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Can „winner-takes-most“ dynamics of regional economic integration be avoided in the Western Balkans? Lessons on resourcefulness from smaller economic agents[1]

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Abstract

Empirical evidence on free trade agreements indicates that CEFTA's Common Regional Market could trigger a „winner-takes-most“ dynamics. Such an outcome would be in conflict with CEFTA's goal of inclusive regional economic integration. This article offers a roadmap to avoid that pitfall while remaining within the framework of free regional trade. Theoretical insights on the network economy in the digital era and the political economy of trust and cooperation are brought into a conversation with bottom-up empirical insights from smaller economic agents in the region. Empirical data are collected from in-depth interviews with 58 exporting-oriented small and medium enterprises in Bosnia & Herzegovina and Serbia. They indicate that smaller firms are immensely interdependent with the environments within which they operate, and that their competitiveness stems from their ability to successfully leverage on these communal resources. Finding ways to preserve and enhance this collective infrastructure is a priority for most of them.

Keywords: economic governance, SMEs, resourcefulness, resilience, institutional development

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Introduction

Experiences of the EU Single Market can teach us a great deal about the pros, but also perils of deeper economic integration. The process of economic and social convergence between the periphery and the core of the EU, where the periphery was initially growing faster and thus catching up with the centre during the 2000s, ended up increasing the competitiveness of the North and diminishing the competitiveness of the South after the 2008 financial crisis (see Scharpf 2021). We also know that digitalisation has reinforced the unequalising effect of deeper economic integration around the world (OECD, 2018). Acknowledging the possibility of an asymmetric impact of deeper economic integration in the Western Balkans (WB) in light of what we already know about regional economic integration within and beyond the EU single market can allow us to leverage this knowledge to create a Common Regional Market (CRM) that is based on inclusiveness rather than a deepening of existing socio-economic inequalities. This is an imperative for the CRM given a recent memory of the bloody disintegration of Yugoslavia, which was at least partially triggered by the growing geographic and socio-economic inequalities (e.g. see Allcock, 2002), and which continues the political agenda across the region to this day. Failing to consider that deeper economic integration might increase inequalities across the region could thus lead to a serious political and social backlash.[3] Concluding that a possibility to learn from historical mistakes on regional integration and correct them should be avoided because any critique of free trade areas may stall economic progress and lead to economic protectionism closes off the region's future as it is being presented with an impossible choice between unequalising progress and economic doom. We now know from a plethora of social science research that a much better approach would be to ponder *how* greater inclusiveness can be ensured in the context of deeper economic integration and economic growth.

This paper starts from the premise that in order to find some answers to the *how* question, we need to examine how competitive smaller economic agents manage their businesses in the context of the WB semiperiphery and its specific challenges. Such a grounded approach to understanding the needs of small and medium enterprises (SMEs) in the region can generate new grassroots insights. This could inspire the introduction of new features into the CRM to support smaller productive economic agents in a way that would produce a more inclusive scenario of regional economic integration.

The aim of the paper is to contribute to this effort of shaping the future of deeper yet more inclusive economic integration by focusing on the SMEs' valuable experiences in resilience and resourcefulness under market pressures. The paper is based on interviews with 58 domestic SMEs in Bosnia & Herzegovina (B&H) and Serbia which are already

[3] It is enough to turn to some of the mainstream media covering the region to realise that this issue cannot be taken lightly. For example, a recent N1 news portal article is promoting the attitude of an American analyst that 'Open Balkans' will lead to the destruction of Bosnia & Herzegovina: https://ba.n1info.com/vijesti/americki-analiticar-otvoreni-balkan-opasna-inicijativa-bih-je-na-meniju/?fbclid=IwAR3iCfeSRsl2WByPO2bDC00iQhgcvOPdMsMD7J59XfwMLXV2MtYwnlYFV3g

exporting goods and services, and thus have credible levels of international competitiveness. Since SMEs contribute to more than half of value added and employment in both countries, they are important economic agents whose perspective should be taken on board. Without them on board, the CRM will likely struggle to spread its benefits onto the broader population.

The interviews examine concerns of these more vulnerable economic actors which have the potential to benefit from the innovation driven CRM as well as to significantly contribute to its better implementation, but which also face the threat of being weakened by it because they have fewer resources to invest in their workers and technology in comparison to large (often international) companies. While the traditional Schumpeterian view of technological progress would be that those firms which cannot keep up with the competitive demands of “the economy” should perish through the process of the so-called creative destruction, there is a growing understanding in the literature that this view of the economy is too simplistic. Smaller firms have been identified as essential for the transition to a more sustainable and digital future because of their greater flexibility, specialisation, ability to adapt and find innovative solutions, as well as their resourcefulness and resilience amid growing uncertainty of today’s world. Their experiences and organisational knowledge are thus immensely valuable although underappreciated (see European Commission, 2020).

Fairness towards the smaller players is not the only thing at stake here. The case of Korea also offers an important lesson that the model of economic development which is led by large firms (*chaebols*) loses its competitiveness over time and generates massive social and economic costs, as the largest part of the population remains excluded from the dominant economic model and much potential for innovation and many skills get lost in the process (see Jones & Lee, 2018). We are thus growing increasingly aware that inclusion is necessary for the survival of the system as a whole, since growing inequalities tend to stall growth in the longer run, so that marginalissation and exclusion of the growing portion of society can lead to entropy of the entire system over time (see OECD, 2018).

While there is growing evidence that trade integration and digitalisation have contributed to the trend where few firms reap outsized rewards in comparison to everyone else (see Berlingieri et al, 2017 in OECD, 2018), the “winner-takes-most” dynamics is fortunately not inevitable. We know that competitiveness of SMEs can be immensely improved through the establishment of different forms of cooperation between them. Using the cases of industrial districts in Bologna and Stuttgart, Farrell (2009) shows how cooperation between firms in R&D, and cooperation between firms and their customers, are rational strategies for smaller firms to gain competitive advantage in the market. Such insights show that competitiveness of firms with lesser resources can be strengthened in ways that do not undermine their productivity, while generating a more inclusive type of growth. They indicate that building trust between smaller economic actors to strengthen their collective resilience is an essential buffer against the "winner-takes-most" dynamics and its unequalising effects that harm economic development in the longer run.

This early research on the political economy of trust between smaller economic actors has seen a recent revival (e.g. see Gartzou-Katsouyanni, 2020) in the context of intensification of socio-economic and political conflicts around the world, which are consequences of longstanding geographical cleavages among areas that are thriving and areas that are suffering in the context of deeper economic integration. The importance of local development is thus becoming alarmingly apparent, while building more resilient regions amid radical uncertainty which has been exacerbated by the coronavirus pandemic is also becoming a key concern of the EU and its regional policies. Moreover, the growing importance of global value chains (GVCs) in the organisation of the world economy, and its increasing fragmentation due to digitalisation, where small firms from all over the world are increasingly able to plug into big value chains, is shifting our understanding of development away from the grabbing of market shares through economies of scale and towards attracting more of the global value added to the smaller economic players that are participating in GVCs (see Pietrobelli, 2021). The more relevant question thus becomes whether and how geographically fragmented smaller economic agents, who are not necessarily part of the same physically demarcated industrial zone, can be encouraged to cooperate between one another, and whether focusing on their mutual cooperation is the only policy intervention that should be considered.

In this paper, I bring together concerns that have been articulated by SMEs from the WB with insights from this emerging literature to offer a roadmap for regional integration of the CEFTA region which takes unequal power relations between different stakeholders seriously, and which works towards offering a level playing field for everyone with the aim of generating socio-economic progress as a collective value which increases sustainability and resilience of the region as a whole. My empirical findings show a high level of interdependence between smaller economic agents and communities within which they operate. I also uncover innovative ways through which these SMEs are leveraging on these communal resources in the context of growing labour shortages, environmental challenges and the general issues of de-development at the semiperiphery. These insights offer valuable signposts for policy interventions which could level the playing field for smaller economic agents in the context of deeper reginal economic integration.

The paper is structured as follows. I first discuss literature on the winner-takes-most dynamics of deeper economic integration vs factors that can level the playing field for smaller economic actors. I then present the findings from interviews with SMEs in B&H and Serbia and put them into a conversation with the existing literature in order to produce novel insights that are relevant for the WB. I then offer some concluding remarks.

Is inclusive governance of economic integration possible: A literature review

Winner-takes-most dynamics of deeper economic integration

Most political economy analyses of the WB region since the onset of transition have focused on institutional reforms and the strengthening of state capacities as key preconditions to growth. This focus on the relationship between institutions and economic performance is embedded in North's path-breaking recognition that well-designed institutions serve an economy by facilitating cooperation and reducing its costs for economic actors (North, 1990). Yet, since the 2008 crisis, Europeanization oriented political economy scholars have also become increasingly concerned about the role of state capture by political parties in shaping trajectories of growth at the European periphery, and the political and social consequences of these developments. Concerns about the increasingly powerful state that turns against its own population is triggering the very disturbing collective memories of the 20th century European dystopias. At the backdrop of these intellectual musings, CEFTA and its CRM initiative come as a welcome tool to diffuse state monopoly over economic governance, a framework within which those economic agents who are the most competitive and the most productive are more likely to be rewarded against those who are the most politically entangled with the state.

While state capture by political parties may indeed be a disturbing development, we also know from the abundant empirical evidence collected over the past 30 years that the market mechanism has its own ways of concentrating power by favouring those with more resources and by dispossessing those with a weaker bargaining position. There is growing evidence that the networked economy of the digitalised era has further strengthened this unequalising dynamics of the market, not the least through monopolisation of the digital market places by big tech companies (see Atal, 2021; Berlingieri et al. 2017 in OECD, 2018). The "winner-takes-most" dynamics of greater global economic integration has also led to an increase in within-country inequalities. Rajic (2021), for example, warns about the limitations of locally implemented policies for the revival of the United Kingdom's old industrial regions, in the context of oligopolistic market power of larger firms from the more developed regions. So within the context of regional integration, it is expected that bigger and better resourced firms will tend to have disproportionate market power and disproportionate access to talent and technologies since they have more resources at their disposal than the smaller economic actors.

In sum, while markets, networks and technology have the ability to diffuse state power through greater regional economic integration, which is especially relevant in the context of captured states and the removal of the high regulatory burden of exports for all economic agents, they also reproduce a language of power unless greater intentionality, which aims to weaken their "winner-takes-most" dynamics, is introduced into its design. So when the CRM is implemented in the context of high existing inequalities and different levels of resourcefulness of different economic players, which is the case among CEFTA Parties, it may perpetuate and even intensify these inequalities. There is in fact enough evidence on these trends globally to propel us to seriously examine the implications of such developments in the context of CEFTA. In other words, we have enough empirical evidence from the entire world to know that the only way to effectively balance state power is to acknowledge the unequalising effect of deeper economic integration and try to level the playing field for the smaller economic actors in order to diffuse the "winner-takes-most" dynamics of economic integration. A failure to do this could lead to a social and political backlash and failure of the CRM agenda.

Rise of the smaller economic agents

Three key factors have been offsetting the power concentrating dynamics of globalisation and its "winner-takes-most" dynamics: i) digitalisation and GVCs, ii) political dissatisfaction with power concentration, and iii) the environmental crisis and the need for broad-based social innovations to resolve it.

Digitalisation, which has led to a strong concentration of power, has also resulted in the proliferation of the more decentralised and fragmented GVCs, where smaller firms from around the world are able to plug into GVCs and obtain some value for themselves, while also using that opportunity for their own upgrading of skills and technologies. This has demonstrated the benefits of specialisation and niche markets, and the ability of smaller firms to capture some of the globally generated value. Therefore, thinking about development is slowly shifting from being based on economies of scale towards capturing benefits of decentralised production in GVCs. The fact that hyper-consumption has led to a global environmental crisis is also perhaps starting to push consumers away from mass production and towards better quality products.

In OECD countries, income stagnation for most of the population has run in stark contrast to soaring incomes and wealth of the elite, creating challenging conditions for democratic governance (Norton & De Boer, 2016). This has in turn led to an upsurge in populist political movements—on both the left and the right. Moreover, concerns over the harmful impact of growing inequalities on countries' growth models are being increasingly raised. Even the supranational organisations have started to warn about the power concentrating tendencies of the market and its potential to stifle growth as it excludes a growing portion of people which are a source of talent and innovation (OECD, 2018; Jones & Lee, 2018).

Environmental sustainability is further highlighting the drawbacks of a monolithic innovation system because we need to source innovation from different sources, and not one way of thinking about the world in order to solve the ongoing climate crisis. The greater flexibility and adaptability of smaller firms is also proving to be more responsive to the growing uncertainties of the era of climate change, the ongoing pandemic, and other emerging challenges.

This is likely the reason why we are witnessing a proliferation of technological start-ups, often funded by international venture capital funds. It is, however, still unclear how and whether this shift from investment in large firms to investment in small ones contributes to greater social inclusion, given that much of the ownership remains concentrated in the hands of hedge funds and venture capitalists. Moreover, while the EU's new SME strategy is very concerned about the need to support SMEs in order to support social inclusion and broader social gains from progress, its policy recommendations remain oddly focused on SMEs in the top tiers of innovative activities, such as those in the defence and space sectors (European Commission, 2020). It is difficult to imagine the implications that such SMEs may have for the broader population that is excluded from the hi-tech driven economic progress. Their focus seems to be on the reskilling of the population to adapt it to this new innovation driven era, along with vague policy tools such as the building of the so-called networking hubs for SMEs, and knowledge hubs where educational materials and information can be shared.

In other words, the overall approach to resolving the concurrent crises of environment and inequalities seems to be permeated with techno-optimism, and the ability of innovation to resolve all our social challenges. This optimism comes across as puzzling, to say the least, given the plethora of existing empirical evidence which shows that digitalisation in the modern era has tended to deepen inequalities. The reskilling paradigm is also somewhat puzzling since we have evidence from countries like Korea where massive investments in education, without concurrent efforts to diffuse social gains of their developmental model more broadly into the society, has led to massive inequalities, and social exclusion of youth, and even educated youth. There is also an optimism that people can be quickly reskilled to adapt to the needs of the "new" economy, rather than thinking about ways in which the economy could also become more responsive to people, as well as environmental needs.

To counterbalance this innovation driven techno-optimism, there is an emerging literature, currently spread out across various disciplines, that focuses on how value added can be diffused more broadly across the society, in ways which would lead to more local development and a reduction of regional inequalities and the "winner-takes-most" dynamics of globalisation. Much of this literature is concerned with the dynamics of economic governance between smaller economic agents. Gartzou-Katsouyanni (2020) focuses on how countries with small firms and small farms, notably Greece and Italy, can economically upgrade and improve their international competitiveness through collaborative efforts. One of her conclusions is that cooperation in low trust environments can be enhanced through local leadership. Carter (2018) shows how French wine makers use political organising to capture greater international market value of their products, concluding that markets are not only socially, but also politically embedded.
Moreover, these global shifts are leading to a change in the bargaining power of smaller economic actors. Udovicki et al. (2019) show that SMEs in Serbia have become increasingly successful exporters over the past decade. Internationalisation of domestic SMEs, which export consumer and industrial goods and tradeable services, is likely

taking place because ICT has been radically reducing the costs of coordination and remote communication, but also of monitoring quality and specific product characteristics, thus allowing firms in various sectors to export their know-how, despite operating in captured states. This is where we may also draw on Farrell (2009: 224) who shows that exogenous changes can affect institutional rules because they can change incentives for individuals to trust and cooperate with one another. There is therefore reason to expect that smaller economic agents are embarking upon greater experimentation with institutional rules in the context of factors that have been offsetting the "winner-takes-most" dynamics of ICT-led growth.

It would, however, be unsettling to draw from these insights a functionalist conclusion that ICT is automatically transforming these countries' growth dynamics towards greater economic and political independence of domestic SMEs. Udovicki et al. (2019) also argue that for a number of the internationalising SMEs in Serbia, their capabilities come from the skills and industrial experiences from the socialist Yugoslav era. The argument thus goes that the ability of these SMEs to leverage on that collective legacy and adapt it to the ICT era is what made them competitive. This is an important insight which indicates the perhaps obvious, but like the glasses on the bridge of your nose, easy to forget reality that business inputs, i.e. labour, skills, know-how, mostly come from the collective resources that a society has at its disposal. Technological advantages cannot be leveraged by individual firms if those firms cannot draw upon labour, capital and the society-based broader know-how, which then allow them to reap the benefits of changing global trends.

It is becoming increasingly clear from the literature that the ability of firms to expand and capture greater economic value is also dependent on their ability to strategically use their embeddedness within their social and political environments. But we still understand very little about what this strategic use implies for smaller economic agents, apart from having the general idea that this is about navigating relations between institutions, business owners and workers. What works in some contexts may not work in others, so we need more granular research to throw light on the types of incentives of economic actors which are on the ground in specific environments and that could be leveraged upon in order to capture greater collective value for the semiperiphery, including the CEFTA region. The empirical section below contributes to this endeavour.

What the exporting SMEs tell us: Qualitative data analysis

This project follows abductive analysis, a method based on pragmatist Charles S. Peirce's approach to social enquiry (Tavory and Timmermans, 2014). It starts by surveying literature, following which collection of empirical data is used to enrich it. Two components of the research—the theoretical and the empirical—thus enter into a balanced and recursive conversation in order to amplify each other and increase our understanding of the phenomenon of interest. This is a different logic of enquiry from the standard deductive method of comparative research where expectations are formulated in advance based on what we know from the literature, often at the expense of paying attention to the empirical reality that goes beyond existing classifications. It is also different from the inductive method where, devoid of theory which would act as a signpost to frame the elaborate empirical findings, the researcher can get lost in the details of an overly descriptive account that offers little new theoretical insight. This is an important methodological innovation for social enquiry that focuses on understanding the new economy that is driven by ICT and knowledge inputs. We cannot assume that a novel interpretative framework can be generated purely from dialogue with the private sector in the European periphery, since they are also captured by certain 'old' discourses and may find it difficult to see the bigger picture within which their businesses threats and opportunities are unfolding in an era where the economic gestalt is rapidly changing. On the other hand, given the rapid changes that are taking place in the world economy in the context of digitalisation, limiting our empirical analysis to confirming what we already know from theory would also be insufficient. The two need to be combined to generate new insights. The analysis of empirical data is additionally enriched by insights from strategic documents, mostly from the European Commission and the OECD, which are offering a better sense of new policy directions and ideas that are becoming increasingly diffused around the world.

Moreover, scholarship has become increasingly aware that theories which are developed in advanced capitalist economies are not fully fitting for the context of the semiperiphery given their weaker institutional settings and their often captured states. This is echoed by the growing realisation even within economics, that context matters, and that one size policy cannot fit all. This is why abductive research is an important method for the semiperiphery, as it allows for the tweaking and re-interpretation of existing theories by checking them against the grounded reality of life in the semiperiphery.

Data collection

Data for this project is collected from SMEs. They are economic actors with lesser resources than the large, often foreign-owned firms. While SMEs have less resources at their disposal everywhere, limitations in financial, technological and human resources for smaller economic actors in the WB semiperiphery are even more conspicuous than in the more advanced economies. Data was collected via semi-structured in-depth interviews with owners and/or directors of 58 mostly domestic and exporting-oriented small and medium enterprises (SMEs) – 28 of which in B&H and 30 in Serbia.[4] The interviews took place between June and December 2021. Firms from the Federation of B&H and Republika Srpska, the two constituting entities of B&H, are equally represented in the sample.

The interviewed firms were not selected by their sectors of operations. Representativeness of the sample by sector of operations was in fact not important for this project, given the high sectoral fragmentation of businesses in the WB. Instead, the interviewed firms are a combination of exporters of smart services, manufacturers of products sold to other businesses, and products sold directly to end consumers. Eight of them (five from B&H and three from Serbia) also worked with imports and/or had at least partial foreign ownership. While SMEs with such characteristics were initially not planned for inclusion into the sample, I discovered that they could offer important insights on how business relations in the two countries worked, given the region's high dependency on imports, as well as high levels of foreign ownership. The general idea of the project was to explore different perspectives on what it takes to be internationally competitive within broader SME business subtypes. Since the project's aim was to explore causal mechanisms and generate new insights, judgemental sampling was used as the best method for this purpose (see Gilbert, 2005). I also paid attention to include some female run businesses, although they make up a very tiny portion of exporting SMEs in the region. This was relevant because we know that female owned firms generally operate with fewer resources so their perspective can offer important insights on resourcefulness.

Given the low trust of the private sector, and especially smaller economic agents, in formal institutions in the countries where the fieldwork was conducted, and their lack of trust that somebody would be doing genuine research that fulfils all EU ethics criteria, rather than perhaps spying on their business operations, most of the firms were identified through word of mouth and personal recommendations. While low trust made the fieldwork particularly challenging, it was also a very informative experience in its own right because it allowed me to have a better understanding of the low trust business environment within which these firms operate. Despite personal recommendations and contacts, effort was made to ensure a fairly geographically spread out sample of businesses. The interviews were conducted in a semi-structured fashion and usually lasted about one hour, to allow business owners and/or directors enough time to gain trust in my intentions and articulate their predominant concerns through relaxed and open conversation. Findings from interviews are presented in a fully anonymised way, adhering to all EU ethical standards and guarantees that were offered to the research participants.

Data analysis

[4] I came two interviews short of the 30 that I aimed to conduct with SMEs in B&H, due to several pandemic related disruptions. I, however, managed to interview representatives of a domestic bank that issues loans to SMEs and a representative of a regional chamber of commerce in B&H, to supplement the SME accounts.

While a wide variety of sectors were covered, from IT, creative industries, consulting services, to the different types of manufacturing, a surprising similarity of concerns emerged through the interviews.

As expected, regulatory issues that SMEs are facing when dealing with customs and government bureaucracies in the region are a very important concern. Yet, since much of the earlier research covering business in the region has focused on the regulatory environment, and since the key focus of the CRM is on the removal of these barriers, this paper focuses on some of the other important themes that emerged from the interviews, beyond the regulatory and doing business environment in Serbia and B&H.

Most of the research participants were predominantly preoccupied with how their social environment and their networks were conditioning their competitiveness, in both positive and negative ways. This interdependency emerges as one of the most important generic messages from the interviews.

Participating SMEs are worried about the general crisis of production inputs. This concern is predominantly about significant labour and skill shortages that the region is experiencing, due to high emigration and low fertility rates. There are also concerns about the growing cost of energy, and less frequently about access to financing. While they have contemplated greater automatisation of their work processes as a solution for shortages in the low skilled labour force that they are experiencing, many argue that their niche specialisations and custom made production processes are not prone to as much automatisation as the bigger firms whose business models are based on economies of scale. As a furniture exporter from central Serbia states: "We got some offers to digitalise our production processes, but they don't understand that this doesn't really work for small batches of luxury furniture. We have to adjust the machines way too frequently to gain any time advantage from investing in automatisation" (interview 20). He goes on to argue that it makes a lot more sense for them to invest in solar panels to increase their energy consumption than in the technology that is aiming to reduce their labour input.

Even those from creative industries such as film production and advertising are increasingly concerned about labour shortages and believe that the currently dominant outsourcing-driven labour-intensive business model which is focused on exporting relatively low cost services to foreign production firms will run out of steam rather soon in Serbia. This is because the cost of domestic labour is growing while there are not enough people with the specific skill sets that are needed for these projects (interviews 12 and 14). "This is why I am turning away from the outsourcing grind, and towards creating my own content which would not be so labour intensive. But it is much harder to create your own product." (interview 12).

A big concern is also the lack of a broader spectrum of skills that these firms need to develop their business, whether these are machine operators, crafts(wo)men, engineers, marketing experts, managers of complex projects, or those who know how to manage other people.

Participants are concerned that some of the old skillsets from socialist Yugoslavia are becoming almost extinct, from handymen who know how to weld the types of factory constructions that they could only learn during the Yugoslav era when big infrastructural projects were implemented (e.g. interview 42), to engineers who cannot adopt systems thinking because they have never had an opportunity to work on more complex projects that only big, often state run infrastructural projects provide (e.g. interview 19). These insights in particular echo the findings by Udovicki et al. (2019), discussed in the literature review, that industrial capabilities from the socialist Yugoslavia where people had the opportunity to learn 'the bigger picture' from large-scale government funded projects remain an important source of competitiveness for some SMEs who inherited these capabilities.

The smaller businesses in sectors such as high-end handmade fashion and design are specifically worried about the disappearance of craftspeople who know how to make things by hand, whether sweaters or shoes (e.g. interview 21). A textile manufacturing firm from central Bosnia states the following: "We don't have anywhere to send our workers for training even if we pay for it, some skills are just lost forever, and there is nothing we can do about it" (interview 33). A furniture maker from B&H is adamant that the region needs to focus on recovering its crafts and hand-made skillsets which were widespread in socialism but have been massively devalued since the 1990s (interview 55). He also does not think that there is a future in mass production and exports of low price products in the WB since there are not enough workers to fill these roles, from low skill factory workers to those who can manage these larger scale operations and various challenges with the workforce. Instead, he argues that it only makes sense to invest in one's own design, including the nurturing of hand-made and crafts oriented skillsets, in order to climb up the value chain with better quality products. Another furniture maker from B&H also stated that they were not able to deliver the quantities required by the EU market, nor were they interested in expanding their business operations to a mass scale (interview 38).

So while many are very keen to reduce their cost of doing business by reducing government regulatory pressures and deepening economic integration between the WB economies, they do not seem very concerned about market access. They are very certain that the EU is increasingly turning towards WB to purchase cheaper goods and services, especially as the post-pandemic rift with China is widening. Their bigger concern for them is how the region can capture more value from it growing exports, and whether it will be able to fulfil the higher value added role in these processes without the right kind of skills of the general population. Their key preoccupation are the human resources without whom they cannot work, so they refer to them as the weakest link, rather than technology or market access. This draws our attention to the already disputed in the context of transition Say's law, which argues that labour demand will generate its own labour supply. Instead, we see that the market itself cannot produce people's capabilities and that broader social investments which underpin firms' and countries' competitiveness.

Many are thus also focused on how to keep loyal employees, especially in administration, even at the expense of not adopting cost saving technologies that their workers would resist such as Enterprise Resource Planning Software, since they are dependent on employees who are hard to find and even harder to motivate. Even in the most innovative niche of the IT sector, where the firm is exporting high value artificial intelligence based software, the owner is pointing out that the key competitive edge of their business is their ability to adapt the software to the humans who are using it, which requires a lot of people skills and understanding of the firm's specific processes, rather than simply software design (interview 5). It is very clear from most conversations that SMEs are dependent on the broader social environment within which they operate, no matter how competitive and innovative they are, and that technology is very limited in resolving these very human problems.

The importance of the human factor is also very conspicuous on the sales side of the story when it comes to exports. In many of the very successful family firms, I spoke to second or third generation owners who had the opportunity to study abroad, following which they expanded their family businesses significantly and made them a lot more exports oriented. They emphasise the importance of skills that they obtained elsewhere, but also the networks which they acquired and which are now helping them to access foreign markets. I also came across instances of people returning from diaspora with skill sets, networks and understanding of the culture where their buyers are based, and starting companies in their countries of origin. These business owners are therefore very aware that their personal and family investments in their own skills and networks are allowing them to stay competitive. Moreover, quite a few firms found that diaspora was a very important source of product demand for them, people who were intrinsically driven to support firms from their own region or who wanted to collaborate with them in order to have reasons to travel 'home' for work or use their native language at work (e.g. interview 51). Therefore, for many of the smaller firms that are not engaged in mass production, foreign market access is facilitated by the communities and networks to which they belong, and not only by the immediate skillsets or the quality of their products.

Apart from participants' concerns with the specific human resources that they need for their business operations, they are also concerned with the wider social environment within which their workers and they themselves are being socialised.

Participants were concerned about the general social decay and apathy that they are operating within, because they see it very demotivating for the future of their business. An exporter of food products from central Serbia who invested in top-notch production technology to improve the speed of their production in order to deliver larger batches of their product to supermarkets around Europe, says that he had to get the people who sold them the machines to come six times to attempt to train his workers. "My key machine operator, I begged him to learn about the machines, to pay for his English classes, I promised him promotions, but he is not motivated beyond the basics. I don't know what it is, some kind of a collective depression." (interview 16). He goes on to lament that he spends most of his time handling human resources, from low skill to high skill workers, although as CEO he feels that he should be primarily focusing on market expansion.

On a positive, there is a strong awareness that a more developed or a more functional municipality means that more people are likely to stay there, and that this increases the resilience and resourcefulness of their own businesses. This is along with an awareness, especially in the poorer areas that everybody was "emigrating to Germany". The aforementioned owner of a luxury furniture firm in central Serbia mentioned that he is trying to get a few company owners together to form a team of people whom they would pay to apply for projects and government donations that could bring more resources into their local community (interview 20). Other participants also pointed to the importance of public infrastructure in the localities where their businesses were based, because when they bring in clients, they need to have a decent environment within which they can present their businesses (e.g. a good road, a stable electricity supply, and even a good restaurant).

There is also a political awareness among the smaller firms that they are uninteresting for the state apparatus, because state level corruption is organised in such ways that it is easier to "chip in" when there are larger scale and larger value programmes and firms involved (e.g. see interviews 19 and 21). This is motivating some to look for ways to cooperate at the local level and capture some of the collective resources for their own communities through supporting local development projects, rather than through getting the attention of central authorities.

A participant from B&H saw an important role for the local industrial zone that he was a part of to absorb workers from the highly polluting large plant that they perceived as useless for the community as well as harmful for health of the general population (interview 40). I also came across a less straightforward example where the firm owner thought they were contributing to the problem of energy shortages in their town by building a mini-hydro power plant on a local river, so they were portraying a highly contentious environmental issue from the perspective of a win-win solution for the community (interview 37). This example illustrates the complexity of multistakeholder socio-environmental governance in local communities, and warns that private sector leaders need to obtain support from the local community, and not just politicians, in order for true win-win solutions to take place.

Some research participants also saw their role as community leaders who could build local resources, often through organising and investing in local skills training centres (e.g. see interviews 3 and 31). Another firm from a traditionally low female activity area in central Bosnia was proud of their innovation to start hiring young women and giving them an opportunity to gain skills and financial independence, showing how labour shortages are leading to some gender progressive employment strategies as well (interview 38). Interviewee 3, and IT firm from Serbia, also stated that they would love to participate in technological projects that could improve domestic circumstances in Serbia, but they did not even know how to obtain that opportunity. So instead, they were helping people with low earnings to learn programming and thus obtain better wages, as their own contribution to local development.

Thinking about win-win business solutions from the perspective of social and environmental governance adds further insight onto Farrell's (2009) observations that changes in the bargaining power of stakeholders (in this case due to labour shortages, the environmental crisis and general decay of local resources) can change incentives among businesses and lead them towards seeking more cooperative business strategies. And indeed, one needs to be aware that this is a very different context from the conditions that we saw in the early years of transition to capitalism when there was an excess of cheap labour available which the economy could not absorb.

Even for the top-tier innovators who are not as constrained by their geographic communities because they can hire globally and also sell globally, there is a recognition that they were saved in hard times by supportive communities, and that resilience which comes from such support was an essential ingredient of their ability to innovate (see interviews 5 and 17).

For example, interviewee 17 discussed that they were saved by the university where they obtained their PhD who were purchasing some of their technological products during the hard times, until they found a way to sell it to others. And according to them, this had nothing to do with the quality of their product, but with the sheer time it takes from product development to finding a market for it. They also recognised that it has been difficult to do business in an environment where government looks for ways to punish you for having a failed business as if you were a criminal. "While paying taxes that I owned for a start-up that I had to close down, I was bullied by public authorities as if I somehow really wanted to lose all that money and have the company shut down"(interview 17). The fact that healthy risk taking is an essential part of innovation, and that one has to sometimes fail in order to innovate, draws further attention to the fact that cooperation between different stakeholders, including government, is essential for business durability and development, and not just market access.

Therefore, cooperation is not necessarily limited to one's geographic community or to other firms within the same sector of operations. A packaging firm from central Bosnia told a story of long-term collaboration with a firm from central Serbia through which they developed machines which helped them both sell more of their products in the international markets (interview 37). An IT firm working with the German market explained that benefiting from Germany's industrial zone programmes and being invited to participate in their industrial strategy projects helped them immensely to understand how production factories work and to then develop their own business products for manufacturing (interview 1).

Firms which are developing products within the context of the knowledge economy (e.g. software) also draw attention to the importance of having a testing ground for their products before these products are fully ready for the market. Interviewee 6 thinks that their business success lies in the fact that their IT development firm is connected to another firm that they also own, and where they have the opportunity to test their own software real-time. Interviewee 10 has invested own resources in developing a marketing software product and had a preliminary agreement with a large multinational firm which is present in their country of operations to act as a testing ground, but this firm then withdrew because they could not get clearance from their international headquarters, which preferred to use their own software solutions. Yet, interviewee 10 still thinks it is a worthwhile strategy to test innovative ideas in the domestic economy in order to fine-tune them and make better products which could then also be exported.

Interviewee 5 was entertained by the idea that it was easier to find foreign customers through LinkedIn and to sell their product, then to access domestic firms which could benefit from the technology. They also observed that once their success was proven abroad, they started getting invitations from Serbian firms for collaboration, leading them to conclude that trust is easier to establish between domestic agents once there is an external mechanism of quality control. This offers important insights on why cross-sectoral collaboration may be difficult to achieve within the WB. An independent quality control mechanism may be needed which would encourage firms to enter into such types of collaborative relations. This also echoes Farrell's (2009) observations that trust is not an abstract feeling, but that it is embedded in specific incentives that actors have to collaborate with one another.

In contrast to these perspectives, some participants thought that the WB must go through the experience of the merging of smaller firms into larger ones as the only way for the regional economy to survive (e.g. interview 26). Moreover, several business owners have argued that the only way to deal with the scaling up of business operations amid severe labour shortages is to increasingly rely on importing workers from poorer countries, mostly in Asia (see interviews 24 and 58). Two participants from B&H were concerned about the "too lax labour law" and were very worried about their limited ability to force low skill workers in their factories to work harder and be more productive (interviews 48 and 49). These opposing perspectives point to a difference between business models which are predominantly based the extractivist logic of the economies of scale based production models which are continually looking for cheaper production inputs and economic agents who believe that their survival and independence lies in continually becoming better at what they make and finding their global niche markets, along with working on improving their embeddedness in their local communities. The latter type of business seems to be also better supported by the broader social, environmental and political countermovements against extractive capitalism that are concurrently expanding across the region.

Concluding remarks: Solid economic governance requires threading the needle

This paper demonstrates that the ability of smaller economic actors in the WB to be internationally competitive and capture more value from the global economy is contingent upon the communities within which they operate. Business strategies which are meant to mitigate the problems of labour shortages, skills absence, the general lack of motivation of the workforce, and labour's capacity to adopt new technologies are a key preoccupation for these firms. While they are also concerned with issues such as the regulatory burden and market access, most of their distress is related to figuring out how to manage relations with their employees and their wider communities. The empirical section uncovers some innovative strategies that these firms use to both contribute to their environments and support their own business operations. The identified strategies indicate that the changing exogenous conditions, such as growing labour shortages, more complex demands of the international markets, and environmental constraints are changing incentives for smaller economic agents and making them more focused on issues such as business sustainability, which they perceive as deeply interwoven with the socio-economic environment within which they operate. Therefore, this paper indicates that collective resilience and resourcefulness are an essential part of value capture at the semiperiphery and that smaller firms have a rational incentive to collaborate with their communities and other firms to strengthen their businesses. Research participants also demonstrate a lot of creativity to overcome these challenges in the very trying circumstances of social decay that they are facing in the WB.

In light of this evidence, the paper argues that in order to avoid the "winner-takes-all" dynamics of deeper regional integration that we have seen elsewhere, a much more granular approach to economic governance of the CEFTA common market is needed, one that is informed by a fine-grained understanding of the bargaining power of the smaller economic actors, their incentives, and their dependencies on the communal infrastructures within which they operate. The global turn towards a greater recognition of smaller economic actors and their importance in governance of the environmental and social crisis offers a window of opportunity to shift future development of the WB towards greater social inclusion and environmental sustainability. Given the specific constraints of the WB semiperiphery, where investment in human resources has lagged behind the EU, along with strong emigration trends, communities where these interdependencies are particularly poignant could perhaps be the pioneers of pro-social and anti-extractivist business practices in the WB, because of the greater incentives and pressures of their SMEs for cooperation with their communities. This potential is also highlighted by the fact that many of the research participants believe that the WB does not have much capacity for mass production and businesses that are based on economies of scale. For this reason, they seem more preoccupied about nurturing specific skills and loyal human resources, than about digitalisation and cheap labour that they find to be more relevant for larger manufacturing enterprises.

This paper concludes that in order for the CRM to bring prosperity to a broad range of WB peoples, economic governance needs to be taken seriously. Private sector dialogue, and allowing other stakeholders, including citizens, to provide input on the effectiveness of the taken actions, key "solid governance" tools of the CRM 2021-2024 Action Plan, promote a very functionalist and simplistic worldview where governance is the equivalent of communication. It fails to account for the fact that governance is politics, and that politics depends on a complex web of domestic and foreign stakeholders with different agendas and different organisational cultures, all of whom are participating in the daily governance of their economies and in the sharing of the collective resources that are at their disposal as production inputs. This challenge of governance is particularly pertinent in the context of the WB, where the inability to find ways of working together to achieve a common goal has not too long ago led to a disintegration of a political and economic union and civil war, followed by a difficult transition to capitalism that has been characterised by de-development and an entrenchment of politically captured forms of economic governance.

Reluctance of the supranational actors to get involved with domestic politics and problems of state capture is understandable. It cannot be the ambition of one initiative to change the entire socio-political landscape of the Western Balkans. But by recognising what could go wrong with the CRM, and by identifying the changing incentives of smaller economic actors in the region and scaling their already existing strategies of resourcefulness and resilience, institutional change towards a more inclusive growth model in the region could become scalable from the bottom up.

A lot is at stake. Exporting SMEs are some of the most politically independent actors that exist in the region, so their alienation can be very costly to both the CRM, and the general population and citizens' economic independence as well as social fabric and social conflict. Elite concerns with the small innovative start-ups should thus be offset by the needs of the real economy which is densely populated by SMEs. It is not enough for the CRM to focus on the removal of the regulatory burdens and technological innovation if it aims to bring about greater social cohesion rather than increase the divide between the haves and the have nots. Finding ways to preserve and enhance the 'collective infrastructure" that surrounds SMEs in the region, paying attention to their resourcefulness strategies and facilitating connections between the more competitive SMEs and their communities could mobilise greater democratic support for the CRM project and lead to its more successful implementation. This paper hopes to contribute to that multistakeholder effort.

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