RCSPI

Regional Center for Strategic and Political Initiatives

# A Proposal for a New Approach to the Western Balkans-EU Relationship

## Policy Brief


### Summary_

This paper proposes a novel approach to reinvigorate the partnership between the Western Balkans and the EU, with a view to accelerating the accession process and enhancing regional integration. Such change is essential to drive the reforms needed for improved economic prosperity in the region.

This practical and pragmatic approach builds upon the positive aspects of EU Accession and regional integration while proposing necessary adjustments. It entails restructuring the governance of the Stabilization and Association Process (SAP) and fostering regional collaboration. The goal is to enable political leaders in both the Western Balkans and the EU to work together more effectively.

At the core of the approach lies the establishment of a High-level Political Steering Committee, comprising political leaders from the Western Balkans and the European Commission. The committee holds the vital responsibility of defining strategic objectives, resolving complex political challenges, and guiding the integration process. This influential committee empowers a new Technical Implementation Body which is tasked with promoting smooth technical collaboration between the Commission and Western Balkans' experts. This body is an essential component of our pragmatic vision.

## Introduction_

The paper focuses on the twin objectives of accelerating Western Balkans (WB) accession process to the EU and improving regional cohesion and cooperation. It briefly explains why Single Market access is so crucial for the Western Balkans from an economic standpoint, emphasizing that it is not just desirable but paramount. However, the assessment goes beyond economic considerations alone. It is crucial to recognize the complex landscape of geopolitics, and the multifaceted forces that either bolster or impede the region's progress. These geopolitical dynamics are the intricate threads that weave the fabric of the Western Balkans' journey toward EU integration.

By identifying deficiencies in the current governance framework, specifically pinpointing areas that require essential improvements, the paper provides a compelling case for change. In the pursuit of solutions, inspiration has been drawn from comparable trade and integration agreements. Through a comprehensive analysis of both the strengths inherent in the current system and the innovative models observed elsewhere, we propose a hybrid approach designed to unlock the potential of the Western Balkans and expedite rapid progress.

## Unlocking the Potential: Economic Assessment_

The Western Balkans region, comprising countries with diverse income levels and economic complexities, faces a common challenge - their relatively small economic scale within the broader EU framework. These countries depend heavily on exports to drive economic growth, making trade a catalyst for their advancement. To ensure these benefits, it's essential to promote trade with minimal barriers imposing costs and time delays.

Economic ties between the Western Balkans (WB6) and the EU Single Market, particularly WB6 exports to the EU, can serve as a useful indicator of their level of integration into the Single Market. Notably, countries such as Albania, Bosnia, North Macedonia, and Serbia show high levels of economic interaction with the EU, accounting for more than 50% of their imports (reaching 65% in the case of Albania and Serbia) and exceeding 60% of their exports (North Macedonia and Albania, for instance, reach as high as 78%). It's worth highlighting that in many instances, the most significant growth in bilateral trade for the WB6 over a decade has occurred with the EU. The two outliers are Kosovo and Montenegro. In both these cases, trade with the other members of the WB6 is more important than for the other 4 Western Balkan countries, however some of this may be transit trade. Trade with China, mostly as a source of imports, has also grown dramatically, mirroring trends seen in most countries globally.

Compliance with stringent EU rules and standards comes at a substantial cost and time burden, varying by sector. While reducing trade-related costs is crucial, it must go hand in hand with domestic reforms focused on market competitiveness, skills development, and investment promotion.

Foreign Direct Investment (FDI) plays a significant role in the Western Balkans, with about 60% of FDI originating from EU countries. However, attracting investment depends on factors beyond export opportunities. FDI levels in Bulgaria, Romania, and some Western Balkan countries are comparable, indicating that EU membership alone doesn't guarantee substantial FDI inflows.

In theory the EU's WB Stabilisation and Association Agreements (SAAs) already provide access to the Single Market with very few barriers, offering virtually the same trade terms as full membership. The biggest remaining impediment to trade is achieving and demonstrating compliance with EU requirements and standards. This can be both costly and time consuming to prove in sectors where WB6 regulators have not yet harmonised successfully with EU standards, and established mechanisms and infrastructure for firms to demonstrate compliance, quickly and cheaply. Addressing these remaining barriers will make it significantly easier and cheaper for WB6 firms to export to the EU.

Sadly, despite their geographic proximity, trade and investment barriers between the WB6 countries are more extensive and detrimental than those with the EU. Harmonizing regulations and standards should not only encourage regional trade and investment but also strengthen regional ties and cohesion.

Infrastructure limitations hinder exports in several sectors, highlighting the importance of efficient

transportation. Agriculture, once a cornerstone of the economy, now faces waning economic importance, grappling with competitiveness challenges and navigating EU trade barriers. In the energy sector, the region operates as a net energy importer, but has untapped potential for robust growth in renewable energy production. Moreover, the Western Balkans possesses substantial reserves of metals and minerals, which present promising opportunities, especially in the rapidly expanding battery sector. In the extractive industries standards typically pose fewer barriers to trade than infrastructure constraints.

The Western Balkans aspire to foster deeper economic ties and integrate into the EU market, marking their path toward economic advancement and alignment with the broader European framework. It would be unwise to assume that compliance costs for trade with the Single Market or other Western Balkans countries is the binding constraint on trade in all circumstances. Firms from the rest of the world successfully export to the EU, across many sectors, even without the preferential market access the Western Balkans enjoys. While reducing financial and time-related trade costs with the EU remains a pressing objective, it must be viewed as a complement, not a replacement for domestic reforms that boost competitiveness. The path forward involves both addressing domestic and international barriers to trade and fostering vibrant, resilient economies capable of thriving in an ever-evolving global landscape.

## Geopolitical_

The EU accession process is more onerous now than in the past as membership requirements have increased. Most previous phases of EU Accession e.g., Greece, Central Europe, and Southeast Europe, have been driven by, or at least accelerated by geopolitical imperatives. This holds particular significance today for the Western Balkans, as external actors like Russia, China, the United States, and Turkey exert substantial influence, shaping the region's political, economic, and cultural dynamics.

Beyond its geographical location, the Western Balkans play a critical role in European energy and transport infrastructure, enhancing connectivity and security. As they pursue EU integration, the Western Balkans encounter a dual challenge of managing internal complexities and external pressures. Despite improved security conditions, challenges persist, including ethnonationalist policies and corruption, which fuel social and ethnic divisions. Notable issues include the normalization process between Kosovo and Serbia and internal dynamics in Bosnia and Herzegovina, with implications that extend beyond national borders. Recent events in north Kosovo, marked by armed conflict, underscore the dangers of unresolved conflicts and regional fragility to overall stability in the Western Balkans.

The Russia-Ukraine conflict calls for consideration of accelerated membership of the Western Balkans, emphasizing the urgent need to address regional geopolitical and security risks, especially in the context of the potential expansion of armed conflicts to extend to South-Eastern Europe, encompassing Moldova and Georgia. To address this challenge, a growing initiative is focused on fast-tracking Western Balkans, Ukraine, Georgia, and Moldova into both NATO and the EU. Enhanced regional collaboration in the security domain, through creation of the "security umbrella" is crucial for countering harmful foreign influences that pose threats to regional stability.

In addition to the current tensions, other challenging barriers to Accession persist. The current EU voting system requires that all Member States support accession for it to happen. Recession and growing nationalism have shifted attitudes to free movement of labour. It is now a big political issue for the EU. Traditionally new Member States receive more from the EU than they contribute. Unless overall contributions rise, payments to existing Member States must fall. Achieving full Accession during a period of budgetary pressures and divergent attitudes, unless driven by an unusual level of motivation, will be difficult. As such, rapid EU enlargement to absorb the WB6 does not appear to have a high probability in the next few years.

Given the current conditions and challenges, it becomes increasingly evident that prioritizing the attainment of seamless, friction-free access to the Single Market is a pragmatic and achievable milestone, signifying the path towards economic progress and alignment with the EU.

## Challenges with Current Approach_

Progress on EU Accession has been slow because the current SAP approach covers such a wide range of issues and sectors simultaneously. Resources and capacity are insufficient to implement such an approach rapidly across all areas. This makes prospects for full membership very distant, leading to reform fatigue. Given current EU rules, even full compliance is no guarantee of full EU membership, which means that without a change, so is achieving frictionless access to the Single Market.

At a regional level, the Central European Free Trade Agreement (CEFTA) inter-governmental framework has been largely unable to fulfil its stated ambitions because it was not designed to be a permanent institution, with independent monitoring and dispute resolution mechanisms. This has obstructed decision making, implementation and enforcement within the region. The emergence of the Open Balkans Initiative (OBI) indicates that regional cohesion under the CEFTA has not been achieved. Furthermore, a review of existing EU trade and integration agreements indicates that these approaches alone would not address the implementation challenges and lack of regional cohesion prevailing in the Western Balkans. As such, new models of accession are required that specifically address the realities of the EU and the WB accession and regionalism processes.

## Alternative options_

All the alternative approaches considered in detail in the main paper have fundamental weaknesses, gaps, or ultimately offer no more than the existing SAP process. Some agreements offer narrower coverage, such as the EU-Türkiye agreement. Others, like EU-Switzerland, which is a patchwork of sectoral agreements, would do nothing to speed up harmonisation. Deep and Comprehensive Free Trade Agreements (DCFTA) and The European Free Tarde Area (EFTA) model would not alleviate the core challenges faced in the Western Balkans accession process – uneven implementation and regional fragmentation, along with over-politicisation within decision-making bodies at a regional level leading to blockages.

None of the alternative trade and integration agreements offers a "drag and drop" upgrade for the current wide ranging SAP process and CEFTA in the Western Balkans. However, some may have advantages over the existing SAP/CEFTA process in specific areas. The sectoral nature of the Swiss Agreement and modular approach of the Indo-Pacific Economic Framework for Prosperity (IPEF) are characteristics which could be useful in a WB context.

## Novel approach_

Our proposal focuses on achieving faster Single Market access, a kind of "Associate Membership" as an intermediate and more rapidly attainable step towards EU membership. It complements the EU SAP process with an enhanced model, referred to as EU SAP +. It hinges on the establishment of a High-level Political Steering Committee comprised of head of government or senior level government ministers from Western Balkan countries and a Commissioner or senior deputy from the Commission. This body will assume responsibility for defining strategic objectives, addressing political challenges, and providing overarching direction for the integration process.

Supplementing this Committee is the establishment of a Regional Technical Cooperation Committee (RTCC), tasked with facilitating both achieving and demonstrating Single market compliance and delivering a harmonious Western Balkans regional market. Beyond legislation harmonization, it delves into the vital process of mutual recognition of procedures and standards, adopting a sector-specific or product-oriented approach. In strategically targeted sectors, standards can be harmonized, and compliance costs can be reduced at a faster pace. A technical focus on economic reform and mutual recognition will allow for resources to target those sectors or products where progress can be achieved in the short term. This allows for rapid tangible benefits to business and economic development. There will be many sectors where horizontal issues pose additional challenges, so a sectoral focus is not a complete replacement. By starting in areas where issues are manageable, significant portions of the economy should be able to benefit from lower friction trade.

The proposed novel approach encompasses four interconnected pillars:

### 1_Accelerating Single Market Benefits:

The first pillar focuses on expediting access to the Single Market which serves as a direct route to a significant portion of the economic advantages associated with full EU membership. Removing barriers to trade and investment and the essential enabling domestic reforms in and between the countries of the Western Balkans, and with the EU, are essential to improve prosperity in the region.

### 2_Reforming Governance for Collaboration:

The second pillar emphasizes the necessity of making significant changes to the governance framework to facilitate reform and drive rapid progress. The existing framework, designed to measure reform progress, falls short in generating regional collaboration. The hub and spoke model of the SAP is bilateral and does not facilitate collaboration between small countries with similar problems and modest resources, or to give those countries adequate access to EU expertise and funding. Adopting a more collaborative approach, our SAP+ proposal, aims to foster a common purpose with enough political input to direct and drive the process but sufficient autonomy for technocrats to implement without delay.

### 3_Deepening Strategic Partnerships, Starting with Energy:

The third pillar advocates deep, strategic, mutually beneficial partnerships between the region and the EU, commencing with the energy sector. Both the WB6 and the EU face massive energy sector adjustment challenges. The region needs to decarbonise, modernise, and strengthen its electricity system, while the EU faces similar challenges compounded by the strategic need to end dependency on natural gas from Russia. Harnessing the massive renewable energy potential in the Balkans and investing in critical infrastructure enhancements are vital steps. These initiatives pave the way for a more secure, resilient, and interconnected cross-border electricity market. This, in turn, can deliver reliable, cost-effective, and sustainable energy to businesses and households across the region and Europe as a whole. Additionally, it has the potential to serve as a catalyst for deeper and more extensive regional cooperation.

### 4_Enhancing Collaborative Working Relationships:

The fourth pillar underscores the importance of fostering closer collaborative working-level partnerships between the Western Balkans and the EU. This can overcome the constraints

posed by limited availability of expertise and investment capital in the Western Balkans to improve the design and implementation of reforms, and the need for enabling investments which mean access to significant additional funding. Working level collaboration between the WB6 country governments and with the Commission is the way to build a common purpose, speed up reform implementation, reduce risks, boost credibility, and attract more funding from EU sources and beyond.

This paper shows delivering significant progress in regional integration and Western Balkans EU integration is possible as well as highly desirable. It demonstrates that interests align and shows all parties what is possible with some changes to the reform architecture and through real collaboration. The changes proposed here can ensure those reforms generate economic benefits more quickly, contributing to prosperity and incentivising peace.

# Implementation

## Empowering Governance for Sustainable Integration_

To ensure the sustained integration process, there is an imperative need for a governance framework that provides clear direction and fosters collaboration. This approach recommends adjustments to the existing governance structure for Accession and regional integration, with the aim of establishing an empowered framework that effectively supervises and drives progress.

To maintain the dynamism of the integration process and prevent stagnation, it is essential to set ambitious objectives, allocate resources effectively, set a binding timetable, and implement robust progress monitoring. The governance process should prioritize identifying and pursuing common interests among all Western Balkan countries and the EU. Achieving this requires strong leadership that offers political support and comprehensive guidance. In the Western Balkans, this leadership role is best fulfilled by the Prime Ministers, as they possess the unique ability to mobilize all parts of government for effective implementation. Once high-level principles and plan targets are established, technical experts can design and execute the implementation plan. The Regional Technical Cooperation Committee (RTCC) complements and plays a pivotal role in coordinating and supervising the SAP+ integration plan. Appointed by the High-level Political Steering Committee, the RTCC facilitates technical collaboration between the Commission and Western Balkans experts. This collaborative effort significantly enhances the quantity and quality of expertise available for the design and implementation of essential reforms.

## Implementation Partnership with EU, including Funding_

The SAP+ approach requires technical collaboration between the Commission and WB6 experts. This could greatly improve design and implementation of reforms. The SAP+ model does not replace or require changes to the current SAP process but reinforces it with an additional body (the RTCC) with the mandate to address alignment with the EU as well as mutual recognition and conformity assessment on a sectoral or product basis among the WB6 countries.

The RTCC would be composed of the relevant technical representatives from the participating WB6 countries, working with EU officials to assess the criteria (Comprehensive Monitoring and Verification - CVM benchmark) for each sector/product is being maintained. Progress will be measured on a sectoral, or product-by-product, basis against the CVM benchmark in the additional agreements for each sector. The support of the Commission via the CVM monitoring process is typically accompanied has been funding opportunities under the European Structural and Investment Funds, expertise such as that provided through the Structural Reform Support Service and the constructive support of some EU countries.

The EU as a core partner would have observer status in the process, with responsibility for the CVM system to maintain alignment. Unlike the CEFTA process where the EU observer status is limited, the EU should also have the right to provide a deciding opinion where there is a deadlock in the validation process. This is to ensure that the process does not break down because of disagreements. This SAP+RTCC proposal does not incorporate a legal enforcement mechanism. Participation and compliance are incentive-based. Countries that do not participate will not be able to receive

the benefits. Such a mechanism provides significant benefits including reducing time and costs associated with cross-border movements, reduction in the need for security and safety-related controls, as well as reducing overall costs and time delays both with the EU and inter-regionally.

## Strategic Partnership, Starting with Energy_

The EU has already engaged in several different forms of advanced integration between its members and to some degree with its neighbours (such as the Energy Community, Transport Community, and the European Civil Aviation Area). The substance of these ideas is generally covered by the clusters and chapters of the formal enlargement process. Applicant states can advance as fast as they wish, or are able to, in adopting the EU acquis, irrespective of whether the chapters in question have been opened, or not.

The energy sector presents the EU and the Western Balkans with three major challenges: building a more efficient and resilient market through improved connectivity, replacing Russian natural gas and decarbonisation. The Western Balkans have the potential to be an important part of Europe's response. While the region is currently a net energy importer and still uses coal and lignite as part of its generating capacity, the renewable energy potential of the Western Balkans is huge, across solar, wind, biomass and hydroelectricity. Of these the energy source of greatest strategic importance to the EU is likely to be hydroelectricity, as its reliability enables it to generate when other renewables fluctuate, which require gas or coal back up. Total regional Hydroelectrical potential may be anything up to 80 000 GW, a vast amount, primarily in the mountains of Albania and Montenegro and Serbia but extending to other countries in the region. Serbia already has a highly developed hydro sector. Even exploiting a fraction of this potential could make a significant contribution to energy needs both in the region and for several EU member states. There is a critical need for investment in generation and large-scale cross border connectivity. Traditionally the need for large capacity connectivity between the WB6 and with EU members Greece and Bulgaria was widely acknowledged. Despite the Italy connection to Montenegro, typically little attention is given to the potential for electricity exports from the Balkans to Western Europe.

The strategic value of the renewable energy potential of the Balkans should have increased dramatically to the EU. However, it does not yet appear to be seen as a mainstream option. Increasing the profile of the region as a reliable and affordable source of EU energy supply is a priority but depends on the ability to demonstrate it is investible, by offering a business friendly and safe location.

## Implementation Collaboration, including Funding_

Because the Western Balkans comprises mostly very small countries, the process of aligning laws and regulatory policy with the Acquis and wider Accession requirements is exceptionally draining on public sector resources. The hub and spoke model of the SAP process does not incentivise collaboration between countries or offer a close working partnership with the Commission's substantial pool of Accession experts. Access to their expertise could speed up design and implementation of reforms.

This proposal advocates a much closer collaboration where experts from the WB6 assist each other, and Commission staff are deeply integrated into implementation of reforms. Support, facilitated by the Commission Structural Reform Support Service, and assistance from EU member states can speed up and improve reform design and implementation. This type of engagement would send a powerful message that the EU is invested in Western Balkan integration to the Single Market rather than an onlooker. Extra resources will also be needed as re-shaping regulatory regimes is more onerous than running an existing one.

Legal and policy reforms alone are not always enough. Financial support is likely to be essential both to speed up the implementation of Accession process, and to ensure the WB6 economies can derive benefits from improved access to the Single Market. Examples of investment to help implementation include software to allow firms to demonstrate their compliance with EU standards, rapidly and cost-effectively, and suitably equipped and staffed border crossing facilities to expedite the movement of goods in and out of each country.

## Priority sectors_

The initial focus should be on those sectors where regulatory compliance and demonstrating compliance are most easily attainable and most countries can see early benefits. The easiest sectors to address are those where standards are industry-driven, so harmonisation should be easier to achieve. This will include simple products such as raw materials and some processed and semi-processed intermediate goods. It may also include products that feed into European supply chains where buyers define standards at or above EU standards and firms operating in the sector are already meeting EU standards. The most substantial gains will arise from addressing the largest export sectors. Our initial simple static analysis estimates that these could be very substantial e.g., Serbia manufacturing $282m/year Serbia rubber and plastics $98m/year, North Macedonia manufactured goods $220m/year, Bosnia manufacturing $70m/year, Bosnia metals $43m, Albania textiles $36m/year all of which are for current trade volumes.

Moreover, the benefits of frictionless access to the Single Market will also develop over time. In addition to increasing exports of current products it is likely that WB6 may be able to increase value-added and the complexity of its products after demonstrating cost-effective, quick, and reliable supplies to customers around the Single Market. Such performance may also incentivise inward foreign direct investment (FDI).

Not every sector is likely to be competitive in the Single Market in the short run and these should be left until later in the sectoral approach. For instance, the later sectors could include most but not all of agriculture where EU compliance regimes are complex, and many WB producers are not currently internationally competitive.

In some cases, infrastructure investment will be imperative to facilitate the swift movement of goods across borders. This includes investments in IT systems for compliance verification and, in certain instances, to enable trade altogether, such as in the case of energy networks. The EU can help in many ways: from direct funding to technical assistance, to reducing risk premia via guarantees. Co-ordination between funders may help reducing borrowing costs. This should ultimately be a win-win investment with benefits for EU customers as well as WB producers. If the EU is to become less dependent on long supply chains (with associated carbon footprints) and secure long term reliable access to critical raw materials such as Lithium and rare minerals, it may recognise the value in helping to upgrade WB infrastructure.

We place a lot of emphasis on speeding up the implementation process, by narrowing focus and collaboration between experts. Implementation of reforms have several stages, each of which is a potential barrier to progress and can block progress. Each step must be identified, planned and implemented effectively. Sharing experience between countries across the region can help overcome barriers faster, so the region as a whole makes progress e.g., once compliance with a given regulation, in a particular sector, has been demonstrated there must be rapid changes in border procedures to ensuring frictionless trade between the region and the EU, and within the region.

## Conclusion_

This report advocates a collaborative partnership, both between the countries of the Western Balkans and between the region and the EU. It must yield visible progress in the short term if it is to convince politicians, businesses, and citizens in both areas that the benefits of the push towards Single Market membership for the Western Balkans outweigh the costs, and that significant, rapid, progress is indeed achievable.

Delivering our novel approach will not be easy but offers a realistic route to Single Market membership that is not dependent on a particular set of geopolitical conditions in other countries. By demonstrating that Western Balkans and EU interests align, and by showing all parties what is possible with some changes to the reform architecture, sectoral prioritisation and real collaboration significant acceleration of reform and faster Single Market membership is attainable. The changes offer the best prospect for frictionless access to the Single Market, which generates economic benefits faster. This contributes to prosperity and provides incentives for lasting peace in the region.

**Prepared by:**
**Regional Center for Strategic and Policy Initiatives (RCSPI)**
**Svetogorska 15, Belgrade**

**Analytical Support:**
**Kamala Dawar (Legal), Peter Dodd (Economics)**

**Contributors:**
**Dušan Janjić, Igor Novaković, Ivana Petrovska and Nenad Djurdjević**

**Project Funding:**
**Open Society Foundation in the Western Balkans**