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**Article**

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## **The political economy of regional integration in the Western Balkans**

**Pantelis Sklias<sup>1</sup>**

### **ABSTRACT**

*The paper aims to identify the roots and causes of the failure of existing regional economic integration efforts in the Western Balkans and the poor prospects for similar attempts in the future. Existing classical political and economic approaches are enriched by identifying a framework of analysis to capture regional economic integration. Seven political economic variables to measure regional economic integration endeavors are introduced, namely: coincidence in political interests and political barriers, common perceptions, values, principles, culture, complete and mature institutions, complementarily of productive basis, inter-state trade and financial flows and transactions, technology, infrastructure. The framework analysis is applied by measuring these variables within the Western Balkans region. It is concluded that potential economic integration efforts in the region may be achieved only through a top-down approach, namely a European Union/International Community forced process, rather than resulting from genuine efforts initiated by the respective countries of the region.*

**Keywords:** Political economy, Regional Economic Integration, Western Balkans.

**JEL classification:** F59, G01

### **1. Introduction**

During the last 20 years Western Balkans witnessed enormous social, political and economic changes. Thousands of pages have been written and excellent scientific work has been done in order to assess and evaluate the progress of the newly born states. A lot has been happening at national level, namely in terms of both socio-political and economic development. New states have emerged, newborn democracies have been established, and market economy structures are now in function. In other words, a new world now exists in the region, consisting of a series of traditional nation states with western oriented patters of development. It is also evident that FDI has been increasing, in the same period with Greece and Greek private firms have become the pioneer in the field. In the mean time Romania and Bulgaria have entered the European Union.

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In the paper it is argued that although the above mentioned critical and astonishing developments have taken place, regional integration and development are still under question and pending, far from being accomplished. Neoclassical economic theories set a series of prerequisites and variables to be fulfilled in order to presume a successful path and accomplishment of regional cooperation and development. Among those a series of political and economic criteria are set. It will be proved that although economic development and FDI's have considerably contributed towards the well being of the people of the new born states, political development has not followed the same path, resulting in a series of inadequacies and gaps to what concerns the democracy model in the region. Even in terms of economic development, wealth is unequally distributed with large portions of the populations, especially national and religious minorities staying out of the scope. Regional economic projects have neither been visualized nor accomplished. An additional element to be evaluated in terms of what concerns the prospects of regional cooperation and development is the fact that Greece, a net contributor of FDI and a promoter of regional cooperation in the region, has been severely affected by the recent financial crisis, which limits its capabilities and potential as a political and economic figure.

The aim of the paper is to prove that regional cooperation still has a very limited scope in the region of the Western Balkans, while the conditions are not so promising. Although a series of economic steps have been realized, the political conditions for such an achievement have not been met, while the minimum impact of economic results are also now under threat due to the latest financial crisis and the limited capacity of Greece to play a key role in this direction. As a result, a stronger political will is now required, which seems to be out of hand of the political leaders of the region.

In this framework, the theoretical considerations to what concerns the prerequisites for achieving a certain level of regional integration will be assessed. More specifically, there will be an assessment regarding the level of accomplishment of a series of variables, which is personally believed to constitute the analytical framework for capturing the political economy of regional economic integration. Then, the proposed framework will be applied to the case of the Western Balkans economies and there will be a justification of the reasons the existing regional economic efforts are limited, and the prospects non-pragmatic. Finally, it is stated that a top-down approach from the point of view of the EU is more feasible to achieve results rather than genuine approaches originating from the states of the region themselves.

## **2. Theoretical Considerations**

Regional Integration and Cooperation has been addressed by a considerable number of distinguished scholars. Nevertheless, the extended variety of approaches and perspectives, which the economists have attributed to regional integration, finally leads to the lack of a commonly agreed definition and meaning of the term, thus making the issue discussed ambiguous. It is characteristic that the discussion has also been overwhelmed by the distinction between the "positive" and the "negative" aspects of integration (Tinbergen,

1954, p.122). Namely, initiatives such as the abolishment of a series of obstacles including discriminatory treatment and functioning of reductionist institutions and policy measures are among those, which form the so-called “negative” integration. On the other hand, policy adaptation and establishment of new institutions and policies with compulsory authority are among those which form the so-called “positive” integration. Experience has demonstrated that “negative” integration is easier to achieve since “positive” integration and the measures encompassed very much influence, national sovereignty and the transfer of traditional state power to hyper state institutions and bodies.

Balassa (1973, p.1) considers economic integration both as a process and as a state of the art. Although the process entails a dynamic element within it, the notion of the state of the art is a rather static meaning of a given situation. Eventually, it still remains unclear to what extent a given process or situation may lead to a certain level of integration at local, regional, or global level. It is important to justify what the exact type and magnitude of a process required to reach a certain level of integration is.

Others (Molle, 1991, p. 5) make a clear cut interconnection among economic integration and the gradual abolition of national economic boundaries. In this framework, a certain period of time is required in order for the system to absorb the consequences of such a gradual abolition of economic borders. This period can be anything between five to ten years. Experience has shown that such a transitory period has not been necessary in cases such as the one of the EFTA countries, which had to satisfy the requirements of the *acquis communautaire* without such a period. The abolition of economic boundaries is also a prerequisite for Pelkmans (1984, p.3).

Pinder (1969, p. 143-145) considers the union to be the combination of different parts into a totality. Integration is a process towards the union. Economic integration entails the abolishment of discriminations among the economic subjects of the member states as well as the establishment of common policies.

Baldwin and Wyplosz (2006) propose six criteria for the examination of whether one country is able or unable to participate in a monetary union. These criteria can be based either on economic factors like labour mobility, production diversification, and openness or on political elements like the fiscal transfers, homogeneous preferences and the solidarity criterion. According to them the European countries do not satisfy either the labour mobility or the fiscal transfer criterion, they partly satisfy the homogeneity of preferences criterion and it is very unclear whether there exists a common sense of solidarity. Instead, the European countries satisfy the trade openness and the production diversification criteria.

Venables (2003) supports that “the outcomes of regional economic integration depend on the comparative advantage of members, relative to each other and relative to the rest of the world. Countries with a comparative advantage between that of their partners and the rest of the world do better than countries with an ‘extreme’ comparative advantage. Consequently, integration between low income countries tends to lead to divergence of member country incomes, while agreements between high income countries cause convergence. Results suggest that developing countries are likely to be better served by ‘north-south’ than by ‘south-south’ agreements”.

Soamiely (1999) states “The remaining outsiders would probably form a bloc of their own, which would lead members of the original bloc to increase its size in anticipation of the creation of the second bloc. The threat of regionalism by outsiders would foster larger regional integration arrangements. Even if blocs were formed and merged simultaneously, yielding progressively larger symmetrical blocs, they would fail to converge in a single bloc unless the external tariff was low enough. In other words, global free trade could be achieved through bloc expansion if trading blocs lowered their external tariffs when abolishing their internal tariffs”.

Numerous researchers and scholars have attributed to economic integration merely economic characteristics with emphasis on the abolition of discriminatory measures among the various parts, participating in the process as well as in the establishment of joint economic policies and institutions. Nevertheless, it is personally believed that such an approach is rather restrictive and does not adequately address the phenomenon from a spherical point of view. Namely, it does not take into consideration the level of political development required within the various states to be integrated for the accomplishment of such a complex task, such as the one of economic integration.

In this case, economic boundaries are the notional line across which movement of goods, services and other production elements are of a low intensity. The main argument when contemplating such an approach is the fact that the simple abolition of economic barriers is not adequate to guarantee the movement of goods, services and other sources. It is rather a simplified approach, which does not take into consideration a series of non-economic obstacles, including the language, principles, culture, perceptions, etc. The same is the case concerning the political institutions as well as the level of political development among the nations concerned.

### **3. The framework of analysis: the political economy of regional integration**

What is being argued in this part of the paper is the need for an enriched approach when attempting to assess and evaluate the prospects of a regional integration endeavour. Neoclassical economic thinking has contributed to the understanding of this process from the economic point of view. Nevertheless, social, political and cultural aspects have been omitted which, in the end, make the whole epistemological attempt obscure, thus leading to fragmented outcomes and often misleading observations and understanding of the reality.

Political development analysts and scholars have also clearly put forward both the quality and the quantity aspects of political development (Koutsoukis, 1999, p. 84). Quality meaningfully addresses “change” and “modernisation”, while quantity entails “growth” and “numerical increase”. Political development is considered as the transition from a given situation to another which becomes better, bigger, more comprehensive. In all understandings, political development entails the political system, meaning the government, institutions and processes, which, in the end, contribute to the better functioning of the political system in terms of production and distribution of the political goods.

The impact of political preferences on trade preferential arrangements has also

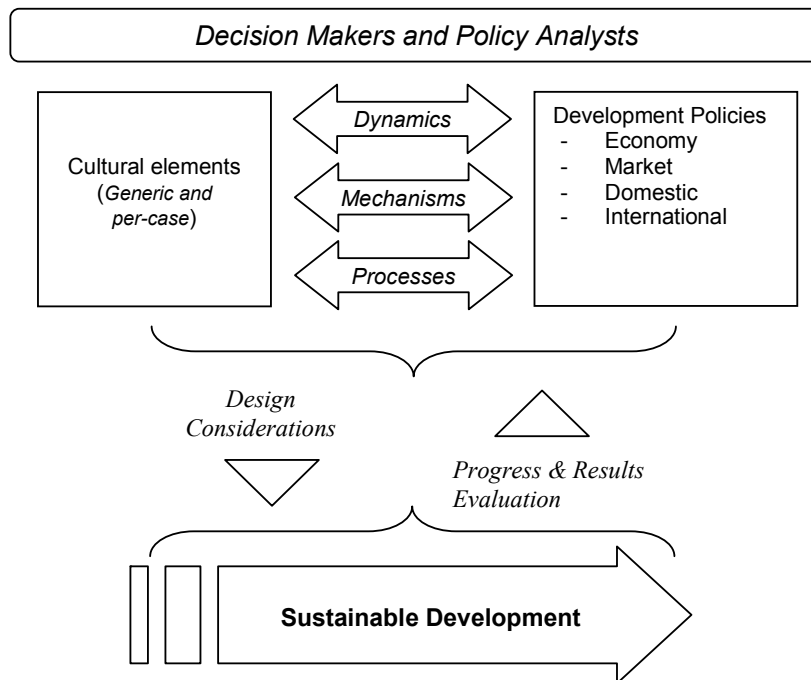
been addressed (Krishna, 1998). In this framework, preferential trading arrangements are analysed from the viewpoint of the “new political economy” that considers trade policy as being determined by lobbying of concentrated interest groups. Two conclusions are reached: first, the trade-diverting preferential arrangements are more likely to be supported politically; and second, such preferential arrangements could critically change domestic incentives so multilateral liberalisation that is initially politically feasible could be rendered infeasible by a preferential arrangement. The larger the trade diversion resulting from the preferential arrangement, the more likely this will be the case.

Dascher, Kristof and Haupt, Alexander (2008) argue that:

“At borders where rich and poor countries meet, services prices differ hugely. In principle, price differentials could be exploited to mutual benefit, offering improved job opportunities to the poor as well as better shopping opportunities to the rich. However, cross-border shopping is often limited by the substantial transaction costs of crossing the border. Moreover, local governments frequently fail to cut these transaction costs even where they have the opportunity to do so. In this paper, we show (i) why a majority of the local electorate often backs this outcome, (ii) how intra-country mobility affects local policy, and (iii) how (inter-)national regulations shape local decisions”.

The impact of culture on processes, practices and dynamics has also been extroverted by scholars (Koutsoukis, Sklias, Roukanas, 2011).

**Figure 1: The analysis framework: Culturally-aware economic development supports sustainable development in Koutsoukis N., Sklias P. and Roukanas S. (2011).**



Koutsoukis *et. al.* (2011) have demonstrated that:

“Culture is one of the factors to be considered for the transformation of the social capital to economic development achievements. Culture and economy create a circuit of two-way inflows and outflows. On one side, the economy supplies culture (the political-social architecture, the institutional environment, the legal civilisation, the behaviours related to values) with inflows, such as investment capital, capital equipment, technology and specialised workforces. On the other side, culture, through the institutionalised system of redistribution of public revenues for social provisions and programmes (state budget) and the effective operation of the rule of law state, transforms the above inflows of resources to social capital. Furthermore, by means of increasing the social dividend it boosts the process of independent development, thus leading to the utilisation of all social forces and modernising the productive framework through the inflow of scientific and properly trained human resources. The institutional architecture and the axiological origins of the society affect the policies followed, since they relate culture to development in a harmonious manner”.

Hazakis (2011, p.180) also enriches the study and the research on competitiveness by encompassing a series of qualitative factors in his analyses. More precisely, he states that:

“It is further suggested that the notion of competitiveness is as much about qualitative factors (i.e., networks, interactions of institutions), as it is about quantifiable attributes (i.e., patenting rates or export market shares). Consequently, more attention should be given to the issue of the link between structures, agents and norms, to understand not only competitiveness outcomes, but also factors that determine the content of competitiveness. To put it simply, competitiveness depends both on intra-organisational resources and on extra-organisational assets. One needs to understand the dynamic interplay of these factors in a particular institutional setting, to explain the failure or success of firms”.

He (Hazakis 2010, p.1) also stresses the role of ethics when assessing transition economies. He suggests that:

“Transition economies need not to provide dichotomy between the end and the means of economic policies but rather need to reflect ethically how market and institutions interact efficiently, targeting in general economic and social welfare”.

From the above it can be argued that the political economy of regional integration can only be comprehended as part of a holistic approach in capturing the different levels of political and economic development. In such an approach, a series of indicators can be considered, namely:

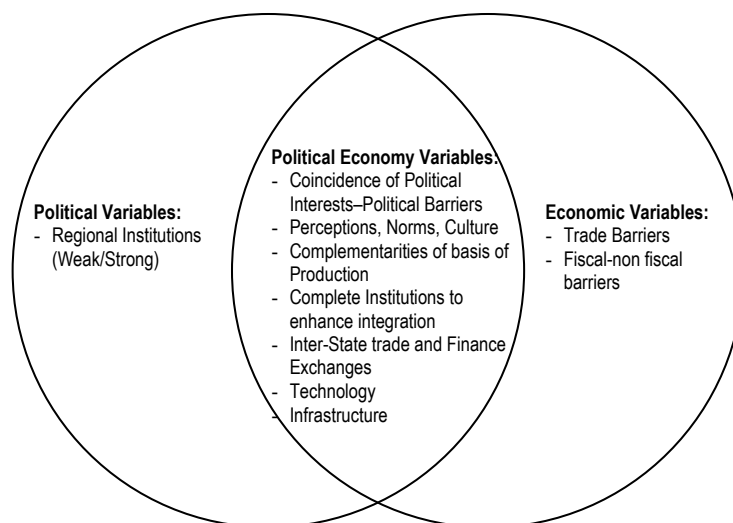
- *Economic indicators including:*
  - GDP growth
  - Trade in goods and services
  - Foreign Direct Investments
  - Equal distribution of income and wealth
  - Production structure

- *Political indicators including:*
  - Free elections
  - Free expression
  - Political willingness
  - Definition of national interests
  - Functioning of the party system
  - Participation in elections
  - National pride and sovereignty
  - National security
  - Level of political maturity
  - Functioning of institutions
- *Social indicators including:*
  - Social participation
  - Respect for human rights
  - Female participation

By stating the above indicators it can be claimed that the evaluation of a regional integration process overpasses the pure economic criteria, to a large extent. Social and political elements play their own role and in a lot of cases outweigh the neoclassical economic prerequisites. Abolition of trade, fiscal and other barriers of pure economic nature is only one part of the whole picture. However, the perceptions on national interest, identities and norms, national security notions as well as the dependency path, play their own role when assessing the success or failure of a process. Thus, political willingness still remains the question.

Such a methodological approach may be figured as below.

**Figure 2: Capturing Regional Economic Integration**





The above Figure makes clear that from a personal point of view the variables to be assessed when attempting to evaluate perspectives for regional economic integration can be considered as follows:

**A. Traditional Economic Variables:**

1. Trade barriers

The level of removal of trade barriers and trade distortion measures and policies is a clear indication of the level of regional economic integration to be achieved. The more trade barriers exist, the less integration level can be achieved.

2. Fiscal and non-fiscal barriers

The level of removal of fiscal and non-fiscal barriers and distortion measures and policies is a clear indication of the level of regional economic integration to be achieved. The more fiscal and non-fiscal barriers exist, the less integration level can be achieved.

**B. Traditional Political variables**

1. Regional Political institutions

The existence of strong regional institutions to mobilize regional economic and political initiatives in favour of regional economic cooperation and integration is a serious tool and mechanism towards achieving the direction and accomplishment of the process. Whether such initiatives are to have a sound basis or they are to “swallow” attempts may be an indication of the depth of any effort undertaken.

**C. Political Economy variables**

1. Coincidence of national interests and political barriers

The coincidence of national interests at a given moment is, in my opinion, a serious impetus to mobilize, initiate and deepen regional economic integration schemes. The existence or non-existence of political barriers is a parameter to be considered when assessing the attempts for regional integration. More precisely, historical events, political rivalries and the existence of minorities may be elements that can or cannot enhance regional economic integration prospects.

2. Perceptions, Norms, Values, Culture

A common perception in both government and people’s level of the nations to go ahead with a regional integration scheme is a prerequisite for its success or failure. The larger the level of common understanding is, the better the chances for the said scheme are.

3. Complementarity of Productive basis

It is proven that countries with complementary productive basis have more possibilities to benefit from a regional economic integration scheme. In other words a south to south integration scheme has less chance to be successful compared to a north-south scheme. The comparative advantage theory can be more successful and applicable in economies whose

productive basis is complementary rather than competitive and potentially antagonistic. This is more obvious in the cases of economies whose productive basis is heavily dependent on agriculture or in non-competitive sectors.

4. Complete and Mature Institutions

Incomplete and / or immature political and economic institutions are a serious impediment for regional economic integration. Within this specific variable I also encompass administrative capacity, effectiveness, as well as the level of corruption and the level of satisfaction for its citizens.

5. Inter-state trade and financial transactions

Inter-state and financial transactions among the nations to participate in a regional economic integration scheme are a positive indication for the success or failure of that scheme. The evolution of the level of transactions may also be an indication of the prospects.

6. Technology

Regional economic cooperation prospects among countries with low level of technology are limited. Limited use and low level of technology among the countries to potentially participate in a regional economic integration scheme means fewer possibilities for communication and material and non-material exchanges and limited communication channels among the people, thus reduced level of understanding, more normative obstacles and lack of common principles.

7. Infrastructure

The existence and use of high levels of infrastructure, that is an extensive transportation network, telecommunications, etc. is a positive contributing factor for achieving regional economic integration. The lack of such an infrastructure basis is a negative factor when assessing regional economic integration prospects.

Having developed an analytical and methodological framework of analysis I will now proceed with the application of the said variables in order to assess the political economy of regional economic integration in the Western Balkans.

#### **4. The Political Economy of Regional Integration in the Western Balkans**

In order to evaluate the prospects for regional economic cooperation in the Western Balkans the explanatory framework developed above will be used. More precisely, the variables to be assessed are the following: coincidence of national interest, common perceptions on norms, principles, culture, complementarity of productive basis, political barriers, complete and mature institutions, inter state trade and finance transactions, technology, infrastructure. With the term Western Balkans it is meant the countries of

Albania, Former Yugoslav Republic of Macedonia (FYROM), Kosovo (under the UN Resolution 1244), Serbia, Montenegro and Bosnia & Herzegovina.

1. Coincidence of national interests and political barriers

It is more than evident that national interests as they have been expressed by the political elites of the countries concerned are not coinciding. There are a series of indicators that clearly prove the above argument. More precisely, Table 1 exposes the most indicative ones:

**Table 1: Level of coincidence in national interests among the Western Balkans states – political barriers**

Negative Indicator	Yes (countries involved)
Cross – boundary disagreements – political barriers	Yes (FYROM-Kosovo; Kosovo-Serbia, Serbia – B&H)
Conflicting declarations and public statements	Yes (Kosovo-Serbia, Serbia-FYROM, Serbia-Croatia, Albania-FYROM)
Ethnic minorities rights issues raised	All the countries in the region
Separatist aspirations within states	Yes (Kosovo, FYROM, B&H, Serbia)
Perceptions on potential armed conflict	Yes (all countries)

It is also characteristic that although most Balkan citizens did not anticipate another armed conflict in the region, the proportions of those respondents holding this view varied between 62% in Serbia and 88% in Croatia (Balkan Monitor, 2010). A notable change was registered in Bosnia and Herzegovina: since 2009, the share of interviewees thinking that the risk of war was not imminent has increased sharply by 22 percentage points to 49%. Respondents in FYROM and Serbia were the most likely to say that it was *probable* or *certain* that war would break out in the region (28% and 24%, respectively).

2. Common Perceptions on Norms, Principles, Culture

Researches have indicated that the level of common perception in terms of norms, principles and cultures among the people in the Western Balkans is still very limited (Andrianos 2007). A series of indicators demonstrate that we are still a long way from reaching a common understanding in terms of a common future under common rules and guidelines. Indicative indicators include:

*The role of religion.* Religion is gaining importance for most ethnic groups in the Western Balkans. The only groups that placed less importance on religion were nationals in FYROM and Bosnians in Bosnia and Herzegovina (Balkan Monitor, 2010).

*The expectation for the future.* As in earlier survey waves, respondents across the Western Balkans were more prone to see *better opportunities abroad* than at home (Balkan Monitor, 2010). Notable developments were registered in Albania and Kosovo, where the numbers being provided better opportunities outside their country have fallen dramatically since 2008: by 25 percentage points in Kosovo (to 48%) and by 12 points in Albania (to 52%). The opposite was seen in Croatia and Montenegro, where the shares of interviewees being provided better chances abroad have increased (since 2008) by 17 points (to 48%) and by 14 points (to 52%), respectively.

*Social and Economic Integration of Minorities.* Statistics demonstrate that national minorities are not socially and economically integrated. It is characteristic that unemployment rates among national minorities still remain considerably higher than majority populations in the respective countries. Additionally, free movement of persons is not yet guaranteed, for example, in Kosovo, which mainly affects minority groups and enclaves in the region (European Commission, 2009b). The situation in Serbia is also elusive. More precisely, it is stated that (European Commission):

“As regards *Vojvodina* no agreement has been reached at national level on the adoption of a new Statute. An agreement on the restructuring of the Government Coordination Body for *southern Serbia* was reached. However the situation in southern Serbia deteriorated in July 2009 following a number of attacks on the Serbian gendarmerie. The situation in *Sandžak* is volatile; divisions within the Muslim community have continued and there have been several outbreaks of violence. The number of *refugees* and *internally displaced persons (IDPs)* in Serbia remains high. The situation for IDPs continues to be very difficult and they are faced with many obstacles in exercising their social rights”.

The situation in Montenegro is also similar (European Commission, 2009c). It is stated that:

“The social and economic situation of displaced persons and the RAE population remains a matter of serious concern. They continue to face very difficult living conditions and discrimination. Implementation of legislation and strategies must be pursued with more determination”.

### 3. Complementarity of Basis of Production

The level of complementarity on the basis of production is limited. This means that we are facing the potential for competition among the economies rather than the potential for cooperation.

Among the key structural challenges in the economies of the Western Balkans the following are included (OECD 2010):

- Small private sector;
- Low level of innovation by domestic firms with emphasis on processes rather than R&D;

- Weak linkages between business and tertiary education and skills gap;
- Export profile dominated by low skilled services and natural resource intensive products.

Grupe and Kusic (2005) argue that although there are still some non-tariff trade barriers in South Eastern Europe, the main reason that actual and potential trade is still rather low is related to similar trade structures and little complementarities. The comparative advantages are overlapping to a large extent.

The need for differentiation through value-added services and innovation is apparent (OECD, 2008, p.19):

“To support growth, sector specific policy barriers need to be removed. In the apparel manufacturing sector, investing in technology to upgrade offering capabilities is key to responding to investor requirements: for example, investing in electronic data interchange (EDI) to reduce lead times, or in equipment to move from cut-make-trim (CMT) manufacturing and become original equipment manufacturers (OEMs) able to provide finished goods. However, access to and the cost of finance are a significant constraint on investment. On average, companies in the sector need collateral of 177%, with an interest rate of 11%. There is a need to improve awareness of the type of financing available and the requirements for obtaining it. In the automotive components sector, there is a need to enhance collaboration efforts with international companies to upgrade capabilities. More than 50% of companies are experiencing a skills gap in regard to design, supply chain and logistics capabilities. There is a need to improve both sector linkages between original equipment manufacturers (OEMs) and suppliers, but also to improve awareness of local capabilities that could be exploited much further through, for example, regional supplier databases”.

#### 4. Institutions

*Institution and Capacity – Building* in the region still has to be developed further. Based on EC’s appraisal (European Commission, 2009a):

“Kosovo is not yet ready to negotiate and implement a trade agreement. For example, the administrative capacity to ensure the effective implementation of antitrust policy and state aid regulation needs to be prepared. As regards intellectual property rights, key elements of industrial property rights legislation are in place, but Kosovo still needs to build the basic administrative capacity to ensure compliance. Kosovo also needs to make significant progress in legislative alignment in the area of copyright legislation and enforcement. It also needs to make significant progress in the legislative and institutional structures affecting trade in goods, including sanitary and phyto-sanitary matters. The institutional framework to ensure adequate accreditation, certification, standardization and market surveillance needs to be applied effectively”.

*Level of satisfaction from government’s performance* is still limited (Balkan Monitor, 2010). Relative majorities of respondents in Albania, Kosovo and Montenegro were

satisfied with their countries' government. In Serbia, Croatia and Bosnia and Herzegovina, respondents were at least three times as likely to disapprove of their countries' government as to be satisfied. Albania was an exception: its citizens' approval of the government has increased strongly by 17 percentage points (to 48%) since 2006.

*Perceptions on Corruption level* is considerably high in the countries of the region (Euractiv, 2010). The survey, carried out in September 2009, revealed that more than two-thirds of Balkan respondents see corruption as "pervasive" and "widespread" in both government and business. The perception of corruption in business is highest in Croatia (92%), Serbia (91%) and Bosnia and Herzegovina (90%), with the figure having risen for all countries except Albania and Macedonia since 2006. The perception of corruption in government is highest in Kosovo (84%) and Bosnia and Herzegovina (81%), with Montenegro the notable exception at a much lower level of 49%. Alarmingly, more than a quarter of respondents in Bosnia and Herzegovina and Kosovo said they are personally affected by organised crime in their day-to-day life. More than half of Albanians said they had to offer a bribe or gift to solve a problem last year, compared to just 8% of Croatians.

#### 5. Inter-state trade and financial transactions

Inter-state trade and financial transactions is limited within the region, although the level of economic integration of each one individual state with the EU increases. This means that we are facing a paradox: an increasing tendency for economic integration with the EU for every individual state, with limited development to what concerns inter-state trade and financial transactions among the states of the region themselves.

It is characteristic that the European Commission states for Kosovo (European Commission, 2009):

“The openness of the economy, measured by the value of imports plus exports in goods and services as a percentage of GDP, increased to 71.1% in 2008, up from 64.5% in 2007. EU Member States and CEFTA continued to be the two main trading partners for Kosovo, accounting for 40% of total trade each, the latter despite Serbia's blocking the exports and Bosnia and Herzegovina's refusing preferential treatment. The share of exports bound for the EU increased from 42% in 2007 to 47.8% in 2008. The EU's share of total imports remained at around 36%. *Overall*, economic integration with the EU has increased”.

#### 6. Technology

The level of technology in the countries of the region is considerably low. For Kosovo, for example, it is stated that (European Commission, 2009):

“*Overall*, the technology base and the state of physical infrastructure remain weak and the pool of qualified human capital small. As a result, Kosovo companies are too rarely competitive even in sectors where competitive potential exists”.

The outcome for the rest of the countries of the region is very much the same. It is also characteristic that high technology exports as % of manufactured exports in 2008

accounted for 4% in the case of Albania and Bosnia & Herzegovina (World Bank, 2011). OECD (2008, p.20) also states:

“Due to the mismatch between skills demanded and skills supply, the Western Balkans faces a serious challenge in supporting growth in most sectors. For example, 44% of automotive component companies identify availability of skills as a top challenge they face in expanding operations. Lack of skills has a negative impact on competitiveness – increasing operating costs, lowering output quality and contributing to a loss of business. Mechanisms for institutionalization and dialogue between ministries of economy/industry and education are limited. This reduces the possibilities to match supply with demand at the structural level. Moreover, many nationally sponsored reform initiatives fail to include all relevant stakeholders in the reform process, limiting the political support needed to see reforms through”.

#### 7. Infrastructure

Overall, the infrastructure in Western Balkans is considered to be poor and under developed. This entails road transport, railways as well as aviation (European Commission, 2009). Petrakos (2000) states that given the weak existing regional trade network, the existence of infrastructure gaps, and the diversity of countries now existing in the Balkans, the prospects for trade expansion in the region are modest. Overall, the infrastructure is considered to be among the weaker elements when considering the prospects for regional economic integration in the region of the Western Balkans.

The empirical analysis can be summarized in the table below.

**Table 2: Political Economy Variables for Regional Integration in the Western Balkans Level of Accomplishment / Intensity**

Variable	Level of Accomplishment - Intensity	
	Low	High
Coincidence of national interest and political barriers	√ (for coincidence of national interest)	√ (for political barriers)
Common Perceptions on Norms, Principles, Culture	√	
Complementarity of Productive Basis	√	
Complete and Mature Institutions	√	
Inter State Trade and Finance Transactions	√	
Technology	√	
Infrastructure	√	

The above table clearly demonstrates that the variables denoting regional economic integration prospects among the Western Balkans economies show a remarkably negative tendency. In my opinion, this justifies why existing attempts have had limited success while prospects for the future also seem to be dim.

## **5. Conclusions and Assumptions for the future**

In the paper it was argued that normative neoclassical approaches in regional economic integration present an inadequate framework for assessing existing efforts and preview the faith of the future ones. Political economy variables may offer a satisfactory and in depth evaluation of both the current situation and the future perspectives and endeavours. In this framework, seven political economy variables to measure regional economic integration endeavors were introduced, namely: coincidence in political interests and political barriers, common perceptions, values, principles, culture, complete and mature institutions, complementarity of productive basis, inter-state trade and financial flows and transactions, technology, infrastructure.

The proposed framework in the case of the Western Balkan economies was applied providing an explanatory basis for assessing current regional economic attempts and evaluating future perspectives. I have justified why regional economic efforts are limited and the prospects non-pragmatic. The main reason is the fact that empirical analysis of the above political economy variables mentioned seem to be of a low intensity and low level of accomplishment. I conclude that potential economic integration efforts in the region may be achieved only through a top-down approach, namely a European Union/International Community forced process, rather than resulting from genuine efforts initiated by the respective countries of the region.

The above proposed framework analysis could also be useful when assessing regional economic integration schemes among low economically developed, war torn, multiethnic societies such as the cases of the regions of Central and Sub Saharan Africa or Central Asia. The level of intensity and accomplishment (high/low) of the proposed political economy variables can be an indicator of potential regional economic integration.

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