

Dabrowski, Marek; Moffat, Luca Léry

Research Report

The changing dynamics of the Western Balkans on the road to European Union membership: An update

Bruegel Policy Brief, No. 17/2024

Provided in Cooperation with:

Bruegel, Brussels

Suggested Citation: Dabrowski, Marek; Moffat, Luca Léry (2024) : The changing dynamics of the Western Balkans on the road to European Union membership: An update, Bruegel Policy Brief, No. 17/2024, Bruegel, Brüssel

This Version is available at:

<https://hdl.handle.net/10419/302297>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The changing dynamics of the Western Balkans on the road to European Union membership: an update

Marek Dabrowski and Luca Léry Moffat

Executive summary

Marek Dabrowski (marek.dabrowski@bruegel.org) is a Non-resident Fellow at Bruegel

Luca Léry Moffat (luca.moffat@bruegel.org) is a Research Analyst at Bruegel

The authors would like to thank Zsolt Darvas for his extensive comments on the earlier version of this paper.

THE SLOW PACE of European Union enlargement to the Western Balkans can be attributed to EU member countries losing their political appetite for further enlargement in the 2010s and early 2020s, and to the fact that Western Balkan countries have failed to make visible progress in meeting the criteria for EU accession

THE INCOME PER CAPITA convergence of Western Balkan countries towards the German level (as a proxy for the EU) has been rather slow, with some acceleration in the second half of the 2010s and early 2020s. However, Western Balkan countries continue to suffer from several socio-economic vulnerabilities, including high unemployment rates (especially of young people) and low rates of participation of women in the workforce.

AFTER THE BEGINNING of the war in Ukraine in 2022, the EU gave higher political priority to further enlargement. It opened a new eastern front of potential enlargement (Ukraine, Moldova and Georgia) and activated the stalled accession process in the Western Balkans. Bosnia and Herzegovina obtained candidate status in December 2022 and was approved for accession negotiations in March 2024. Accession negotiations with Albania and North Macedonia were started in July 2022. With the new government in Montenegro from the end of 2023, the accession negotiation with this most advanced candidate country moved forward.

OVERCOMING THE LEGACY of the tragic conflicts in the 1990s is another key geopolitical challenge in the region. This involves the normalisation of Serbia-Kosovo relations and the reconciliation process inside Bosnia and Herzegovina.

IN THE ECONOMIC sphere, speeding up income *per-capita* convergence with the EU requires further domestic economic reforms, accelerating intra-regional economic integration and creating new EU initiatives to support growth and social cohesion in the Western Balkans. Accelerating EU accession negotiations with indicative target dates, at least for frontrunners, can reduce the perception of geopolitical and economic uncertainty and stimulate foreign direct investment inflows.

Recommended citation

Dabrowski, M. and L. Moffat (2024) 'The changing dynamics of the Western Balkans on the road to the European Union membership: an update', *Policy Brief* 17/2024, Bruegel

1 Introduction

The Western Balkans is a geopolitical term coined by the governing bodies of the European Union in the early 2000s and referring to those countries in south-eastern Europe that were not EU members or candidates at the time, but which could aspire to join the bloc. Initially, the Western Balkan region consisted of seven countries – Albania, Bosnia and Herzegovina, Croatia, Kosovo, North Macedonia, Montenegro and Serbia. Of this group, Croatia joined the EU in 2013. Others are stuck in various stages of the accession process, with poor chances of completing it soon. The responsibility for the slow pace of EU enlargement to the Western Balkan can be shared between incumbent EU member countries and the candidates/potential candidates.

The EU's attitude to further enlargement changed dramatically in 2022 when Russia invaded Ukraine. The European Council granted EU candidate status to Ukraine and Moldova in June 2023 and to Georgia in December 2023. Furthermore, Moldova and Ukraine were invited to start accession negotiations in December 2023, leapfrogging countries such as North Macedonia.

With the opening of a new eastern front of potential enlargement, the EU also reinvigorated its effort to move forward the stalled accession process in the Western Balkans. Bosnia and Herzegovina obtained candidate status in December 2022 and received approval for accession negotiations in March 2024. Accession negotiations with Albania and North Macedonia, formally approved in March 2020, were started in July 2022. However, there is a long road ahead to complete membership negotiations, even for Montenegro and Serbia, which started the process several years ago, as obstacles still lie ahead.

In the economic sphere, speeding up the region's slow income per-capita convergence with the EU requires further domestic economic reforms, accelerating intra-regional economic integration and new EU initiatives to support growth and social cohesion in the Western Balkans. Accelerating EU accession negotiations with indicative target dates, at least for frontrunners, can reduce the perception of geopolitical and economic uncertainty and stimulate foreign direct investment (FDI) inflows.

This paper concentrates on economic and social convergence in the region and the economic and institutional aspects of EU accession¹. Section 2 discusses the progress of EU accession in the region. Section 3 contains a comprehensive analysis of macroeconomic and social convergence. Section 4 analyses external economic relations: the trade in goods and services, foreign investment, labour remittances and the degree of the actual economic integration of Western Balkan countries with each other and the EU. Section 5 deals with governance issues within the Western Balkans and the slow progress or its absence in strengthening the rule of law, democratic checks and balances and civil rights, including minority rights. Section 6 summarises our analysis and offers policy recommendations. In sections 2-5, we use Croatia as a comparator country because its accession process started at the same time as other Western Balkan countries in the early 2000s².

The quantitative part of our analysis uses international statistical databases such as the World Economic Outlook database, International Financial Soundness Indicators and Direction of Trade Statistics (all produced by the International Monetary Fund), the World Bank's World Development Indicators, World Governance Indicators, the United Nations Trade and Development Statistics (UNCTAD) and data from Eurostat, Freedom House and national statistics offices.

¹ This follows on from Dabrowski and Myachenkova (2018).

² Slovenia, another post-Yugoslavia country, joined the EU on 1 May 2004 and never belonged to the Western Balkans group. Therefore, we do not use it as a comparator country.

2 Progress in the accession

In June 2003, the Thessaloniki EU summit declared for the first time that Western Balkan countries were eligible to become EU members in the future (Council of the EU, 2003). Since then, only Croatia has completed the accession process, becoming an EU member on 1 July 2013.

One can distinguish the following milestones in the EU accession process (Dabrowski, 2014):

- Negotiation and signing of the association agreement with the EU, which includes a free trade component and political and legal provisions for starting the EU accession process;
- Formal EU membership application³;
- Obtaining EU candidate status;
- Opening membership negotiation;
- Concluding membership negotiation;
- Signing the accession treaty;
- Ratification of the accession treaty and entering the EU.

The most advanced EU candidate in the region (Montenegro) is still far from completing the negotiation process. Serbia is less advanced than Montenegro, and the other three countries (Albania, Bosnia and Herzegovina and North Macedonia) are at the beginning of accession negotiations. Kosovo is a potential candidate, but it must wait for formal candidate status and formal recognition of its independence by all EU member states.

Table 1 shows the main stages and timeline of the accession process of six Western Balkan countries and Croatia.

The first stage – negotiating, signing and ratifying Stabilisation and Association Agreements (SAAs) between the EU and individual countries – was completed by North Macedonia and Croatia early on but took longer for other countries. Usually, the free trade chapters of the SAA, which did not require completion of a lengthy ratification process in all EU member states (because it only needed approval by the European Parliament and the Council of the EU), entered into force earlier (sometimes much earlier, as in the case of Bosnia and Herzegovina).

Table 1: Western Balkan countries, EU accession progress

Country	SAA: entry into force	Membership application	EU candidate status	Decision to open accession negotiation	Status of accession process, April 2024
Albania	2009	2009	2014	2020/2022	Initial phase
Bosnia and Herzegovina	2015	2016	2022	2024	Preparatory stage
Kosovo	2016	2022			
Montenegro	2010	2008	2010	2012	Advanced
North Macedonia	2004	2004	2005	2020/2022	Initial phase
Serbia	2013	2009	2012	2013	Partly advanced
Croatia	2005	2003	2004	2005	EU member since 1 July 2013

Source: Bruegel based on Council of the EU, European Commission, Steinbach (2024), Dabrowski (2014), Dabrowski and Myachenkova (2018).

³ Croatia, Montenegro and Serbia submitted EU membership applications before the completion of SAA ratification process by all EU member states.

Individual Western Balkan countries submitted their EU membership applications soon after their SAAs entered into force or even before, as happened for Croatia, Montenegro and Serbia. Waiting for the EU's approval of candidate status took between one (Croatia and North Macedonia) and six (Bosnia and Herzegovina) years.

The subsequent steps took even longer. In the earlier EU enlargements (including countries that joined the EU in 2004 and 2007), obtaining candidate status was equal to starting membership negotiations. Turkey was the first candidate for which these two decisions were split: it obtained EU candidate status in 1999 but was only allowed to start accession negotiations in 2005.

For the Western Balkan candidates, such a split became the norm. North Macedonia is the most stark case. It obtained candidate status in December 2005 but was only approved to start accession negotiations by the Council of the EU in July 2020, despite several positive recommendations issued earlier by the European Commission. Worse, the first Intergovernmental Conference occurred two years later due to the problems with the Council approving a negotiation agenda.

Albania had to wait five years to obtain candidate status after submitting its membership application in 2009, then six years for the formal approval of the start of accession negotiations in July 2020, and two additional years for their actual opening in July 2022. Its bad luck was that its membership bid was decided in one package with North Macedonia, which faced exceptional geopolitical headwinds.

The accession decisions concerning Montenegro and Serbia were taken faster, and they were able to start membership negotiations earlier – in 2012 and 2014, respectively. However, negotiations then stagnated (Dabrowski and Myachenkova, 2018). As of June 2024, all 33 screened chapters are open for Montenegro, but only three (science and research, education and culture, and external relations) have been provisionally closed. However, the sixteenth meeting of the Accession Conference with Montenegro at the ministerial level, which was held in Brussels on 26 June 2024, noted that significant progress on the rule of law chapters (chapter 23 on judiciary and fundamental rights and chapter 24 on justice, freedom and security) had been made⁴. If negotiations on these two chapters are provisionally closed soon, Montenegro's entire accession process may be accelerated.

Since December 2021, Serbia has had 22 negotiation chapters opened and only two (science and research, education and culture) have been provisionally closed.

Generally, the Western Balkan accession process has happened slowly compared to the central and eastern European countries that joined the EU in 2004 and 2007. The responsibility for disappointing progress should be shared between EU member countries and Western Balkan applicants.

EU member countries lost their political appetite for further EU enlargement in the 2010s and early 2020s⁵ (Grabbe, 2024). As mentioned above, they were slow in opening accession negotiations with some candidates and there were instances where veto power was abused. As long as all enlargement-related decisions require the unanimity of all member states (Darvas *et al*, 2024), the common EU attitude will be determined by the most reluctant countries.

The EU Revised Enlargement Methodology (REM) adopted in 2020 (European Commission, 2020) also effectively slowed down the ongoing negotiation process for over a year. The demand for the REM (mainly by France) served as an excuse to postpone the decision to open accession negotiations with Albania and North Macedonia in October 2019. Then, regardless

4 European Commission news of 26 June 2024, 'Sixteenth meeting of the Accession Conference with Montenegro at Ministerial level', https://neighbourhood-enlargement.ec.europa.eu/news/sixteenth-meeting-accession-conference-montenegro-ministerial-level-2024-06-26_en.

5 Heather Grabbe, 'The push-pull between geopolitics and domestic resistance: lessons from the 2004 enlargement of the EU', *First Glance*, Bruegel, 2 May 2024, <https://www.bruegel.org/first-glance/push-pull-between-geopolitics-and-domestic-resistance-lessons-2004-enlargement-eu>.

of the REM's potential merits (Dabrowski, 2020), time was needed for its negotiation, approval and start of implementation.

As mentioned, some EU countries abused the unanimity requirement in the enlargement decision-making process to meet their national interests or other domestic political agenda goals.

North Macedonia was the biggest victim of such practices. For more than a decade, Greece blocked the start of its EU accession negotiation, demanding that it change its country name (this veto also blocked North Macedonia's accession to NATO). When the then Republic of Macedonia finally accepted this demand and signed the Prespa agreement in 2018⁶, it had to wait to agree and implement the REM. Then, Bulgaria challenged it on the issues related to the supposed Bulgarian roots of the Macedonian nation and language (Brunnbauer, 2022). In June 2022, under EU pressure, the Bulgarian parliament abandoned the veto to allow EU accession negotiations to start with North Macedonia. However, the conflict remains unresolved and Bulgaria still demands changes to North Macedonia's constitution.⁷

On the other hand, Western Balkan countries can be blamed for disappointing progress or even backtracking in the critical areas of democratic institutions, civil freedoms, minority rights, fair election, the rule of law, reform of the judiciary and public administration, fighting corruption and organised crime⁸ (see section 5).

The legacy of violent ethnic conflicts, which accompanied the collapse of the former Yugoslav federation in the 1990s, is another obstacle to further progress in accession negotiation for some countries. Without fully normalising relations between Serbia and Kosovo, including Serbia's recognition of Kosovo's independence, it is hard to imagine how both countries can join the EU. Kosovo is not even eligible to become an EU candidate because it is not recognised by five EU countries (Cyprus, Greece, Romania, Slovakia and Spain).

The precarious and largely dysfunctional constitutional settings of Bosnia and Herzegovina, a legacy of the Dayton Agreement of 1995, which ended a bloody three-and-half-year war in this former Yugoslav republic, also require far-going reforms to prepare the country for EU accession.

The full-scale Russian aggression against Ukraine, which started in February 2022, changed the perception of the geopolitical and security situation in Europe, including the Western Balkan region, which was the subject of geopolitical penetration by Russia⁹ and China. EU countries and the EU governing bodies have changed their attitudes toward EU enlargement, giving it priority.

In the first instance, this affected the EU's perception of Eastern Partnership (EaP) countries, which had never been considered potential EU candidates. In June 2022, the European Council granted EU candidate status to Moldova and Ukraine (European Council, 2022), and Georgia became a candidate in December 2023, when Moldova and Ukraine were also invited to start accession negotiations (European Council, 2023). The relative speed with which the three EaP countries obtained candidate status, and two of them were allowed to start membership negotiations, served as a wakeup call for the Western Balkan candidates, who became afraid of being left behind in the process of joining the EU (Steinbach, 2024).

The EU also took active steps in speeding up Western Balkan accession. Bosnia and Herzegovina became an EU candidate in December 2022 and was invited to start accession

6 See <https://treaties.un.org/doc/Publication/UNTS/No%20Volume/55707/Part/I-55707-0800000280544ac1.pdf>.

7 Frosina Dimeska, 'The Bulgaria-North Macedonia Constitution Issue: How it Evolved', *Balkan Insight*, 19 July 2023, <https://balkaninsight.com/2023/07/19/the-bulgaria-north-macedonia-constitution-issue-how-it-evolved/>

8 See European Commission news of 8 November 2023, 'Commission adopts 2023 Enlargement package, recommends to open negotiations with Ukraine and Moldova, to grant candidate status to Georgia and to open accession negotiations with BiH, once the necessary degree of compliance is achieved', https://neighbourhood-enlargement.ec.europa.eu/news/commission-adopts-2023-enlargement-package-recommends-open-negotiations-ukraine-and-moldova-grant-2023-11-08_en.

9 For example, Russia was accused of sponsoring the anti-government coup attempt in Montenegro in October 2016 (see *The Guardian*, 'Kremlin rejects claims Russia had role in Montenegro coup plot', 20 February 2017, <https://www.theguardian.com/world/2017/feb/20/russian-state-bodies-attempted-a-coup-in-montenegro-says-prosecutor>)

negotiations in March 2024. On 8 November 2023, the European Commission announced a new Growth Plan for the Western Balkans for 2024-2027, worth €6 billion (of which €2 billion is grants and €4 billion concessional loans; European Commission, 2023). The Council presidency and the European Parliament provisionally approved this package on 4 April 2024. Apart from providing additional financial assistance to the region, the EU aims to accelerate its economic convergence, set incentives to speed up governance and economic reforms, normalise Serbia-Kosovo relations, accelerate integration of candidates into the Single European Market (beyond the SAA provisions) and boost intra-regional integration through the Common Regional Market.

3 Economic and social convergence

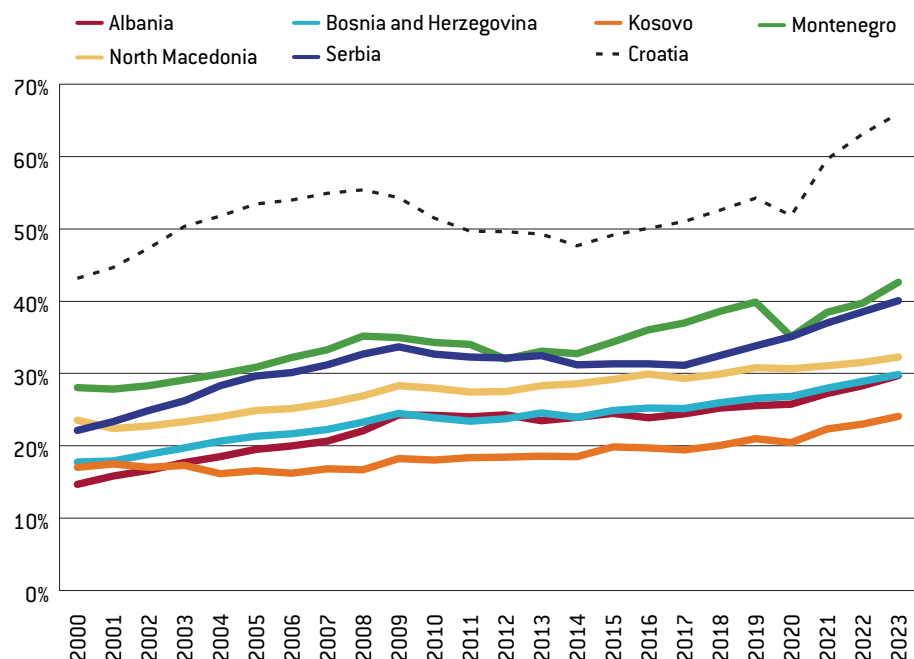
3.1 Economic convergence

In the second half of the 2010s, economic growth somewhat accelerated compared to the first half of the decade, when the region was negatively affected by the global and European financial crises. The COVID-19-related recession in 2020 was on average shallower for the Western Balkan countries than in the EU.

The post-COVID-19 recovery in 2021-2022 was rapid in the entire region (Record *et al*, 2022). However, in 2023, growth slowed due to the sluggish economic performance of key euro-area trading partners and the toll of inflation on household consumption (EBRD, 2023).

Since the mid-2010s, Western Balkan economies have renewed their income per-capita convergence with Germany (Figure 1), thanks to better growth performance in the post-pandemic years. However, these levels remain low relative to Germany (and the EU), ranging from one-quarter of German income *per capita* in Kosovo to just over two-fifths in Montenegro. They are also lower compared to Croatia – from one-third in Kosovo to two-thirds in Montenegro.

Figure 1: GDP *per capita* in current international \$, PPP adjusted, Germany = 100, 2000 - 2023



Source: Bruegel based on IMF WEO April 2024. Notes: IMF staff estimates start after 2021 (Albania and Kosovo), 2022 (Bosnia and Herzegovina and Serbia) and 2023 (Germany, Montenegro and North Macedonia).

In 2023, all six Western Balkan economies (Croatia not included) were classified as upper-middle-income countries, according to the World Bank Atlas method. This category includes countries with a gross national income (GNI) *per capita* of between \$4,466 and \$13,845. Montenegro had the highest GNI *per capita* in 2022 at \$10,480, followed by Serbia at \$9,290. The other four nations were all at the lower end of the category. Kosovo reported the lowest level at \$5,660.

The remaining income per-capita gap with higher-income EU member states may be one of the reasons for the reservations of some EU governments against fast enlargement. It will mean higher transfers from the EU budget¹⁰ and stronger incentives for mass intra-EU movement of the labour force. On the other hand, accession can accelerate the income *per-capita* convergence process, as happened in countries that joined the EU in 2004, 2007 and 2013 (Darvas, 2024).

3.2 Macroeconomic stability

The dominant monetary regimes in the region – a fixed peg to the euro in North Macedonia, a euro-denominated currency board in Bosnia and Herzegovina and unilateral euroisation in Kosovo and Montenegro – helped to disinflate rapidly after high inflation/hyperinflation episodes in the 1990s and early 2000s and provided a macroeconomic and financial stability anchor. However, they led to the import of higher inflation from the euro area when the latter experienced price stability problems in 2021-2023. With inflation in the euro area gradually declining in 2023-2024, a similar trend has been observed in the Western Balkan region.

In the long term, unilateral euroisation and pegs to the euro may help with faster trade, investment and financial integration with the EU.

Despite the negative fiscal impact of the COVID-19 pandemic, all Western Balkan countries except North Macedonia improved their gross-public-debt-to-GDP ratios, compared to 2015. However, in Montenegro and Albania, they continue to exceed 60 percent, a high level for emerging-market economies. Continuation of the fiscal consolidation effort is necessary.

3.3 Social challenges: demography and a dysfunctional labour market

Historically, dysfunctional labour market mechanisms have been a major social and economic challenge in the Western Balkan region. They have generated high levels of unemployment, inactivity and informal employment. They have limited the rate of potential growth in Western Balkans, other things being equal. They have also been responsible for higher levels of income inequality (Jusić, 2018).

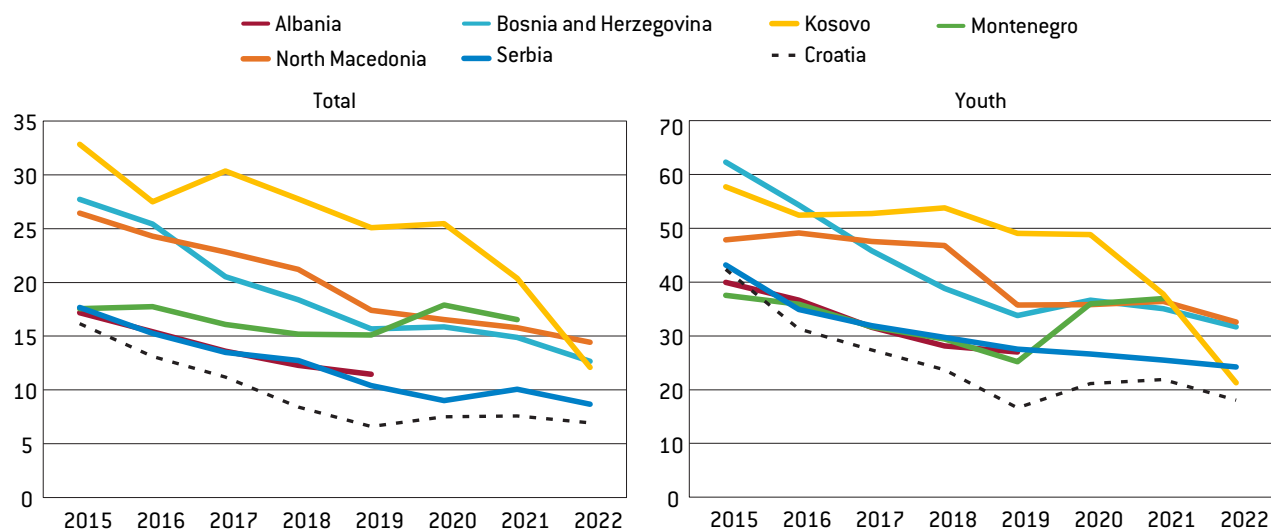
Dysfunctional labour markets in Western Balkan countries can create obstacles in their full and effective integration with the European single market. They create additional pressure for outward migration from the region, mainly to the EU. If not improved during the EU accession process, they will increase the number of EU countries suffering from similar problems.

In 2022, total unemployment was highest in North Macedonia at 14.4 percent and lowest in Serbia at 8.7 percent (Figure 2a). These high unemployment levels are driven by high levels of youth unemployment (Figure 2b). Modest gains in total employment from 2010 to 2015 disproportionately benefited older and highly educated workers, whereas low-skilled and less-educated young workers were relative losers (World Bank/WIIW, 2017).

However, all Western Balkan countries have made progress since 2015. Unemployment has followed a linearly decreasing trend everywhere. Youth unemployment has also fallen, most notably in Bosnia and Herzegovina where rates fell from over 60 percent to just over 30 percent in 2022. However, they are still higher than in Croatia.

¹⁰ On the other hand, the small size of Western Balkan economies limits the impact of their future accession on the EU budget.

Figure 2: Unemployment, total (% of total labour force) and youth unemployment rate



Source: Bruegel based on World Bank WDI.

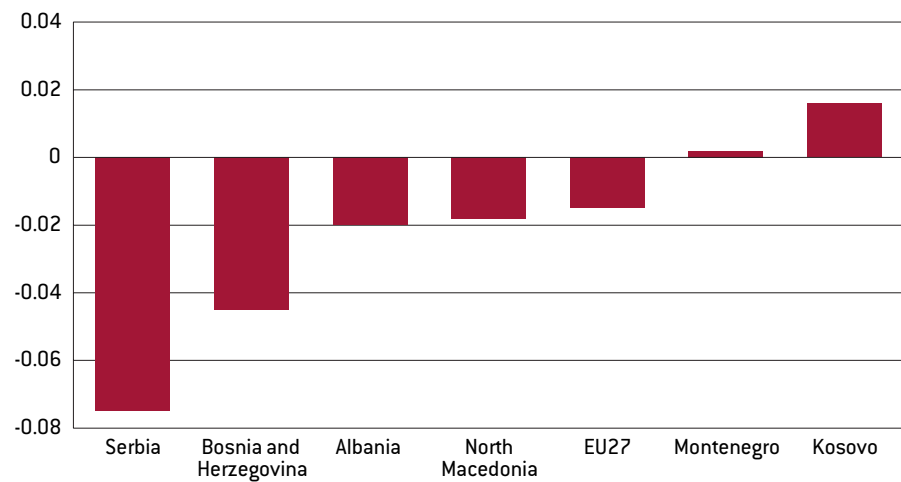
Negative demographic trends (Figure 3) and outward migration (see section 4.3) are two major factors. Regarding the first factor, all countries of the region except Kosovo recorded systematic declines in their working-age populations (age cohorts 15-64), like other European countries. Looking ahead, diminishing labour supply may further reduce unemployment rates and associated social tensions. However, it will also reduce the potential growth of Western Balkan countries, especially if labour allocation mechanisms are not improved. In turn, it can slow down the process of economic and social convergence of this region with other parts of the EU.

Worse, labour inactivity in the Western Balkans is higher than in the EU. Out of the region's 11 million people of working age in 2020, approximately a third were inactive (4 million), ranging from 32 percent in Albania to 60 percent in Kosovo (Bartlett and Oruc, 2021).

Women constitute a large portion of the inactive population (Figure 4). In all Western Balkan countries, female labour force participation (LFP) has been lower than male LFP since 1991. Furthermore, female LFP is lower than the European average. This is partly driven by the widespread informal economy and reliance on remittances, which leads to a high reservation wage for women (Bartlett and Oruc, 2021). Whilst the EU has seen the uninterrupted linear convergence of LFP from 73 percent of male LFP in 1991 to 88 percent in 2022, the Western Balkans has not seen such a clear trend. North Macedonia and Montenegro have experienced no such convergence since 1991. Bosnia and Herzegovina has seen some convergence since 2007, from 57 percent of male LFP to 70 percent in 2022. Serbia's convergence went from 75 percent in 2006 to 84 percent in 2022.

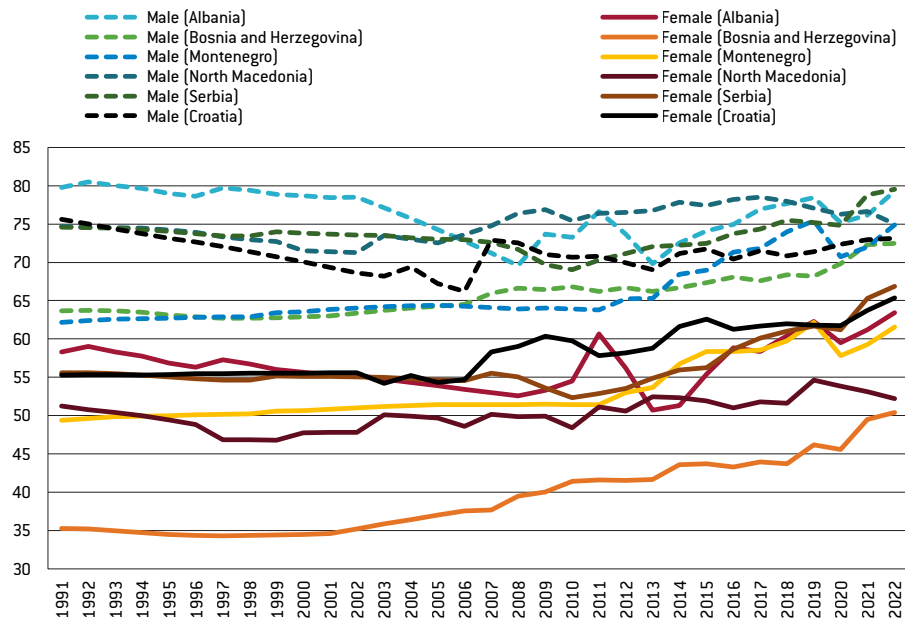
Low female LFP indicates the continued gender inequality in economic and social spheres and the long way to go to converge to the EU performance. Inactivity (or informal activity) of a substantial part of the labour force does not help in the income *per capita* convergence of the Western Balkan economies.

Figure 3: Annual percentage change in 15-64 working age population, in %, 2014 – 2020



Source: Bruegel based on Bartlett and Oruc (2021), Eurostat, INSTAT (Albania), World Development Indicators, BHAS (Bosnia and Herzegovina) and ASK (Kosovo).

Figure 4: Labour force participation rate by gender



Source: Bruegel based on World Bank WDI. Note: data for Kosovo is lacking. Charts refers to 15-64 age group

4 External economic relations and the role of the EU

In economic terms, Western Balkan economies are already highly integrated into the European single market in terms of trade, investment and labour flows. Progress in EU accession can further strengthen these trends.

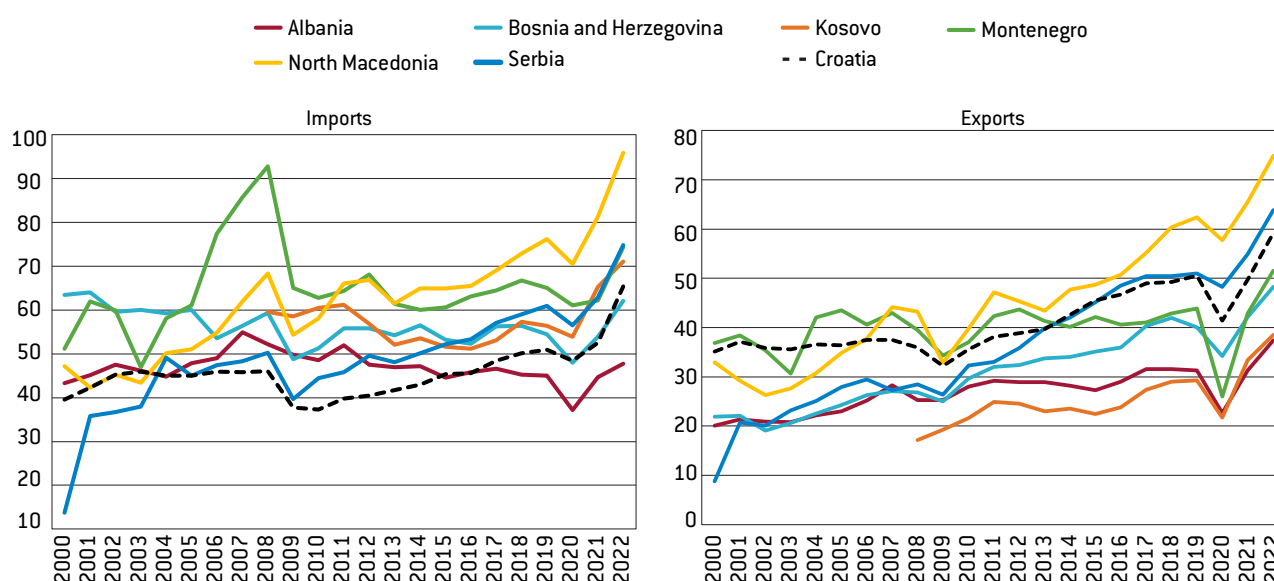
4.1 Trade

The Western Balkan countries have high and increasing levels of trade openness measured as a percentage of GDP (Figure 5). This is normal for small economies since there are fewer opportunities for domestically produced goods to dominate domestic markets¹¹.

The EU is the largest trade partner for the Western Balkan countries (Figure 6), except for Kosovan and Montenegrin exports, in which the EU is second behind other Western Balkan countries taken together. Furthermore, there has been practically no deviation in the composition of trading partners in both imports and exports from 2015-2023.

However, the importance of the trade relationship between the EU and the Western Balkans is asymmetric given that the Western Balkans constitute only around 1.5 percent of the European Union's trade in goods¹².

Figure 5: Imports and exports of goods and services, % of GDP, 2000 – 2022

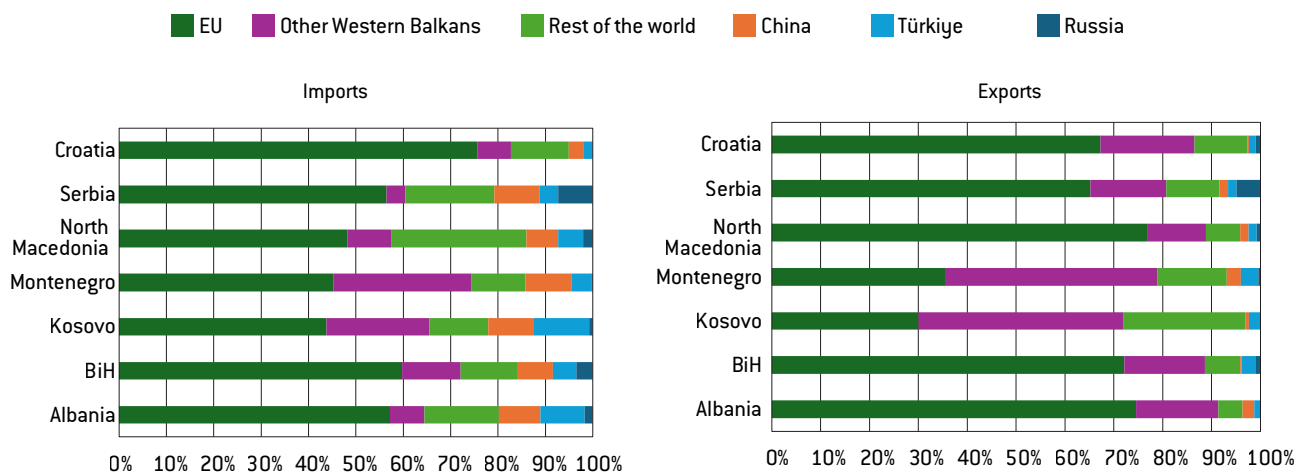


Source: Bruegel based on World Bank WDI.

¹¹ See Eurostat, 'Enlargement countries - international trade in goods statistics', undated, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_international_trade_in_goods_statistics.

¹² European Parliament, 'Western Balkans: Economic indicators and trade with EU', *At a Glance*, April 2023, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/745670/EPRS_ATAG\(2023\)745670_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/745670/EPRS_ATAG(2023)745670_EN.pdf).

Figure 6: Geographical structure of exports and imports, 2023



Source: Bruegel based on IMF DOTS.

All Western Balkan countries have SAAs with the EU, as described in section 2. These provide partial access to the European single market.

Serbia did not participate when most Western countries implemented sanctions against Russia in 2014-2015 and again from 2022 onwards¹³. Therefore, it has not been affected by the Russian retaliatory countermeasures. It has tried to benefit from the diversion of trade flows to and from Russia, remaining the most exposed to trade with Russia in the region (Kostadinov, 2023). This approach contradicts the EU expectations that candidate countries will align their foreign and trade policies with the EU Common Foreign and Security Policy (CFSP) and is one of the obstacles to Serbia's accession to the EU (Mihajlovic, 2024).

4.2 Foreign direct investment

The Western Balkans received accelerating FDI inflows throughout the 2000s and 2010s, exceeding the average in transition economies (Dabrowski and Myachenkova, 2018). Since 2015, however, FDI inflows have remained relatively stable in the region. In 2022, Montenegro and Serbia had the largest stock of FDI at 91.2 percent and 81.3 percent of GDP respectively (Figure 7). Bosnia and Herzegovina maintained the lowest stock of FDI, at 38.1 percent of GDP, but this was still above the 30 percent average for Eastern European countries¹⁴.

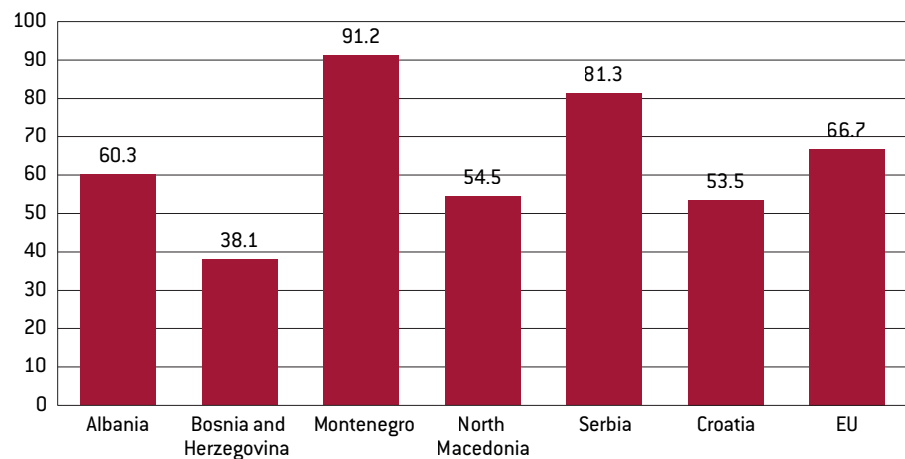
Determining the true source of FDI is difficult, since some EU countries are prominent channels for global tax avoidance, distorting officially recorded FDI statistics (Darvas *et al*, 2023). On a global level, up to 40 percent of FDI may be classified as 'phantom FDI', meaning that the investment takes advantage of tax or investor protection, rather than being originally from the country (Damgaard *et al*, 2024). Nonetheless, the EU is an important contributor to FDI in the Western Balkans. EU companies accounted for 59 percent of FDI stock in 2022¹⁵. The EU has been a majority investor in the Western Balkans, even accounting for 'phantom FDI' (Steinbach, 2024).

13 Jelena Jevtić, 'Vučić reiterates refusal to sanction Russia: "A friend in need is a friend indeed"', *Euractiv*, 21 February 2024, <https://www.euractiv.com/section/politics/news/vucic-reiterates-refusal-to-sanction-russia-a-friend-in-need-is-a-friend-indeed/>.

14 According to the UNCTAD M49 categorisation (<https://unstats.un.org/unsd/methodology/m49/>) this group includes Belarus, Bulgaria, Czechia, Hungary, Poland, Moldova, Romania, Russia, Slovakia and Ukraine.

15 Council of the EU, 'The EU: main investor, donor and trade partner for the Western Balkans', undated, <https://www.consilium.europa.eu/en/infographics/the-eu-main-trade-partner-and-investor-for-the-western-balkans/>.

Figure 7: Stock of inward FDI, % of GDP, 2022



Source: Bruegel based on UNCTAD Data Centre.

These dynamics are undergoing structural shifts. Investment from China has significantly increased in the Western Balkans – Serbia alone received €2.4 million in 2010 rising to almost €1.4 billion in 2022.

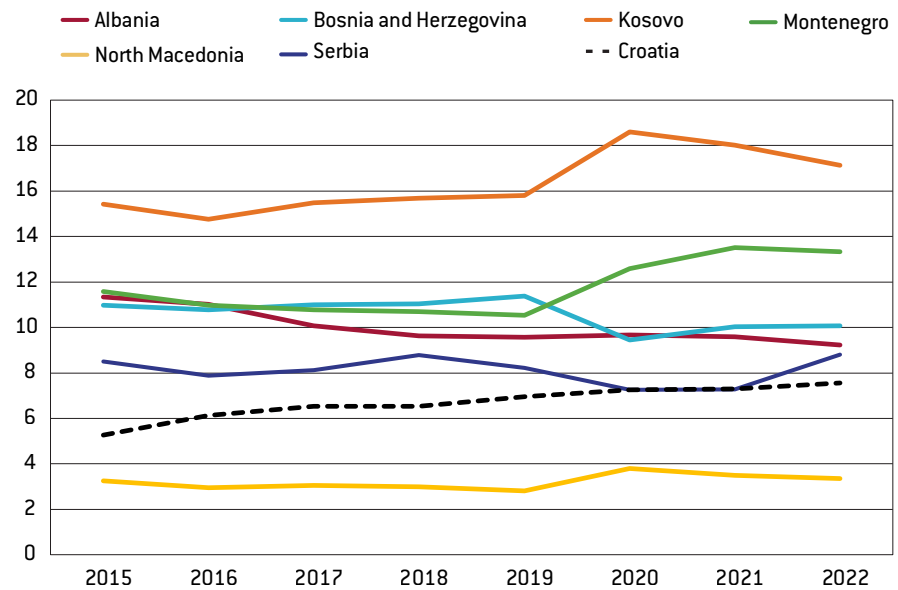
4.3 Outward migration and labour remittances

The Western Balkans record large outward migration. This phenomenon may partly explain decreasing unemployment and rising labour force participation in the region (see subsection 3.3).

While finding statistical data on outward labour migration is difficult due to its partly seasonal and informal character, the remittances statistics (Figure 8) provide a good illustration of the economic importance of labour force exports for individual countries. Remittances constitute a significant income stream, financing domestic demand and investment and supporting the balance of payments (OECD, 2020). However, their macroeconomic importance differs between individual Western Balkan countries: from 3-4 percent of GDP in North Macedonia to 13-14 percent in Montenegro and 17-18 percent in Kosovo, with the three other Western Balkan countries recording between 8 percent and 10 percent of GDP.

Between 2015 and 2022, the share of remittances in the GDP of individual countries has remained relatively stable, with some short-term fluctuations dependent on the economic dynamics in receiving countries (mainly in the EU).

Figure 8: Personal remittances, received, % of GDP



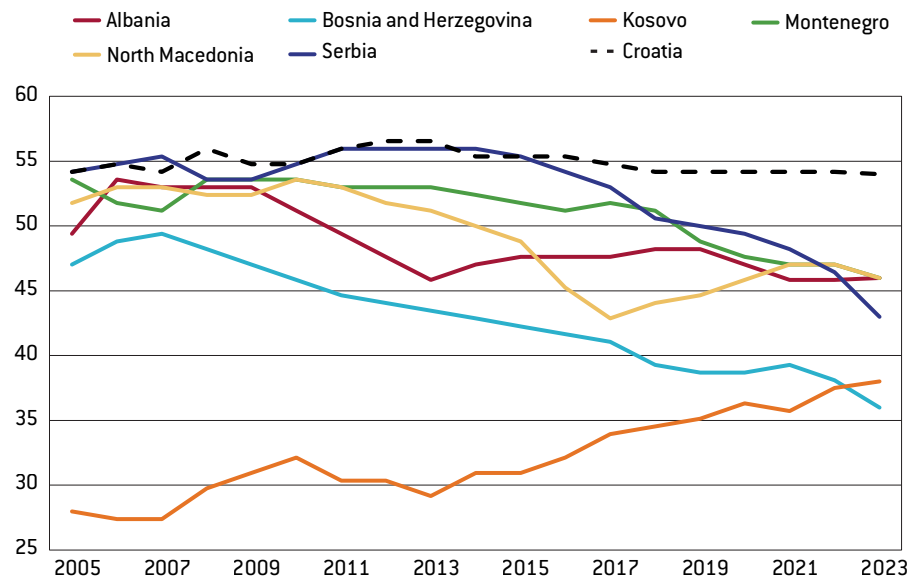
Source: Bruegel based on World Bank WDI.

5 Governance challenges

Measuring governance performance is not a methodologically easy task. The most common way of measuring its various dimensions is using composite numerical indices produced by global development institutions and non-governmental organisations. However, such indices try to quantify phenomena that have a qualitative character. Therefore, they must rely on some selected proxy indicators.

Furthermore, most surveys rely on the opinions of either experts or business practitioners, which have a subjective character. There is the question of the representativeness of these opinions. The composite indices can also be disputable in terms of their composition (selection of detailed measures) and the weights attached to the individual components. Sometimes, there are correlations between these components (multicollinearity), which may distort the results. Nevertheless, using such composite indices is the only way to compare governance performance between countries and over time.

Figure 9: Freedom House Nations in Transit democracy scores, 2005-2023



Source: Smeltzer and Karppi (2024).

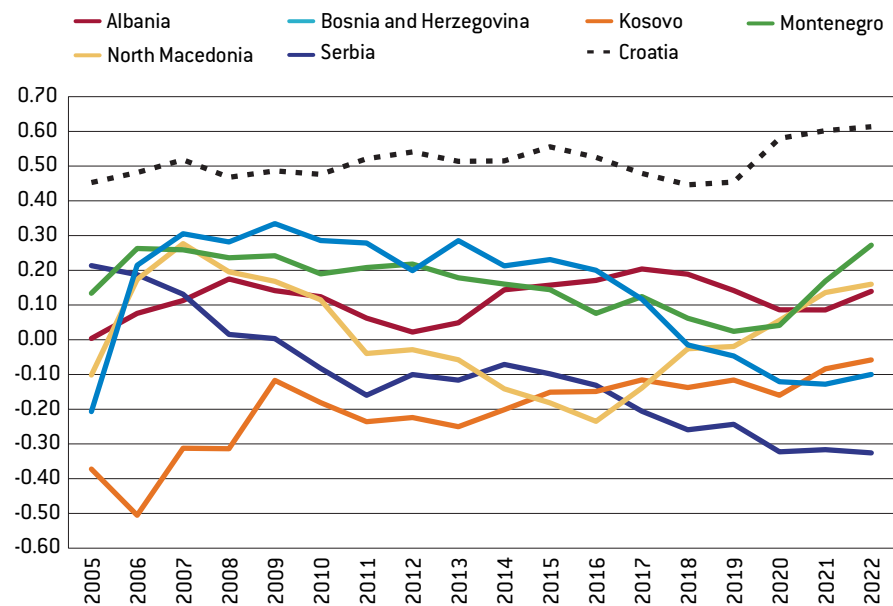
We assess the governance performance of the Western Balkan countries from the Freedom House Nations in Transit (FHNiT) survey (Smeltzer and Karppi, 2024), which produces an annual democracy score. It is a simple average of seven detailed indices, which examine national democratic governance, electoral processes, civil society, independent media, local democratic governance, judicial framework and independence, and corruption. Figure 9 offers an overall picture for the period 2005-2022. Only Kosovo recorded systematic improvements in its scores. Performance of all other countries of the region deteriorated, most visibly in Bosnia and Herzegovina and Serbia. North Macedonia's scores improved between 2018 and 2021, after a severe decline between 2010 and 2017, but the increasing trend stopped in 2022, followed by a decrease in 2023.

Since 2019, all Western Balkan countries have been rated as Transitional or Hybrid Regimes by the FHNiT. Before, Montenegro and Serbia (both between 2005 and 2018), North Macedonia (between 2005 and 2013) and Albania (between 2006 and 2010) belonged to a higher category of Semi-Consolidated Democracies. For comparison, Croatia which has also recorded some deterioration in democracy score continues to be ranked as a Semi-Consolidated Democracy.

The voice and accountability score (Figure 10), one of the World Bank's six World Governance Indicators (WBWGI), gives a slightly better picture of the dynamics of democratic governance in the region, especially for Montenegro and North Macedonia (and Croatia), but confirms a deteriorating trend for Bosnia and Herzegovina and Serbia. It operates on a scale between -2.5 (poor performance) and +2.5 (strong performance). Individual country scores from -0.33 to +0.27 suggest that there is still large room for improvement.

We also look at three other WBWGIS: the rule of law (Figure 11), regulatory quality (Figure 12) and control of corruption (Figure 13), which were measured in the same way. They are essential in meeting the first pillar of the Copenhagen Criteria and successful negotiation on Cluster 1 (Fundamentals) of the REM.

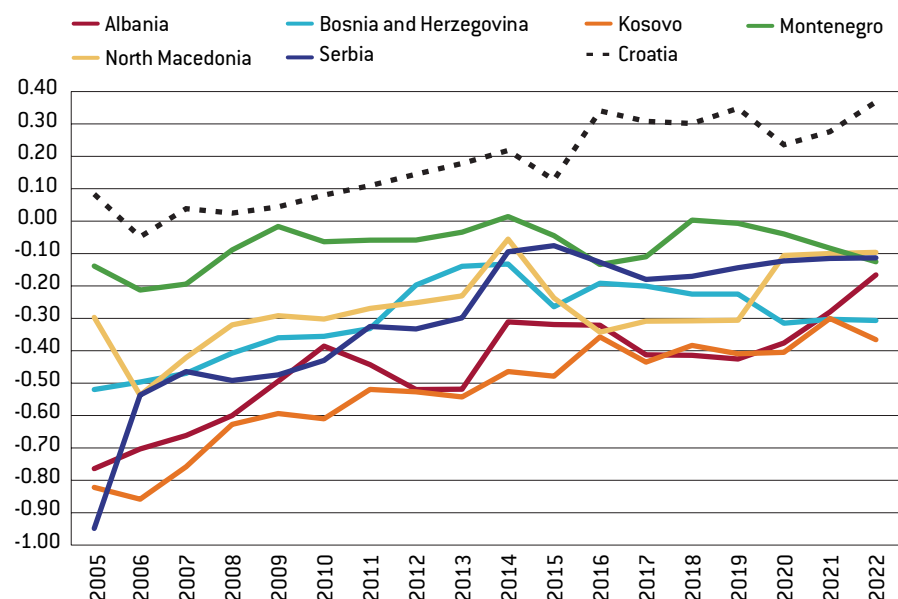
Figure 10: World Bank's World Governance Indicators, voice and accountability (estimate), 2005-2022



Source: World Bank's World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

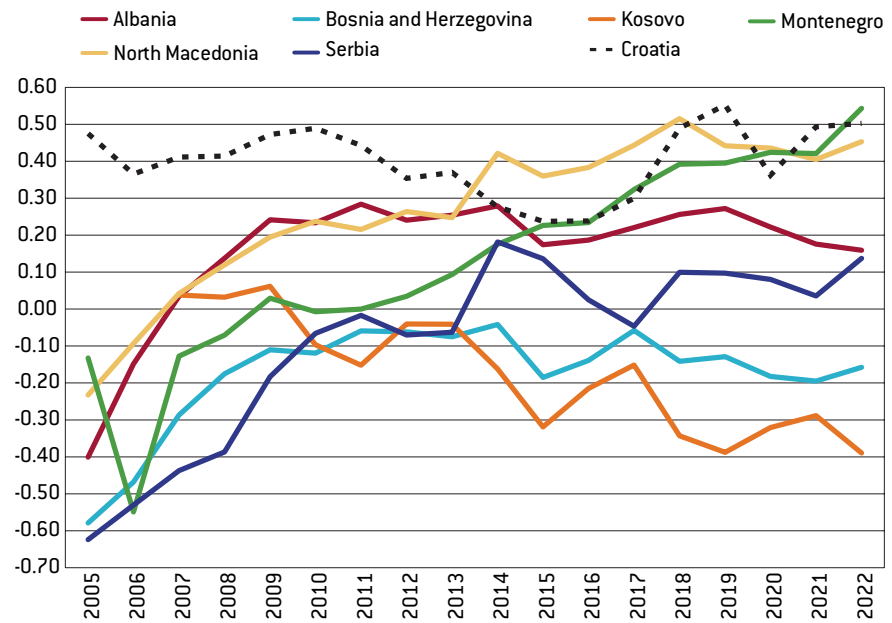
Two indicators – the rule of law (Figure 11) and control and corruption (Figure 13) – place Western Balkan countries in the negative territory, ie scores below zero. Changes in individual countries go in opposite directions and present high volatility. Regarding the rule of law, Kosovo, Albania and North Macedonia have improved their performances compared to the mid-2000s, Montenegro has stagnated despite having a better starting point than its neighbours, Serbia has stagnated since 2014, after visible progress before, and Bosnia and Herzegovina has deteriorated since 2014, after the earlier improvement. Croatia records higher and improving scores.

Figure 11: World Governance Indicators, rule of law (estimate), 2005-2022



Source: World Bank World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

Figure 12: World Governance Indicators, regulatory quality (estimate), 2005-2022

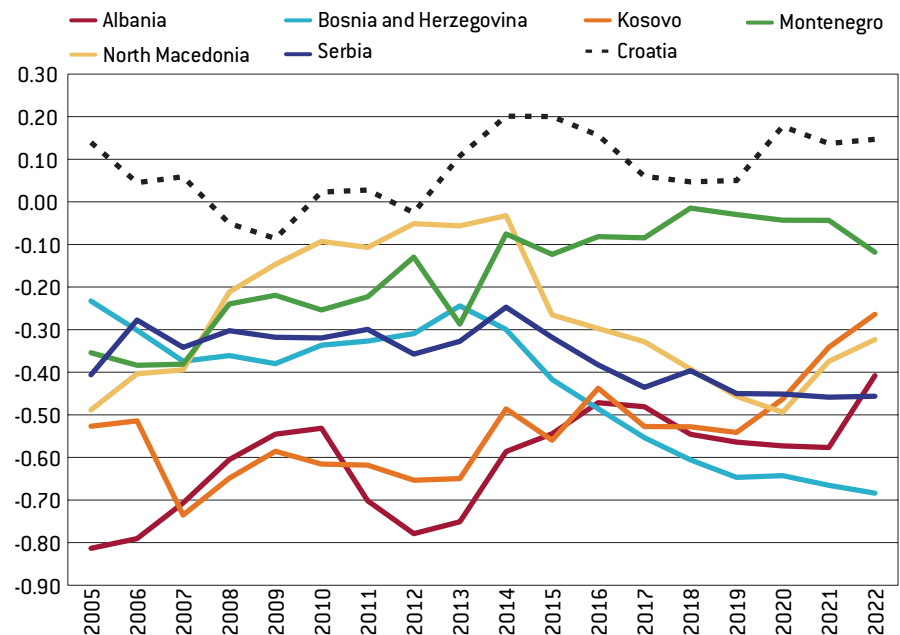


Source: World Bank World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

The control of corruption scores sharply decreased in Bosnia and Herzegovina after 2013, North Macedonia after 2014 (after earlier improvement) and Serbia after 2014. There has been limited progress in this area in Montenegro, Kosovo and Albania.

The regulatory quality scores look a bit better. All Western Balkan countries, except for Kosovo and Bosnia and Herzegovina, are in positive territory (above zero). North Macedonia and Montenegro have recorded an improving trend, while Albania and Serbia have stagnated (since 2014). Kosovo's and Bosnia and Herzegovina's scores have deteriorated after an initial improvement.

Figure 13: World Governance Indicators, control of corruption (estimate), 2005-2022



Source: World Bank World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

6 Summary and conclusions

The Western Balkan countries were given a geopolitical chance to become EU members at the beginning of the twenty-first century after a decade of tragic intra-regional conflicts, which accompanied the disintegration of the former Yugoslavia. The EU integration prospect has helped to mitigate the previous conflicts and create positive political and economic dynamics in the region, which dominated the period until the early 2010s (Dabrowski and Myachenkova, 2018). However, more than 20 years after the Thessaloniki summit, only Croatia has joined the EU. The remaining six countries are still stuck at various stages of the accession process with no or little progress in recent years.

The blame for the slow pace of EU accession can be shared between EU member countries and the candidates. Some EU countries lost interest in continued enlargements and have used this process to satisfy their nationalist domestic agendas. Meanwhile, the Western Balkan candidates stopped progressing or even backtracked in the key areas of democratic institutions, the rule of law, anti-corruption and protecting minorities. There has been no further progress in the normalisation of Serbia-Kosovo relations.

Economic and social reforms in individual countries also slowed down in the 2010s and the early 2020s. The business and investment climate has not improved while deeply rooted social vulnerabilities such as dysfunctional labour markets or gender inequality in the economic and social spheres have not been sufficiently addressed. Although economic growth and income *per capita* convergence with Germany (serving as the representative of the EU in our analysis) accelerated somewhat, there is still a long way to go to close the income per-capita gap with the EU average.

The full-scale Russian aggression against Ukraine has put EU enlargement back on top of the policy agenda. Three EaP countries (Ukraine, Moldova and Georgia) and Bosnia and Herzegovina have received EU candidate status, and Ukraine, Moldova and Bosnia and Herzegovina have been invited to start accession negotiations. However, the prospect of moving fast in accession negotiations is rather limited in most cases.

Obviously, acceleration of EU enlargement cannot mean giving up the basic membership requirements, especially for the first pillar of the Copenhagen criteria. However, the EU should offer candidates stronger incentives to conduct the necessary reforms.

The Growth Plan for the Western Balkans is a step in the right direction, but its financial size (and, therefore, its potential to encourage the Western Balkan countries to accelerate the reform process) remains limited. It should be substantially enlarged in terms of budget allocation. It would make it more attractive for candidate countries, stimulating their readiness to undertake the most difficult economic and governance reforms. It could also help in the acceleration of economic and social convergence.

If the EU accelerates membership negotiations with Montenegro (the most advanced candidate) and sets an indicative and not very distant EU accession date, this could serve as a strong incentive for other candidates to make progress in their bids for accession, as well as helping to rebuild the credibility of the EU accession process. The new government of Montenegro formed in autumn 2023 offers a chance to accelerate the required reforms.

Another political incentive for the candidates would be rewarding the progress in accession negotiations with earlier access to specific EU common policies and institutions¹⁶. Such a perspective was outlined in the Growth Pact for the Western Balkans.

Western Balkan countries are already closely integrated economically with the EU. Their accession to the EU will further strengthen economic links and help accelerate income per-capita convergence, as happened in countries that joined the EU previously (Darvas, 2024). It will also help mitigate the various social vulnerabilities analysed in this paper. It can both economically and politically stabilise the region, which borders several EU member

¹⁶ In line with the proposal of the staged accession (Mihajlovic *et al*, 2023) or progressive integration (Darvas *et al*, 2024).

states directly and serves as a land bridge between the southeast of the EU (Greece and Bulgaria) and its central European part. It can also help minimise interference from external powers such as Russia and China.

References

- Bartlett, W. and N. Oruc (2021) *Labour Markets in the Western Balkans, 2019 and 2020*, Regional Cooperation Council, available at <https://www.rcc.int/pubs/120/labour-markets-in-the-westernbalkans-2019-and-2020>
- Brunnbauer, U. (2022) 'Side Effects of "Phantom Pains": How Bulgarian Historical Mythology Derails North Macedonia's EU Accession', *Comparative Southeast European Studies* 70(4): 722-739, available at <https://doi.org/10.1515/soeu-2022-0064>
- Council of the EU (2003) 'Thessaloniki European Council 19 and 20 June 2003: Presidency Conclusions', Document 11638/03, Council of the European Union, available at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/76279.pdf
- Dabrowski, M. (2014) 'EU cooperation with non-member neighbouring countries: the principle of variable geometry', *CASE Network Reports* 119, CASE - Center for Social and Economic Research, available at <https://www.case-research.eu/sites/default/files/publications/CNR%20119.pdf>
- Dabrowski, M. (2020) 'Can the EU overcome its enlargement impasse?' *Bruegel Blog*, 27 February, available at <https://www.bruegel.org/comment/can-eu-overcome-its-enlargement-impasse>
- Dabrowski, M. and Y. Myachenkova (2018) 'The Western Balkans on the road to the European Union', *Policy Contribution* 04/2018, Bruegel, available at <https://www.bruegel.org/policy-brief/western-balkans-road-european-union>
- Damgaard, J., T. Elkjaer and N. Johannesen (2024) 'What is real and what is not in the global FDI network?' *Journal of International Money and Finance* 140: 102971, available at <https://doi.org/10.1016/j.jimonfin.2023.102971>
- Darvas, Z. (2024) 'Twenty years of European east-west household income convergence', *Analysis*, 6 June, Bruegel, available at <https://www.bruegel.org/analysis/twenty-years-european-east-west-household-incomeconvergence>
- Darvas, Z., M. Demertzis, C. Martins, B. McWilliams, L. Léry Moffat, E. Ribakova and N. Poitiers (2023) *EU trade and investment following Russia's illegal invasion of Ukraine*, study requested by the INTA Committee, European Parliament, available at [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/702591/EXPO_STU\(2023\)702591_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/702591/EXPO_STU(2023)702591_EN.pdf)
- Darvas, Z., M. Dabrowski, H. Grabbe, L. Léry Moffat, A. Sapir and G. Zachmann (2024) 'Ukraine's path to European Union membership and its long-term implications', *Policy Brief* 05/2024, Bruegel, available at https://www.bruegel.org/sites/default/files/2024-03/PB%2005%202024_2.pdf
- EBRD (2023) *Regional Economic Prospects: September 2023*, European Bank for Reconstruction and Development, available at <https://www.ebrd.com/rep-0923.pdf>
- European Commission (2020) 'Enhancing the accession process - A credible EU perspective for the Western Balkans', COM(2020) 57 final, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2020:57:FIN>
- European Commission (2023) 'New growth plan for the Western Balkans', COM(2023) 691 final, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52023DC0691>

- European Council (2022) 'European Council meeting (23 and 24 June 2022) – Conclusions,' Document EUCO 22/24, available at <https://www.consilium.europa.eu/media/57442/2022-06-2324-euco-conclusions-en.pdf>
- European Council (2023) 'European Council meeting (14 and 15 December 2023) – Conclusions,' Document EUCO 20/23, available at <https://www.consilium.europa.eu/media/68967/european-council-conclusions-14-15-12-2023-en.pdf>
- Jusić, M. (2018) 'Inequality in Southeast Europe,' Friedrich-Ebert-Stiftung, May, available at <https://library.fes.de/pdf-files/bueros/sarajevo/14451.pdf>
- Kostadinov, A. (2023) 'Western Balkans and Russia: Assessing the Trade Impact of Sanctions,' *Statistical Brief* 2, Institute for Digitalization, Economy and Innovation, Skopje, available at <https://idei.org.mk/wp-content/uploads/2023/09/Statistical-bulletin-2-Sanctions-on-Russia.pdf>
- Mihajlovic, M. (2024) 'Serbia's Challenging Journey to the EU: Reforms Required for Membership,' *European Policy Centre Blog*, 3 April, available at <https://cep.org.rs/en/blog/serbias-challenging-journey-to-the-eu-reforms-required-for-membership/>
- Mihajlovic, M., S. Blockmans, S. Subotic and M. Emerson (2023) *Template 2.0 for Staged Accession to the EU*, European Policy Centre and the Centre for European Policy Studies, available at <https://cdn.ceps.eu/wp-content/uploads/2023/08/Template-2.0-for-Staged-Accession-to-the-EU.pdf>
- OECD (2020) *The COVID-19 Crisis in the Western Balkans: Economic Impact, Policy Responses, and Short-Term Sustainable Solutions*, Organisation for Economic Co-operation and Development, available at <https://www.oecd.org/south-east-europe/COVID-19-Crisis-Response-Western-Balkans.pdf>
- Record, R., S. Madzarevic-Sujster and T. Stucka (2022) 'Overlapping crises in the Western Balkans,' *Commentary*, 23 May, Brookings, available at <https://www.brookings.edu/articles/overlapping-crises-in-the-western-balkans/>
- Smeltzer, M. and A. Karppi (2023) *A Region Reordered by Autocracy and Democracy,' Nations in Transit 2024*, Freedom House, available at https://freedomhouse.org/sites/default/files/2024-04/NIT_2024_Digital_Booklet.pdf
- Steinbach, A. (2024) 'The rocky road to EU accession for Western Balkan countries: obstacles and lessons from the Eastern European Partnership,' *Working Paper* 08/2024, Bruegel, available at <https://www.bruegel.org/working-paper/rocky-road-eu-accession-western-balkan-countries-obstacles-and-lessons-eastern>
- World Bank/WIIW (2017) *Western Balkans Labor Market Trends 2017*, World Bank Group and Vienna Institute for International Economic Studies, available at <https://www.worldbank.org/en/region/eca/publication/western-balkan-labor-market-report>