2** / GDP per capita in EUR at PPS in 2019 and distance of capital city to Frankfurt in kilometres

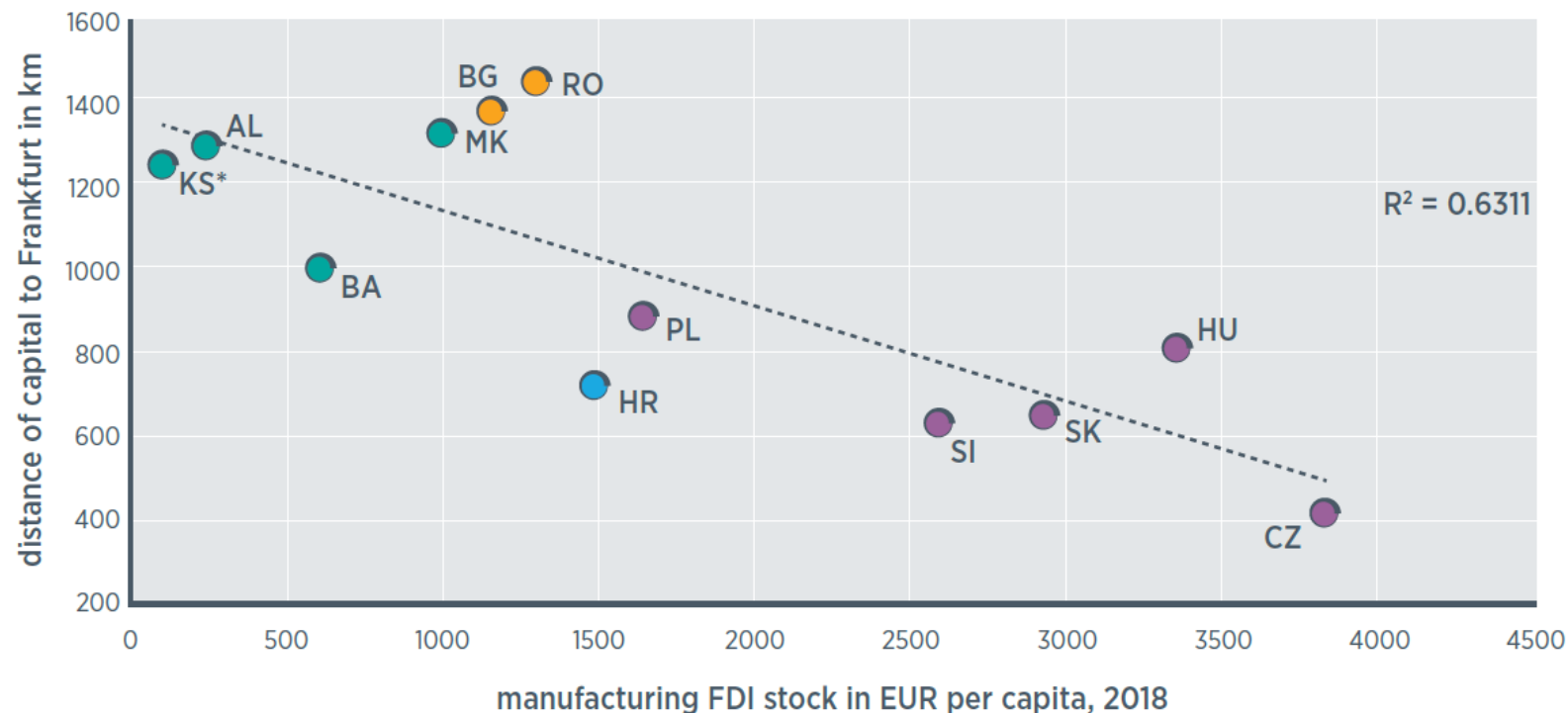


**Note:** PPS = Purchasing Power Standards;  $R^2$  = goodness of fit of a linear regression model (1 = 100%); colours of markers refer to EU accession status and dates: green = (potential) candidates, light blue = accession 2013, medium blue = 2007 accession, dark blue = 2004 accession.

Source: *luftlinie.org*, *wiiw Annual Database*.

## Geography matters for FDI – integration too

**Figure 1.3** / Manufacturing FDI stock per capita in EUR in 2018 and distance of capital city to Frankfurt in kilometres

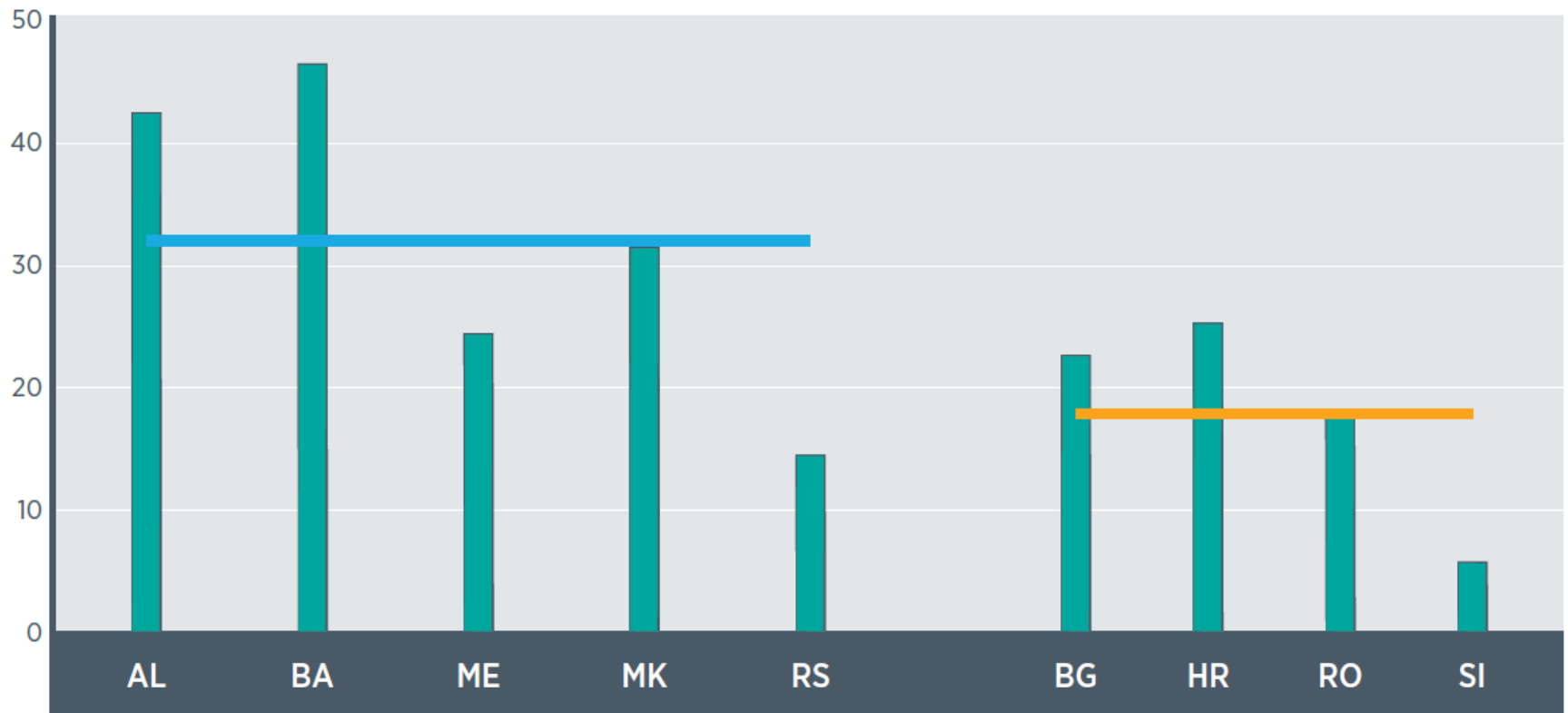


**Note:** Slovakia 2017; manufacturing FDI stock data is missing for Montenegro and Serbia;  $R^2$  = goodness of fit of a linear regression model (1 = 100%); colours of markers refer to EU accession status and dates: green = (potential) candidates, light blue = accession 2013, medium blue = 2007 accession, dark blue = 2004 accession.

Source: *luftlinie.org*, *wiiw FDI Database*.

## A new growth model is needed, but difficult without youth

**Figure 1.4** / Outward migrant stock in % of domestic population of origin, 2019

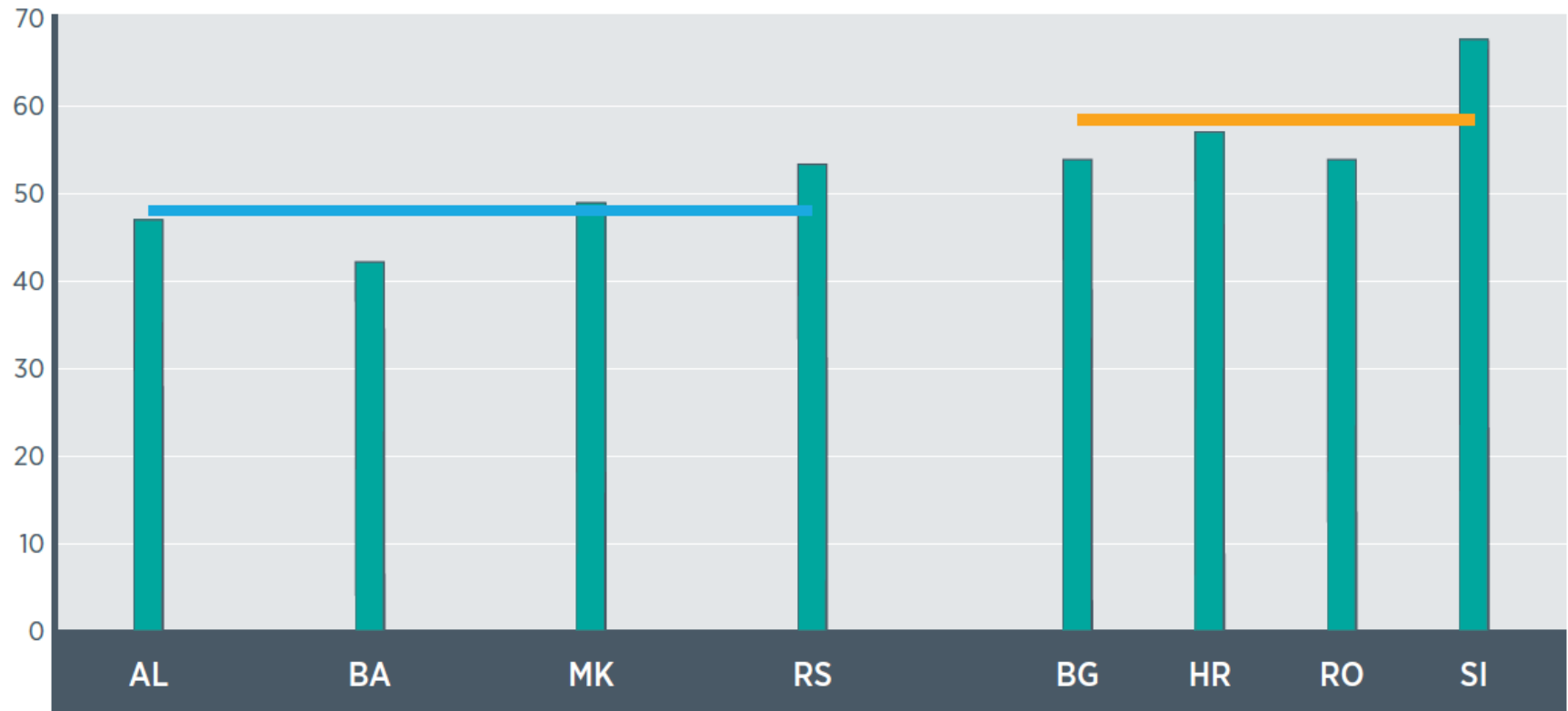


**Note:** Horizontal lines represent the averages of the two SEE economies' sub-groups.

*Source: UN Population Division, wiiw Annual Database.*

## Despite tech boom pockets, low readiness for digital economy

Figure 1.5 / Network Readiness Index, 2019

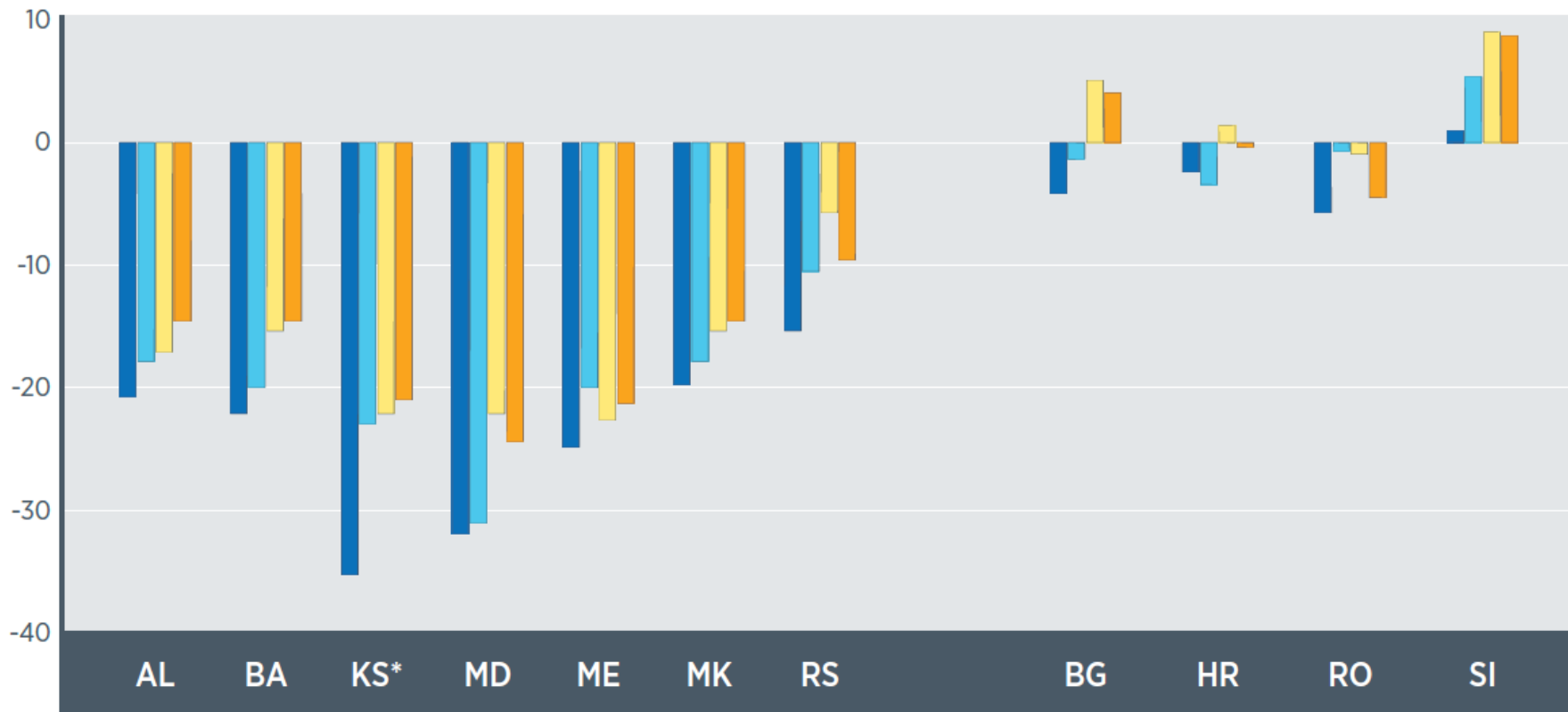


**Note:** Score from 0 to 100 (maximum possible).

Source: [networkreadinessindex.org](http://networkreadinessindex.org).

## Persistent (though diminishing) lack of export capacities

**Figure 1.6** / Trade balance on goods and services, in %, 2010, 2013, 2016, 2019



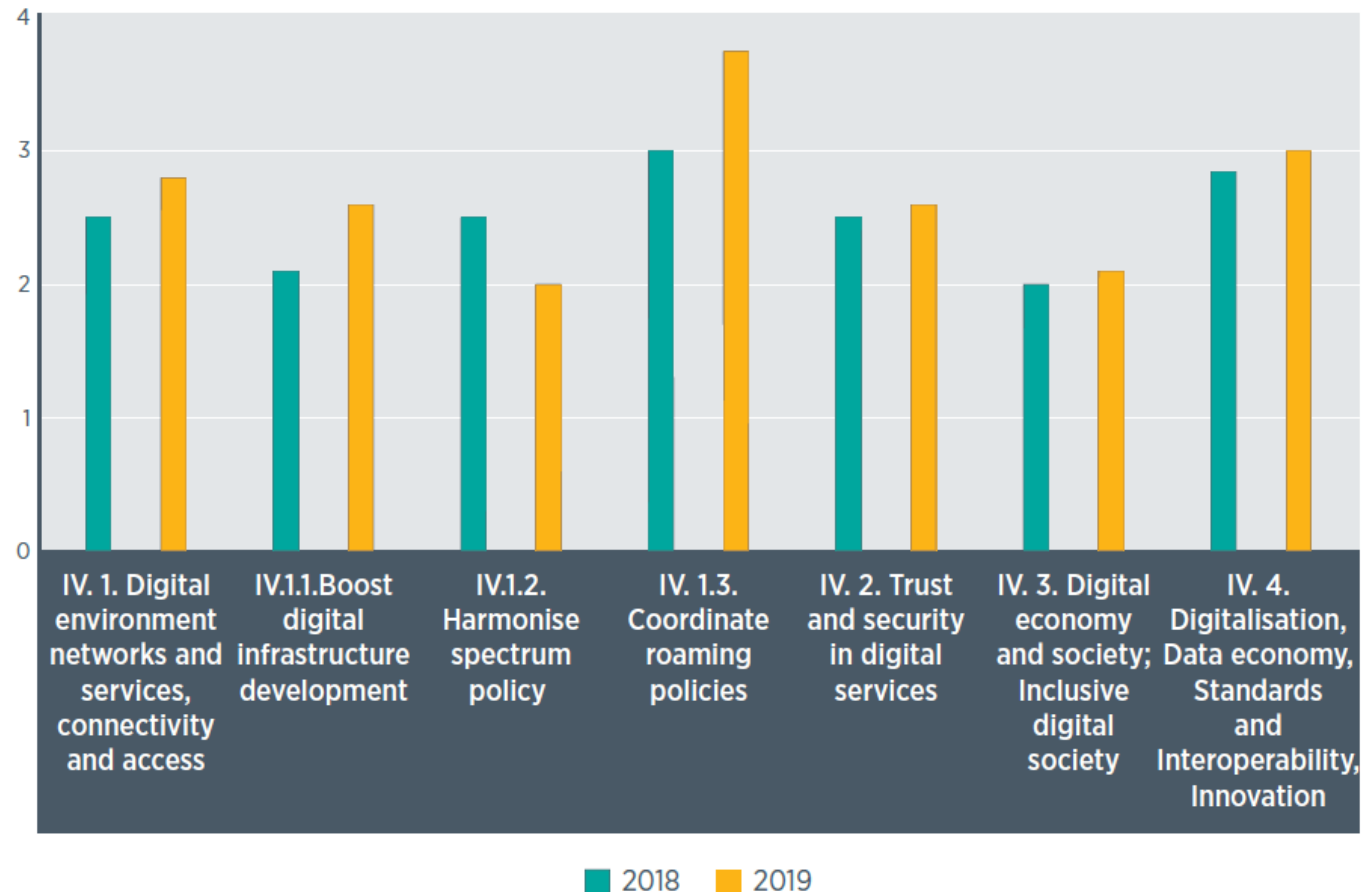
**Note:** Moldova (MD) is a party to the CEFTA agreement.

*Source: wiiw Annual Database.*



# Digital agenda progress, but lack of finance and HR in admin

**Figure 5.2 / Digitalisation – State of Preparedness of MAP REA Implementation**

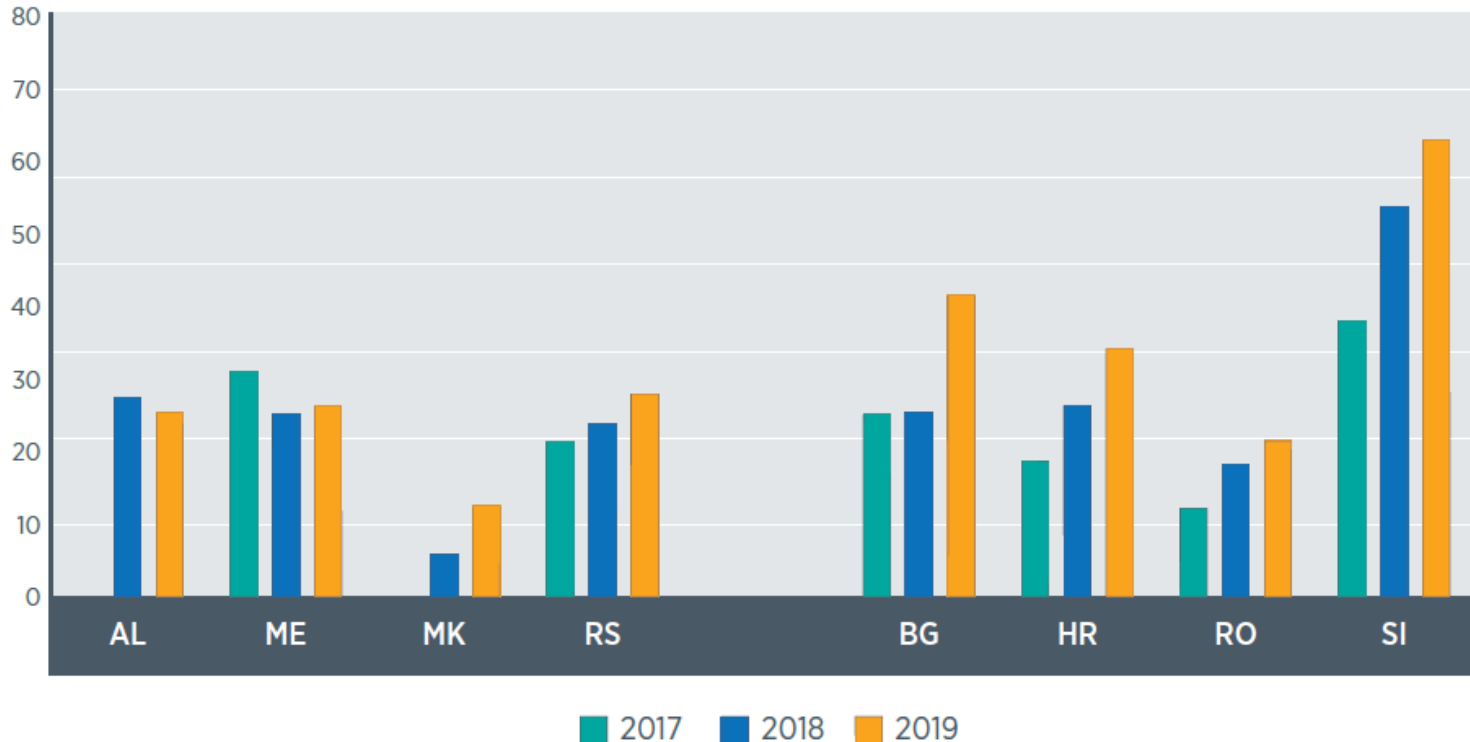


**Note:** Scoring assesses the stage of preparedness in MAP REA implementation in line with the respective Methodology for Monitoring and Reporting, and as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).

Source: RCC (2019d).

## Low involvement in e-gov activities (yet BODI as an USP?)

**Figure 5.8** / e-Government Benchmark, Key enablers\*, Score (0 to 100)

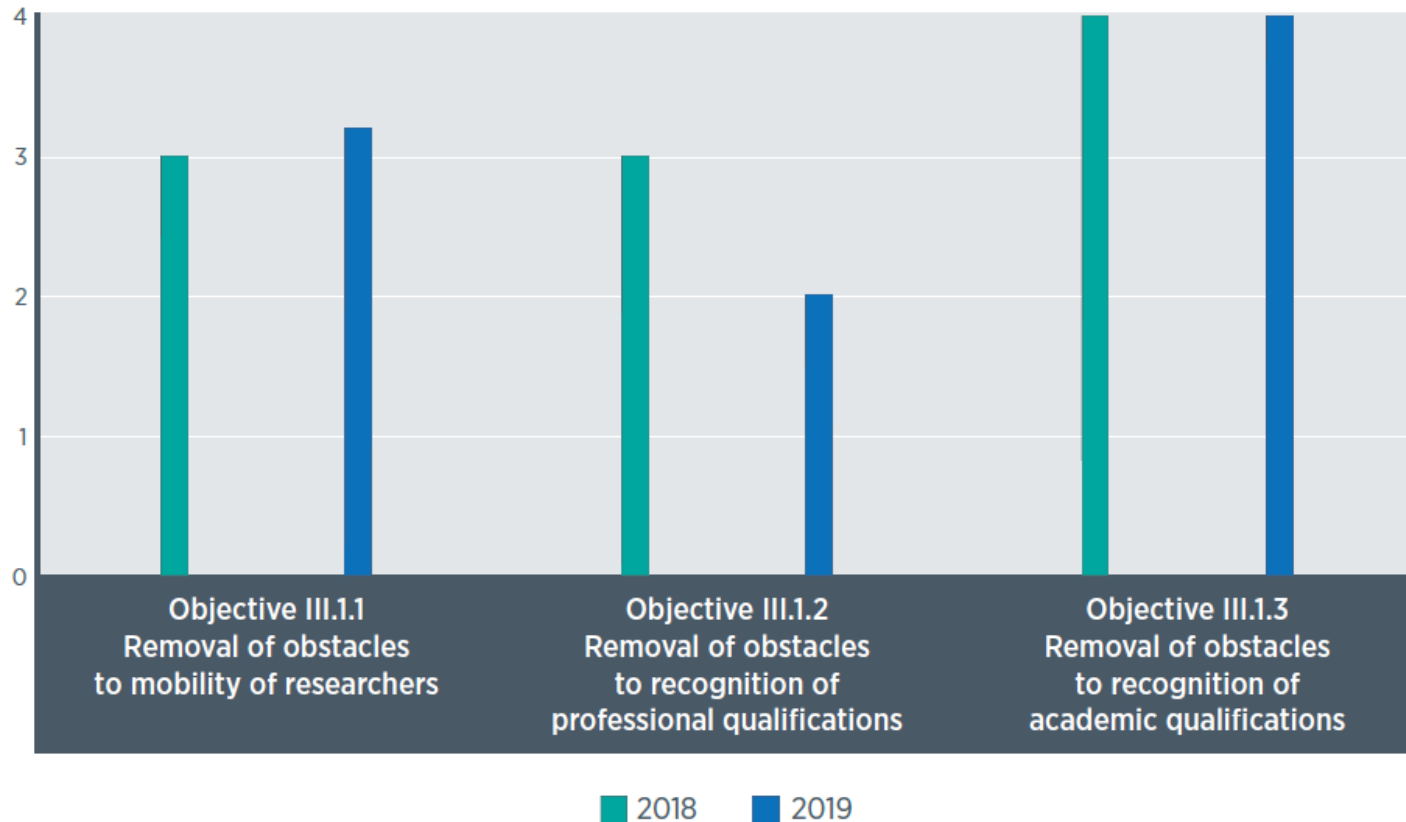


**Notes:** \*The extent to which technical pre-conditions for eGovernment service provision are used. The key enablers used for measuring the quality of the services to businesses and citizens are: a) Electronic Identification (eID) b) Electronic Documents (eDocuments), c) Authentic Sources, D) Digital Post.

Source: European Commission e-Government Benchmark, <https://digital-agenda-data.eu/>

# Limited improvement in removing regional mobility obstacles

**Figure 4.3** / Mobility - State of Preparedness of MAP REA Implementation

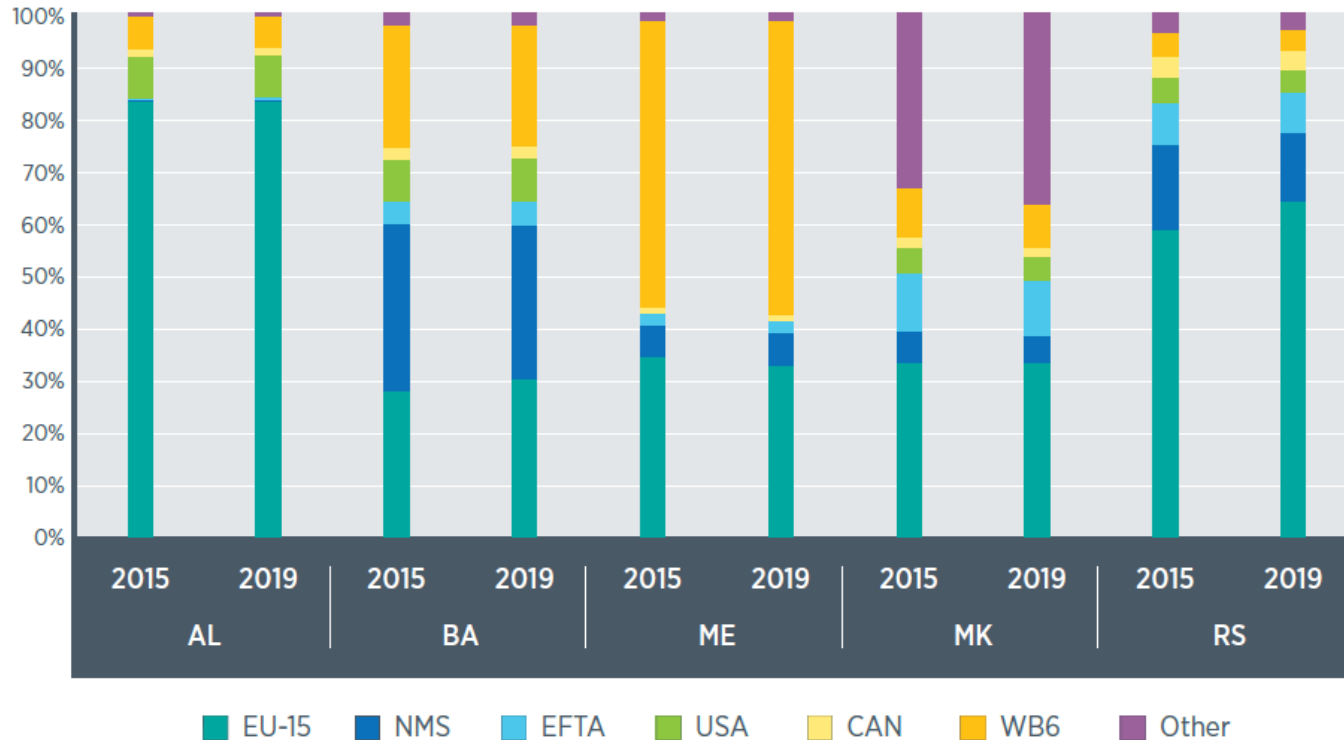


**Note:** the scoring system indicates the stage of progress of the objectives as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).

Source: MAP REA annual report 2019

# Low importance of regional mobility

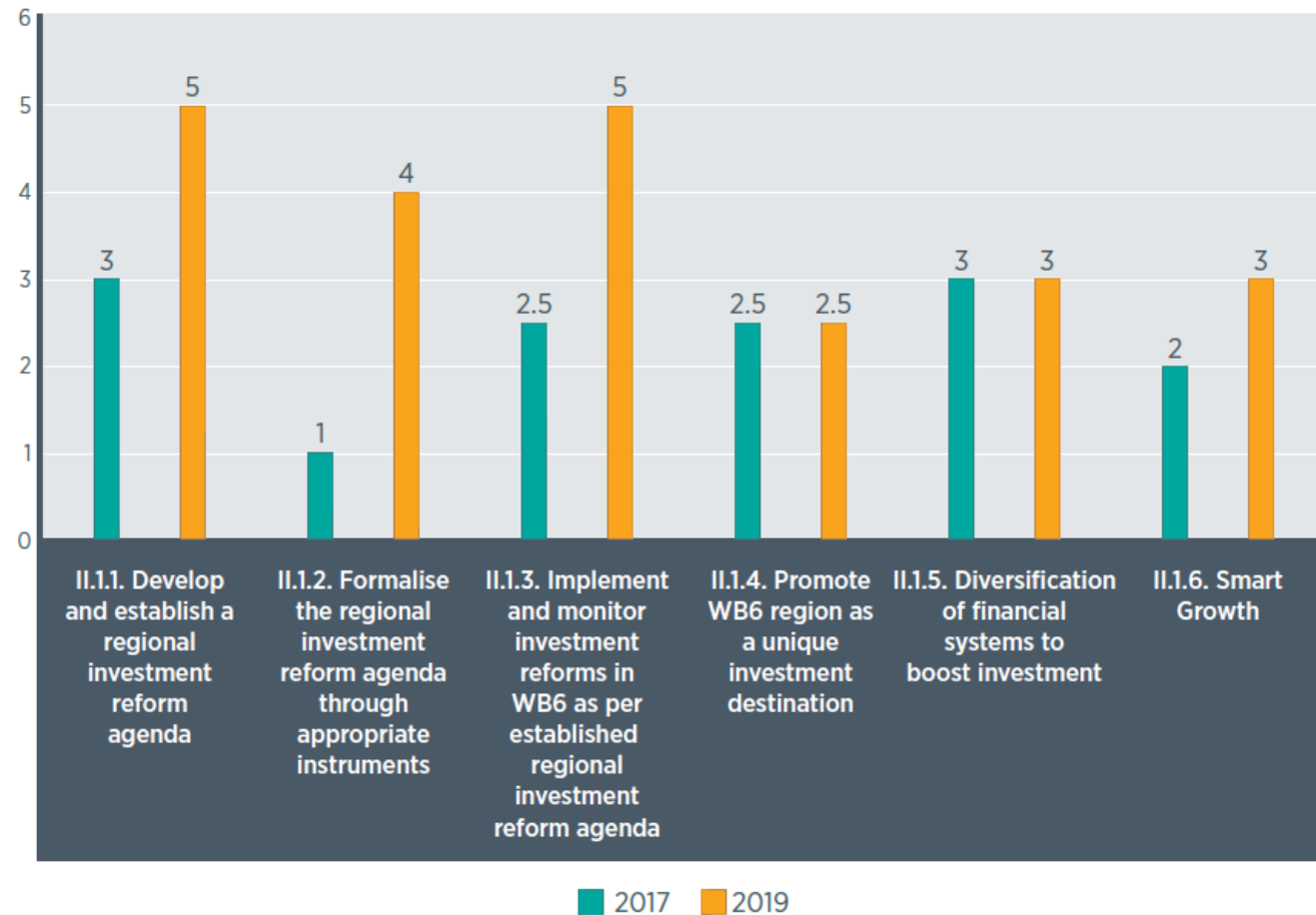
**Figure 4.4** / Overall mobility: main destinations of emigrants from the WB, 2015-2019



Source: UN Statistics (2019)<sup>53</sup>, Data for Serbia includes Kosovo\*. Note: AL (Albania), BA (Bosnia and Herzegovina), ME (Montenegro), MK (the Republic of North Macedonia), RS (Serbia). EU-15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden and the UK; NMS includes the group of economies joining the EU by 2004 onwards – Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Hungary, Romania, Slovenia, Slovakia; EFTA includes Norway, Switzerland and Iceland; WB6 includes Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, the Republic of North Macedonia and Serbia. CAN (Canada).

# Marked progress in regional investment reform agenda

**Figure 3.1 / Investment - State of Preparedness of MAP REA Implementation**

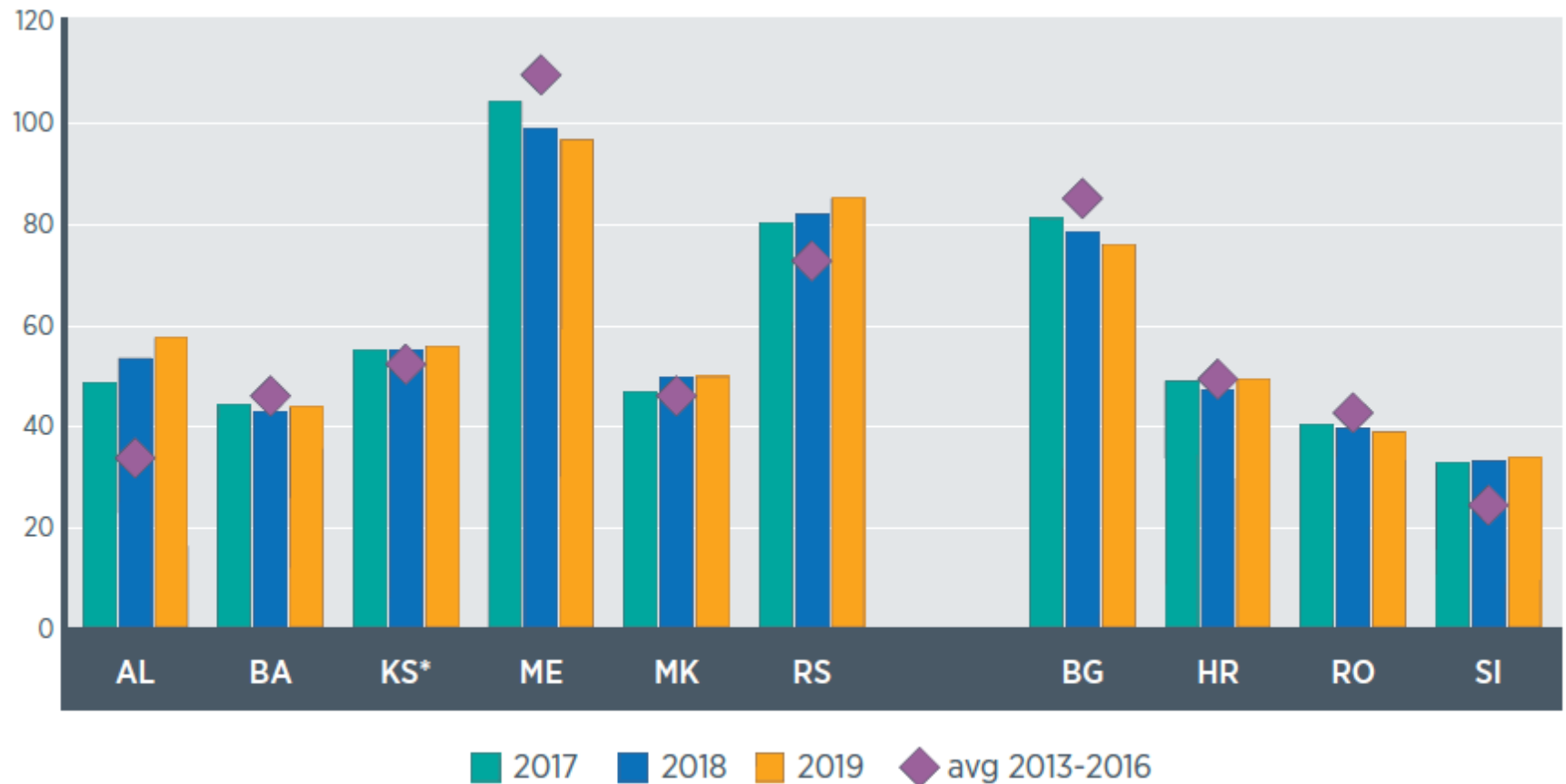


**Note:** the scoring system indicates the stage of progress of the objectives as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (score 3); good level of preparation (score 4) and well advanced (score 5).

Source: MAP REA annual report 2019

## Region has recently attracted FDI

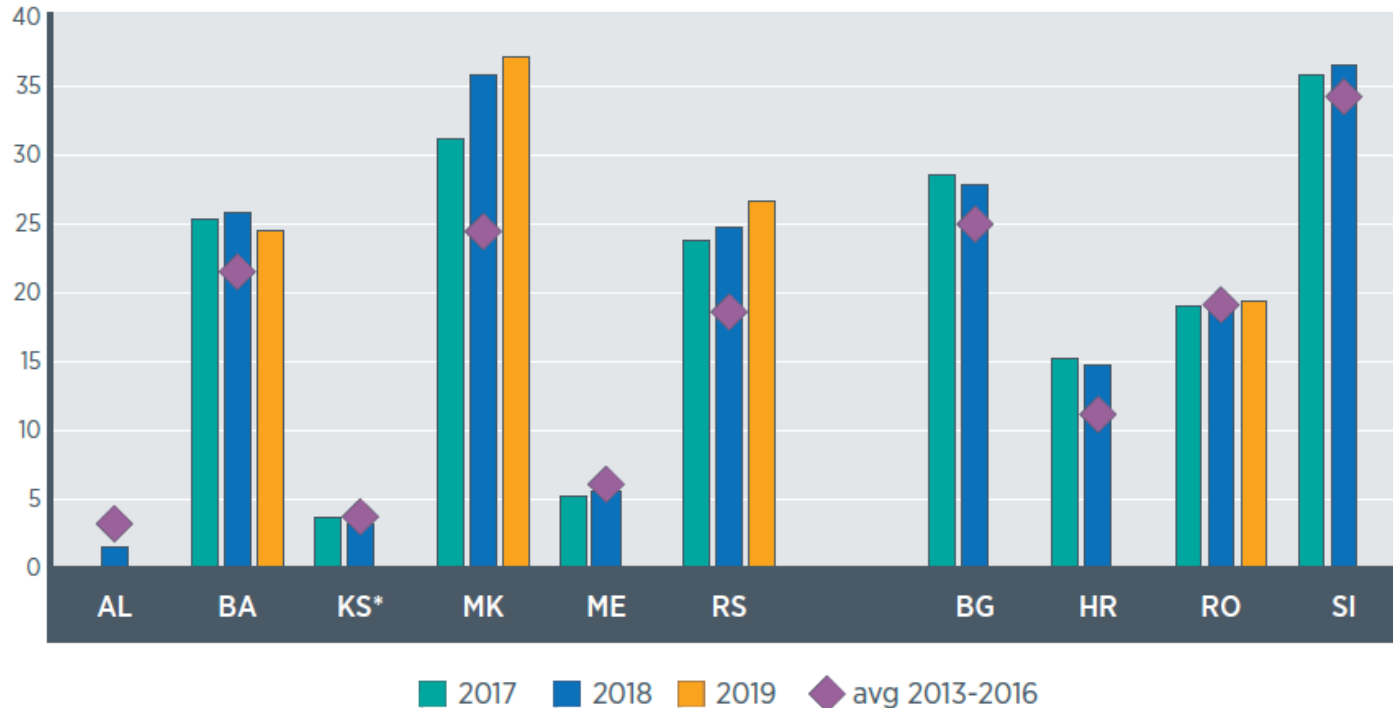
*Inward FDI stock, % of GDP*



*Source: wiiw FDI database.*

## BA, MK, RS becoming part of the global value chain

*Exports of intermediate goods, % of GDP*



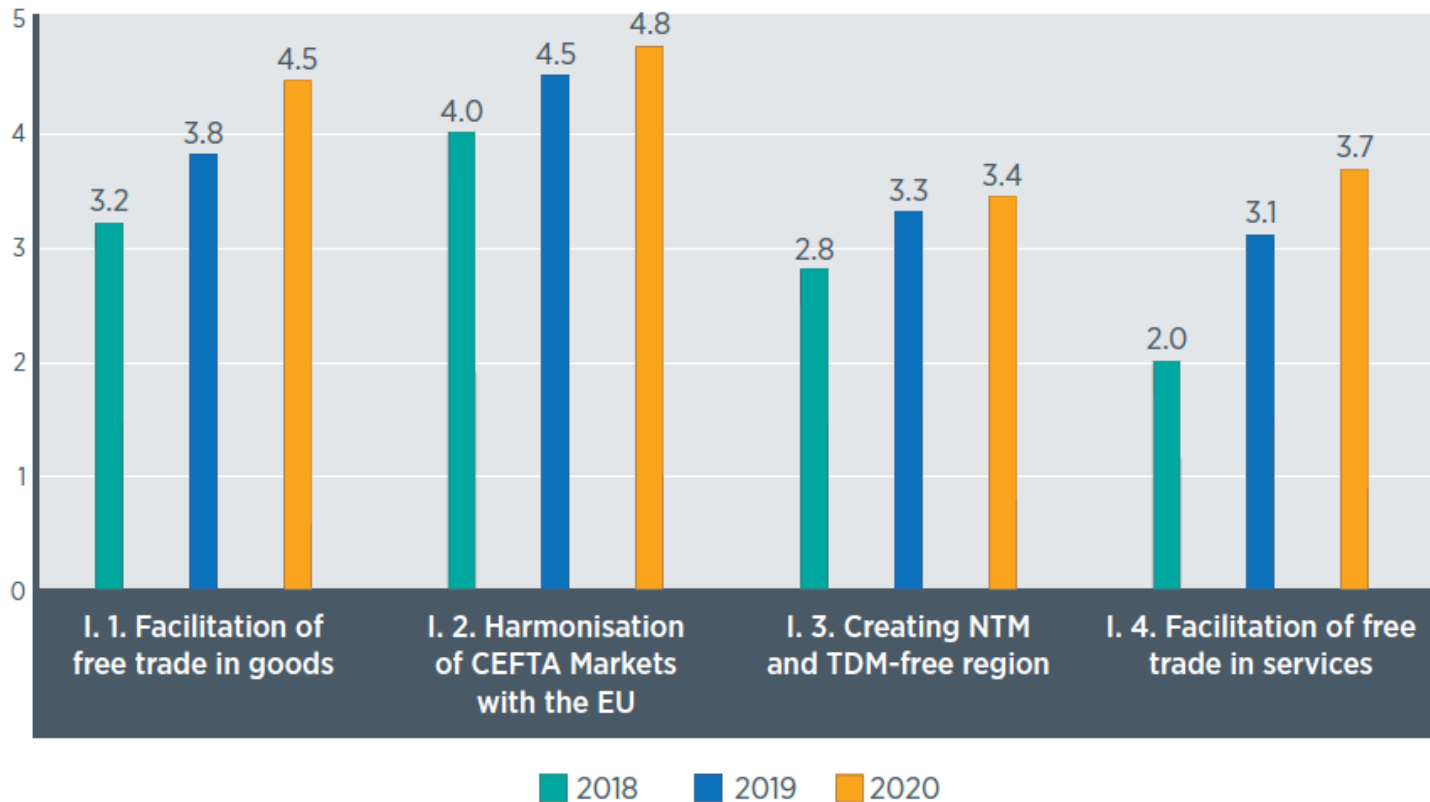
**Note:** Intermediate goods are defined based on the following broad economic categories (BEC): 121 Food and beverages, processed, mainly for industry, 22 Industrial supplies not elsewhere specified, processed, 322 Fuels and lubricants, processed (other than motor spirit), 42 Parts and accessories of capital goods (except transport equipment), 53 Parts and accessories of transport equipment.

Data for all economies except Kosovo\* is retrieved from Comtrade due to the availability of more recent observations; data for Kosovo\* stems from Comext

Source: UN Comtrade, Comext, wiiw, own calculations

## Steady progress in all regional trade policy areas

**Figure 2.1 / Trade – State of Preparedness of MAP REA Implementation**



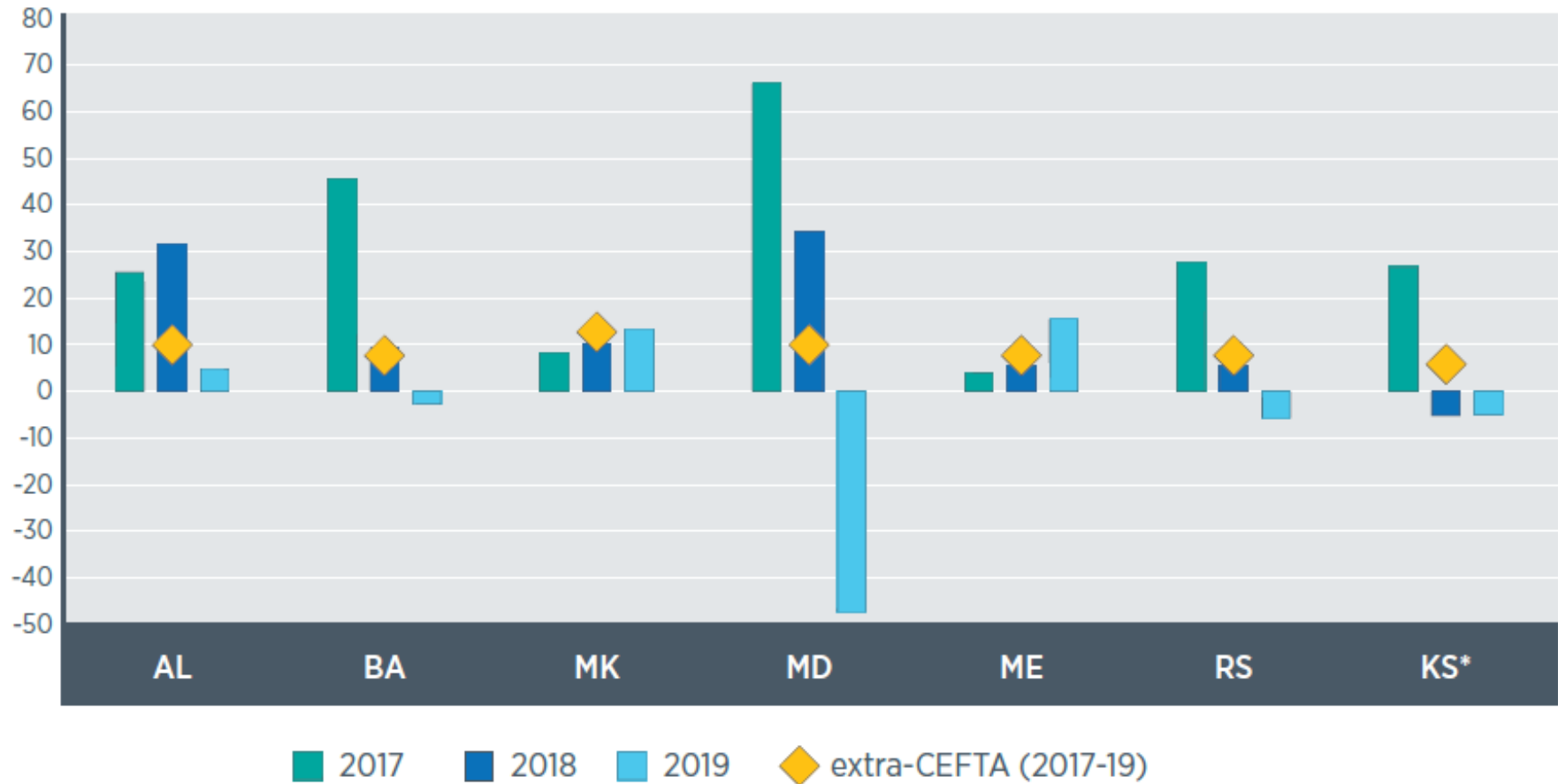
**Note:** Scoring assesses the stage of preparedness in MAP REA implementation in line with the respective Methodology for Monitoring and Reporting and as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).



# Low share and weak dynamics of intra-CEFTA trade

**Figure 2.4:** Growth rates of intra-CEFTA merchandise trade

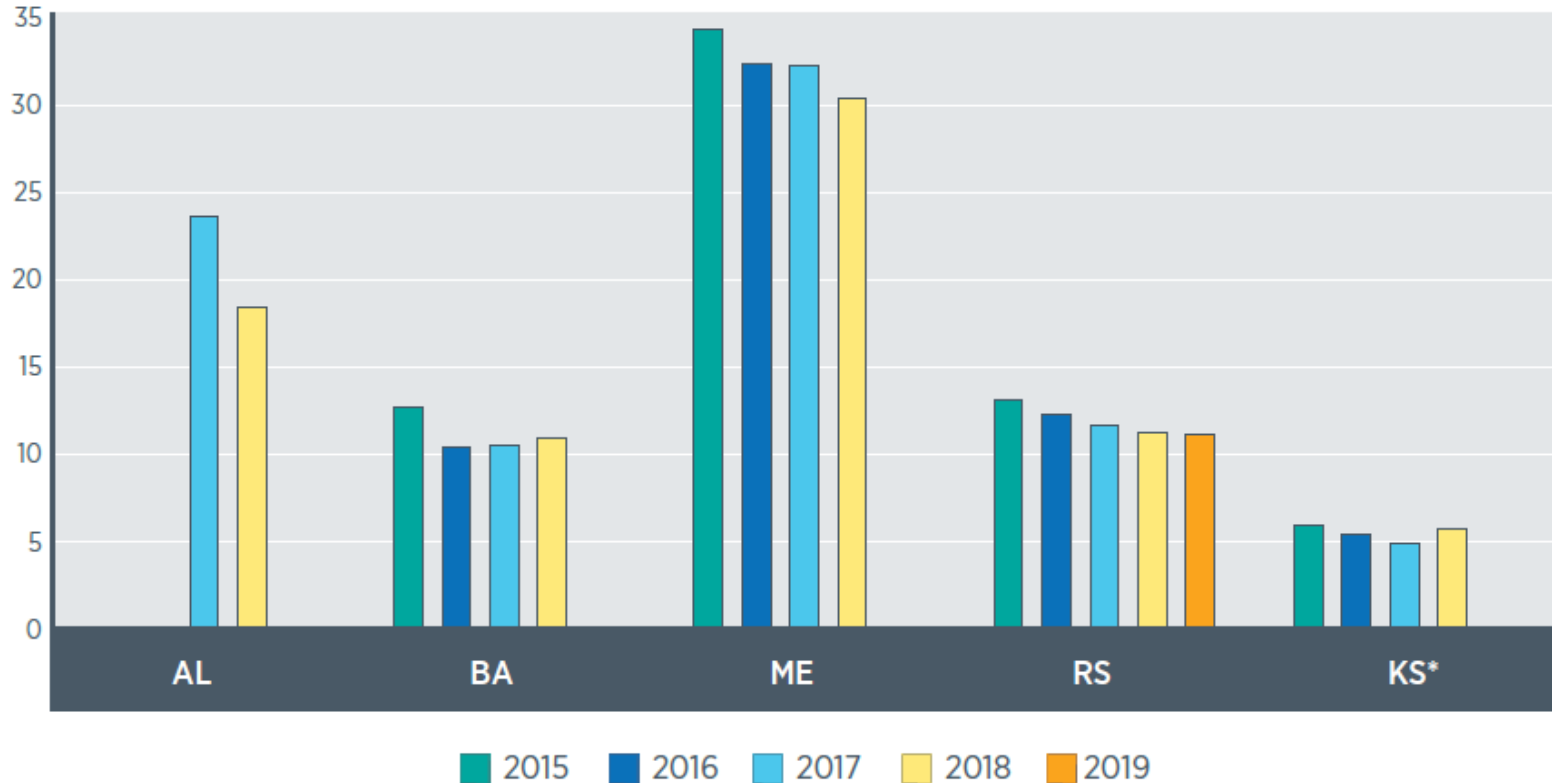
*Growth rates of intra-CEFTA merchandise exports*



Source: wiiw

## Also, room for improvement of regional services trade

**Figure 2.9** / Services exports to CEFTA, in % of total services exports



**Note:** BOP6. Moldova not included 2015 and 2017; Serbia: Trade with Kosovo\* not included. No bilateral trade data available for North Macedonia and Moldova.

*Source: wiiw Annual Database, CEFTA Database.*



## Pushing on a string?

An evaluation of regional economic cooperation in the Western Balkans

# Research Report 450

SEPTEMBER 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

Richard Grieveson, Mario Holzner

EASTERN EUROPEAN ECONOMICS  
2021, VOL. 59, NO. 1, 3–24  
<https://doi.org/10.1080/00128775.2020.1846130>



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### Regional Economic Cooperation in the Western Balkans: The Role of Stabilization and Association Agreements, Bilateral Investment Treaties and Free Trade Agreements in Regional Investment and Trade Flows

Richard Grieveson<sup>a</sup>, Mario Holzner<sup>a</sup>, and Goran Vukšić<sup>b</sup>

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#### ABSTRACT

This study explores the role of stabilization and association agreements (SAAs), bilateral investment treaties (BITs) and free trade agreements (FTAs) in the Western Balkans and their impact on the region's inward foreign direct investment (FDI) and exports, with primary interest in the effects on intra-regional FDI and trade. Results show that BITs were not related to intra-regional FDI, nor to the FDI from other countries. The Central European Free Trade Agreement (CEFTA) contributed to increased intra-regional trade. Finally, the SAAs turn out to be highly significant for FDI from the EU to signee countries, and their exports to the EU.

#### KEYWORDS

Free trade agreements; bilateral investment treaties; economic cooperation; western Balkans

#### JEL classification

F13; F14; F21; F53

## CEFTA had more of an impact than other FTAs

**Table 7.** Exports, SAAs and FTAs.

	(1)	(2)	(3)	(4)	(5)
<i>EU</i>	0.33*** (0.04)	0.35*** (0.04)	0.34*** (0.04)	0.32*** (0.04)	0.33*** (0.04)
<i>SAA</i>	0.53*** (0.03)		0.54*** (0.03)	0.53*** (0.03)	0.53*** (0.03)
<i>FTA</i>	0.24*** (0.03)	0.24*** (0.03)			
<i>SAA_WB</i>		0.22*** (0.05)			
<i>SAA_no_WB</i>		0.58*** (0.04)			
<i>FTA_WB1</i>			0.13** (0.05)		
<i>FTA_no_WB1</i>			0.25*** (0.03)		
<i>CEFTA</i>				0.32*** (0.06)	
<i>FTA_no_CEFTA</i>				0.23*** (0.03)	
<i>FTA_WB2</i>					-0.06 (0.10)
<i>FTA_no_WB2</i>					0.24*** (0.03)
exporter-time FE	yes	yes	yes	yes	yes
importer-time FE	yes	yes	yes	yes	yes
bilateral FE	yes	yes	yes	yes	yes
observations	18,083	18,083	18,083	18,083	18,083

Robust standard errors clustered by host-home pairs in parentheses; \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## CEFTA effects were much bigger when excluding Serbia

**Table 8.** CEFTA – sample variations.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sample without:	AL	BA	XK	ME	MK	RS	HR	MD	HR&MD
<i>EU</i>	0.33*** (0.04)	0.33*** (0.04)	0.33*** (0.04)	0.32*** (0.04)	0.32*** (0.04)	0.37*** (0.04)	0.40*** (0.04)	0.32*** (0.04)	0.41*** (0.04)
<i>SAA</i>	0.54*** (0.03)	0.57*** (0.04)	0.54*** (0.03)	0.54*** (0.03)	0.53*** (0.04)	0.59*** (0.04)	0.64*** (0.04)	0.54*** (0.03)	0.64*** (0.04)
<i>CEFTA</i>	0.30*** (0.06)	0.26*** (0.09)	0.30*** (0.06)	0.32*** (0.06)	0.36*** (0.05)	0.53*** (0.06)	0.26** (0.11)	0.33*** (0.06)	0.27** (0.11)
<i>FTA_no_CEFTA</i>	0.24*** (0.03)	0.24*** (0.03)	0.23*** (0.03)	0.24*** (0.03)	0.23*** (0.03)	0.26*** (0.03)	0.27*** (0.03)	0.24*** (0.03)	0.28*** (0.03)
exporter-time FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
importer-time FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
bilateral FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
observations	16,786	17,008	17,278	17,181	16,754	17,088	16,708	17,734	16,382

Robust standard errors clustered by host-home pairs in parentheses; \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Conclusions and policy recommendations

- WB6 have only about half the GDP of Greece – the EU market remains only game in town
- Many prerequisites for regional economic cooperation missing and potential gains limited
- Trade, investment, infrastructure integration increased but many challenges ahead
- Efforts have not altered main obstacles to normalising political relations and EU accession
- Lack of export capacities implies shortage of specialised firms with access to global markets
- It is still useful for the WB6 to improve their political and economic ties in the region:
  - 1) to demonstrate European spirit of peace and cooperation on their way to EU accession
  - 2) to reap low hanging fruits of producing and selling on the regional market
- Therefore RCC's and CEFTA's MAP REA activities make sense
- Still, either a partial or at some point full EU accession must remain the main goal
- Visegrád experience shows that regional trade increased especially after EU accession

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