ECONOMIC EFFECTS OF THE OPEN BALKAN INITIATIVE

Rapid analysis within the assessing and streamlining potentials of the Open Balkan Initiative

Center for Economic Analyses-CEA

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List of abbreviations

EU	European Union
FDI	Foreign direct investments
GDP	Gross Domestic Product
ICT	Information Communications Technology
NUTS	Nomenclature of territorial units for statistics
OBI	Open Balkan Initiative
OECD	Organisation for Economic Co-operation and Development
SME	Small and medium enterprises
SWOT	Strengths, weaknesses, opportunities and threats
UNCDAT	United Nations Conference on Trade and Development
WB6	Western Balkan 6

About the Project

CENTER FOR ECONOMIC ANALYSES-CEA IS CONDUCTING A ONE-YEAR OSF PROJECT TITLED:
<u>ASSESSING AND STREAMLINING POTENTIALS OF THE OPEN BALKAN INITIATIVE (OBI).</u>

BACKGROUND
Recognising the lack of interest of the EU in enlargement in the Western Balkans, Serbian President Aleksandar Vučić, the Prime Minister of North Macedonia, Zoran Zaev, and Albanian Prime Minister Edi Rama decided to "take destiny in their own hands" and launch a "mini-Schengen" in October 2019. In July 2021, this idea evolved into a regional initiative **"Open Balkan[1]".** The initiative is no substitute for membership in the EU, but a path to accelerated membership and utilization of the existing but insufficiently used potentials in these countries, which might facilitate additional economic growth and development, and thus, welfare for their citizens.

CHALLENGES TO KEEP THE MOMENTUM
Developing and cultivating neighbourly relations in the Western Balkans in expectation of economic prosperity will require eliminating border controls and other barriers in order to facilitate the movement of people, goods and services, and capital in the region. Regional disparities analyses (for example, coastal vs. internal, NUTS 2 and NUTS 3 regions, urban vs. rural, capital cities vs. other cities) of the Open Balkan countries might offer insights when determining priorities for more accelerated growth and internal convergence of the Open Balkan region. **At the moment, there is a lack of properly elaborated analyses to assess the existing challenges.**

The Covid-19 pandemic, the food and energy crises, and the war in Ukraine illuminate the importance of internal cooperation and coordination and need for mutual understanding and solidarity among Open Balkan countries. Internal coordination and cooperation, exchange of experiences, and solidarity in the region bring value to future EU integration if the Open Balkan countries can speak in one voice.

The region's external environment, especially now with the war in Ukraine, emphasizes the importance of cooperation and coordination and the need for mutual understanding and solidarity.

TOOLS AND INSTRUMENTS FOR ASSESSING THE POTENTIALS FOR ACHIEVING COOPERATION AND COORDINATION
While on the highest political level there is still evidence of political will for Open Balkan, on the administrative level, or "on the ground", people cannot really sense the benefits of this initiative just yet. **At the very least, what is missing is more evidence-based policy research on the bottlenecks in cooperation and potential of the six countries of the Open Balkan.**

ACTIVITIES OF THE PROJECT
An independent pool of experts from the six countries diagnosing and investigating the bottlenecks for cooperation and coordination among the Open Balkan countries will add value to the already demonstrated political will for the Open Balkan Initiative, leading to its more structured, priority-focused, and systematic development.

[1] By Open Balkan, we will define the territorial space of six countries: Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia, Kosovo, and Albania.

Introduction

This section of the analysis tackles the economic effects of OBI in the context of the agreements and memorandums of understanding that have been signed by the OBI member countries pertaining to the areas of free movement of people and facilitation of trade with foodstuff. Related to the memorandums of understanding signed under the OBI, of interest here are the MoUs on the Facilitation of Imports, Exports, and Movement of Goods in the WB, on Cooperation Related to the Free Access to the Labour Market in the WB, and on Cooperation in the Field of Tourism in the WB. In short, this analysis tackles the issues of the free movement of goods and people and cooperation in tourism in the WB region.

Of the six WB countries, three are members of the OBI, and three have been invited to become members, but have not done so yet. Therefore, this analysis is conducted separately for the member countries (Albania, North Macedonia, and Serbia, here provisionally called the insiders), and separately for the non-member countries (Bosnia and Herzegovina, Kosovo, and Montenegro, here provisionally called the outsiders).

In terms of methodology, the analysis is performed through identification of strengths, weaknesses, opportunities, and threats (SWOT analysis) of each WB country in relation to the other two countries and in the context of the agreements and memorandums of understanding. The basis for the analysis is the economic data for each WB country presented below. The SWOT analysis is performed under two scenarios:

1. the first one examines the current situation under the assumption that it will not change in the foreseeable future – this is a so-called static SWOT analysis;
2. the second/alternative scenario relies on two assumptions: that the non-member OBI countries will (shortly) become members of OBI, and that the current crisis will be followed by recovery in a period of no more than two years. This is a dynamic SWOT analysis.

In the methodological context, it is also important to say that the analysis was performed as a rapid analysis based on desk research. This bears certain limitations, most of all in the quantification of the economic effects of OBI, as well as excluding a wider set of variables and/or outcomes that can influence the effects of the OBI. This analysis can only propose expected/likely economic effects of the OBI. The quality of the analysis can be improved with a deeper and more thorough future analysis.

Having said that and speaking in very general terms, reforms towards facilitation of trade in goods and services and free movement of labour force are expected to improve economic performance of (existing and prospective) businesses and the entire economy, through:

- utilisation of economies of scale,
- growth of exports via a trade-creation effect,
- cheaper imports,
- availability/inflow of cheaper labour force with better skills,
- improved attractiveness for FDIs,
- faster implementation of sustainable structural reforms,
- improved competitiveness, etc.

Nonetheless, those positive effects depend on the current economic situation within each country, as well as on the readiness of authorities to supplement the facilitation of trade in goods and services and the free movement of labour force with reforms in other closely connected areas: in education and health systems, in social justice system, tax reforms, and numerous other. Hence, this analysis and the propositions for OBI members and non-members take those reforms without considering their likelihood or probability.

The analysis has the following structure: first is the analysis of the three "insider" countries, followed by the analysis of the three "outsider" counties, and then the conclusion together with recommendations.

Analysis of Insiders

Open Balkan Initiative-OBI Countries

Tables 1 through 6 reveal the overall economic situation of each WB country, as well as other issues that are important for the analysis of the economic effects of OBI. The tables are arranged to allow comparison among the WB countries.

Table 1. General data and data on foreign trade and FDI in WB countries in 2020

	AL	BiH	KS	MG	NM	RS
Population (mill)	2,878	3,281	1,78	0,628	2,083	8,737
Land area km^2	27.400	51.200	10.905	13.450	25.220	87.460
GDP (mill US$)	14.647	19.519	6.772	4.975	12.410	60.451
GDP per capita (US$)	5.090	5.949	3.772	7.921	5.957	6.919
GDP growth	-6,5%	-4,50%	-5,3%	-12%	-4,52%	-2,10%
Merchandise exports (mill US$)	2.506	6.152	478	419	6.635	19.498
Merchandise imports (mill US$)	5.570	9.873	3.115	2.402	8.710	26.233
Merchandise trade balance	-3.063	-3.721	2.637	-1.983	-2.075	-6,735
Export of food and agricultural raw materials	13%	8%	15%	23%	9%	21%
Export of ores and metals	7%	6%	13%	29%	5%	5%
Export of fuels	8%	6%	1,3%	17%	0%	0%
Export of manufactured goods	71%	76%	79%	32%	85%	70%
Other exports items	1%	4%	0,7%	0%	2%	4%
Top 5 exporting partners for exports of merchandise trade	Italy, Serbia, Spain, Germany, Greece	Germany, Croatia, Italy, Austria, Serbia	Albania, North Macedonia, Germany, Switzerland, Italy	Serbia, Slovenia, Hungary, B&iH, China	Germany, Serbia, Bulgaria, Hungary, Greece	Germany, Italy, B&H, Romania, Hungary
Services export (mill US$)	2.558	1.310	988	769	1.646	8.195
Services import (mill US$)	1.343	517	627	559	1.154	6.513

Table 1. General data and data on foreign trade and FDI in WB countries in 2020

Services exports main categories (percentage of total)	Transport (8,2); Travel (44,3); Other (27,6)	Transport (27,2); Travel (26,7); Other (25,6)	N/A	Transport (39,1); Travel (21,5); Other (38,7)	Transport (24,3); Travel (15,2); Other (41,1)	Transport (14,5); Travel (24,0); Other (57,3)
Percentage of ICT goods in exports	0,05	0,16	N/A	1,07	0,72	1,53
Percentage of ICT goods in imports	2,61	3,05	N/A	4,74	4,10	4,17
Trade openness (percentage of GDP)	62%	83%	53%	80%	110%	88%
FDI inflows (mill US$)	1.106,56	370,81	N/A	528,87	273,93	3.830,03
FDI per capita (US$)	384	113	N/A	842	131	438
FDI outflows (mill US$)	89,43	-5,07	N/A	-5,16	39,02	192,22
Remittances (percentage of GDP)	10,01	9,28	N/A	12,07	3,33	8,78

Source: UNCTADstat (http://unctadstat.unctad.org), except for Kosovo data are from the Kosovo Agency for Statistics (https://ask.rks-gov.net). The currency unit for Kosovo is EUR.

Table 2. Exports of WB countries to WB countries, EU and other countries in 2019 (mill US$)

Exports to/from	AL		BiH		KS		MG		NM		RS	
	$	%	$	%	$	%	$	%	$	%	$	%
EU	**2280**	**76,4**	**4755**	**72,3**	**142**	**33,3**	**172**	**37,2**	**5643**	**78,7**	**12718**	**67,1**
Albania			25	0,4	75	17,6	15	3,2	81	1,1	157	0,8
Bosnia and Herzegovina	21	0,7			7	1,7	33	7,2	94	1,3	1510	8,0
Kosovo	298	10,0	2	0,0			33	7,1	332	4,6	0	0,0
Montenegro	55	1,8	233	3,5	22	5,1			35	0,5	204	1,1
N. Macedonia	86	2,9	77	1,2	49	11,5	6	1,3			554	2,9
Serbia	54	1,8	749	11,4	31	7,2	121	26,1	278	3,9		
Total WB	**513**	**17,2**	**1086**	**16,5**	**184**	**43,1**	**208**	**44,9**	**820**	**11,4**	**2425**	**12,8**
Rest of world	**192**	**6,4**	**737**	**11,2**	**101**	**23,6**	**83**	**17,9**	**709**	**9,9**	**3799**	**20,1**
Total exports	2985	100	6578	100	427	100	463	100	7172	100	18942	100

Source: data.imf.org

Table 3. Structure of GDP of Western Balkan countries 2020 (%)

Structure of GDP	AL	BiH	KS	MG	NM	RS
Agriculture	19,3	6,1	7,4	7,6	8,6	6,3

Table 3. Structure of GDP of Western Balkan countries 2020 (%)

Industry	20,0	24,6	27,6	17,3	22,8	24,9
Manufacturing	6,0	13,1	13,4	4,1	13,2	13,3
Services	48,4	55,8	47,6	58,0	56,2	51,9

Source: World Bank, World Development Indicators, http://wdi.worldbank.org

Table 4. Wages and unemployment in Western Balkans

	AL	BiH	KS	MG	NM	RS
Average Gross Monthly Wage (in EUR; 2018)	397	697	530	766	579	580
Average Gross Monthly Wage (in EUR PPP; 2018)	825	1412	1167	1492	1296	1159
Unemployment rate (percentage; average 2020)	11,7	15,9	24,5	17,9	16,4	11,2
Youth unemployment rate (percentage; average 2020)	20,9	36,6	49,4	25,2	35,6	28,6
Labour force participation rate (percentage; average 2020)	59,5	47,7	37,8	57,4	57,2	52,9

Source: For wages: Astrov, Vasily et. al., Wage Developments in the Western Balkans, Moldova and Ukraine, WIIW Research Report, No. 444, 2020; for unemployment: World Bank Group, Western Balkans Regular Economic Report "Steering Through Crises", No21, Spring 2022.

Table 5. Indicators for ease of trading across borders

Trading Across Borders	AL	BiH	KS	MG	NM	RS
DB Rank (2020)	**25**	**27**	**31**	**41**	**32**	**23**
Time to Export: Border Compliance (hours)	9	5	4	8	9	4
Cost to Export: Border Compliance (USD)	55	70	105	85	103	47
Time to Export: Documentary Compliance (hours)	6	4	5	5	2	2
Cost to Export: Documentary Compliance (USD)	10	22	50	26	45	35
Time to Export: Border Compliance (hours)	10	6	6	23	8	5
Cost to Export: Border Compliance (USD)	77	109	128	306	150	52
Time to Export: Documentary Compliance (hours)	8	8	6	6	3	3
Cost to Export: Documentary Compliance (USD)	10	27	42	60	50	35

Source: World Bank Doing Business 2020, https://archive.doingbusiness.org

Table 6. Productive Capacity Index (UNCTAD based)

Western Balkan Countries	AL	BiH	MG	NM	RS
Overall Index	**31,6**	**32,9**	**33,2**	**37,9**	**35,6**
Human Capital	53,7	54,1	53,1	52,5	61,5
Natural Capital	50,4	50,2	40,8	52,0	52,4
Energy	24,6	28,2	26,2	26,9	28,3
Transport	15,6	14,8	16,9	15,7	16,1
ICT	12,4	14,2	17,2	15,0	17,2
Institutions	55,1	47,8	56,4	53,4	57,3
Private Sector	81,8	80,2	82,6	81,5	79,6
Structural Change	17,3	22,0	19,4	20,2	22,7

Source: UNCTADstat (http://unctadstat.unctad.org)

Additional Information per Country

This narrative section is focused on presenting information deemed important for the analysis in addition to the data presented above. In fact, as the data presented in the tables above indicate, the overall structures of the economies of the three OBI countries – as well as of the three non-OBI member countries – are, by and large, quite similar, which is due to their relatively comparable factor endowments and the models of transition and development that have been implemented in those countries over the last couple of decades. In addition, all WB countries belong to the group of middle-income countries. Generally, this means that the possibilities for rapid growth of their mutual trade, even after trade liberalisation, are relatively limited. On the other hand, there are certain differences among the economies, especially when examined in-depth, which this analysis attempts to highlight.

Albania

In the case of Albania, and in the context of analysing the economic effects of the agreements and MoUs signed under OBI, two issues are of importance. The first one is the product structure of existing Albanian exports to North Macedonia and Serbia. According to UNCTAD data[2], the top five categories of products that Albania exported to those two countries in 2020 were:

1. *unclassified products* (44% of total exports to Serbia and 30% of total exports to North Macedonia);
2. *resource-based manufactures* (17% of total exports to Serbia and 22% of total exports to North Macedonia);
3. *primary products* (17% of total exports to Serbia and 10% of total exports to North Macedonia);
4. *low-technology manufactures* (8% of total exports to Serbia and 29% of total exports to North Macedonia); and
5. *agro-based manufactures* (4% of total exports to both Serbia and North Macedonia).

These data show the specialisation and competitive capability of Albanian exports to the other two OBI countries, or the so-called "Revealed Comparative Advantages" (RCA) of the Albanian economy in relation to North Macedonia and Serbia. It is clear that the competitiveness of Albanian exports to

[2] UNCTADstat (http://unctadstat.unctad.org)

the two countries lies solely in low-tech industries and resource-based manufactures, which are generally products with relatively low added value that are sold at lower prices per unit.

The second important issue is the Albanian emigration pattern. According to an OECD Report on Labour Migration in the Western Balkans[3], Albanian migration is a special case in the Western Balkans. Albania has a long history of migration that goes back centuries, but since the 1990s, emigration from Albania has been characterised by different waves of large-scale outflows. The first wave occurred after the fall of communism in the early 1990s (over 860.000 Albanians, almost 28% of the total population, left the country between 1989 and 2005), while the 2008 financial crisis sparked further emigration from Albania, but also led to the return of migrants due to the economic recession in the main destination countries (Greece and Italy). Emigration to the UK, US, and Canada was higher in the 2000s due to their stronger economies and better prospects for legal migration and regularisation. Besides labour migration, emigration from Albania has additionally been driven by education opportunities for students in Western Europe and the US. While all WB countries experience considerable emigration, with the majority of emigrants going to OECD countries, Albanian emigration, in contrast to that of Macedonia, was almost not at all directed to the WB region. It is, therefore, difficult to suggest that liberalisation of the movement of the labour force to the OBI countries, which is a primary goal of the signed agreements and MoUs, would shift this pattern, especially in the short term.

North Macedonia

For North Macedonia, it is also important to present the product structure of exports to Albania and Serbia – the Macedonian RCA in relation to those two countries. According to the same data source, the top five categories of products that North Macedonia exported to the two countries in 2020 were:

1. *low-technology manufactures* (21,5% of total exports to Serbia and 11% of total exports to Albania);
2. *agro-based manufactures* (19% of total exports to Serbia and 18% of total exports to Albania);
3. *resource-based manufactures* (15% of total exports to Serbia and 22% of total exports to Albania);
4. *medium-technology manufactures* (14% of total exports to Serbia and 12% of total exports to Albania); and
5. *primary products* (11% of total exports to Serbia and 10% of total exports to Albania).

These data show that, although North Macedonia has a similar specialisation and competitiveness pattern to that of Albania, it is still a bit more advanced.

Serbia

Serbia is somewhat distinct from the other OBI (and also all WB) countries, first of all because it is the biggest economy (e.g., Serbia's GDP is more than twice the GDP of the other two OBI countries combined), but also because it has a slightly more developed economy. This, considering trade liberalisation and the economic integration theory, inter alia and ceteris paribus, means that Serbia will most likely be the economy to gain the biggest benefits of trade facilitation and liberalisation under the OBI. However, this does not mean that the other two countries would not have gains – on the contrary – it only demonstrates that they have to push harder with structural and other reforms to create (small) market niches for product specialisation and increase the export of those products.

In terms of Serbia's RCA in relation to Albania and North Macedonia, according to the same source of data, the top five categories of products that Serbia exported to the other two countries in 2020 were:

[3] OECD, 2022, Labour Migration in the Western Balkans: Mapping Patterns, Addressing Challenges and Reaping Benefits.

1. *medium-technology manufactures* (27% of total exports to North Macedonia and 22% of total exports to Albania);
2. *agro-based manufactures* (23% of total exports to North Macedonia and 15% of total exports to Albania);
3. *primary products* (14% of total exports to North Macedonia and 22% of total exports to Albania);
4. *resource-based manufactures* (8% of total exports to North Macedonia and 16% of total exports to Albania); and
5. *high-technology manufactures* (2,4% of total exports to North Macedonia and 2,5% of total exports to Albania).

This structure shows that, in relation to the other two OBI countries, Serbia's economy is more advanced and more competitive.

Strengths of Insiders Given MoUs and Agreements

The first segment of the SWOT analysis comprises the strengths of each OBI country relative to the other two countries, shown in the table below, and with regard to the signed agreements and MoUs under OBI. Unsurprisingly, Serbia has the most strengths, which are also more sustainable. These strengths include: the size of the economy, inflow and stock of FDI, competitiveness of exports, the fact that it is the second most important trading partner to both Albania and North Macedonia, ICT readiness, higher average wages, etc. For its strengths, Albania relies on agricultural production and agricultural exports, as well as the fast growing tourism sector. The strengths of North Macedonia are its openness of the economy and its competitiveness in relation to Albania.

Strengths (of each country relative to the other two OBI countries)		
Albania	**North Macedonia**	**Serbia**
Agricultural production	Overall Productive Capacity Index	Big economy
Export of agricultural products	ICT readiness	FDI inflow and stock per capita
Export of ores, metals, and fuels	Trade openness	Second most important trading partner to the other two OBI countries
Fast growing tourism industry	Competitiveness of exports (relative to Albania)	Competitiveness of exports (on a regional level)
Access to the sea and attractiveness for tourism		ICT readiness
		Productive Capacity Indices
		Good indicators for ease of trading across borders
		Higher average wages (which make the country attractive for importing labour from the other two OBI countries)
		Huge remittances

Weaknesses of Insiders Given MoUs and Agreements

Considering the weaknesses of each OBI country relative to the other two countries and with regard to the signed agreements and MoUs under OBI, shown in the table below, we can note the following. Serbia has one notable weakness (lack of a labour force, especially in certain sectors and/or with certain skills), while Albania has weaknesses in its lower ICT readiness, lower trade openness, lower indices for productive capacity, lower competitiveness of exports, and lower average wages. Lower wages result in lack of attractiveness for the inflow of labour from the other two OBI countries. Finally, North Macedonia has weaknesses such as a lack of a labour force, especially in certain sectors and/or with certain skills, lower indicators for ease of trading across borders than the other two countries, and lower competitiveness of exports in relation to Serbia.

Weaknesses (of each country relative to the other two OBI countries)		
Albania	**North Macedonia**	**Serbia**
Low ICT readiness	Lack of a labour force, especially for certain sectors and with certain skills	Lack of a labour force, especially for certain sectors and with certain skills
Low trade openness	Low level of exports to WB	
Low Productive Capacity Indices	Low indicators for ease of trading across borders	
Lowest wages in WB	Low competitiveness of exports (relative to Serbia)	
Low competitiveness of exports (relative to the other two OBI countries)		

Opportunities for Insiders Given MoUs and Agreements

The signed agreements and MoUs under the OBI create certain opportunities for the three members. Without getting in a “winners versus losers’ scenario” and without quantification, all members of the OBI have actual opportunities for gains. Those opportunities, presented in the table below, are reflected in the following:

- potential for faster growth of the GDP,
- faster growth of both exports and imports of goods and services,
- bigger inflow of FDIs,
- networking possibilities for local firms (SMEs) with FDIs in the other two countries,
- inflow of labour from the other countries (this is especially true for the inflow of labour into Serbia from North Macedonia, but not as much from Albania),
- potential for faster growth of tourism (especially in the case of Albania), and
- possibilities for swift structural reforms.

Of course, as highlighted previously, in order to reap those potential gains, both Albania and North Macedonia have to push harder with reforms in the areas of education and health systems, the social justice system, tax, etc. In addition to that, given the current crisis, OBI can create opportunities for finding/creating cheaper solutions for the possible lack of energy and expensive foodstuff.

Opportunities		
Albania	**North Macedonia**	**Serbia**
Potential for faster growth of GDP	Potential for faster growth of GDP	Potential for faster growth of GDP
Potential for increased inflow of FDI	Potential for increased inflow of FDI	Potential for increased inflow of FDI
Potential for faster growth of tourism	Potential for growth of exports	Inflow of labour from North Macedonia and Albania
Potential for growth of exports	Potential for cheaper imports (of some products and services)	Potential for growth of exports
Potential for cheaper imports (of some products and services)	Potential for faster structural reforms	Potential for cheaper imports (of some products and services)
Potential for faster structural reforms	Potential for cheaper import of electricity	Potential for faster growth of tourism
		Potential for faster structural reforms

Threats to Insiders Given MoUs and Agreements

Considering the other side of the coin, untapped opportunities and possibilities can often pose certain threats. For both Albania and North Macedonia, the biggest threat regarding the signed agreements and MoUs under OBI is a possible outflow of labour force (due to migration to Serbia of those seeking higher wages). In order to avoid such threats, both countries have to push reforms to increase wages, but in a sustainable way (through the growth of productivity, not administratively increasing the minimum wage). Another possible threat for all three countries is a potential outflow of FDIs (FDIs moving to the other countries).

Threats		
Albania	**North Macedonia**	**Serbia**
Loss of workforce (migration of workforce to Serbia)	Loss of workforce	Potential for outflow of FDI (moving FDIs to Albania or N. Macedonia)
Potential for outflow of FDI (moving FDIs to Serbia or N. Macedonia)	Potential for outflow of FDI (moving FDIs to Serbia or Albania)	

Dynamic SWOT (DSWOT)

Assumptions and Data

The analysis of the economic effects of OBI is also performed under an alternative scenario. It relies on two assumptions: 1. non-member OBI countries will become members in a relatively short period of time; and 2. the current crisis will be followed by recovery as of 2024. This analysis is called dynamic SWOT analysis.

The three OBI non-member countries are quite similar in economic terms to the three OBI member countries. Having said that, in order to discern the strengths, weaknesses, opportunities, and threats of the remaining three WB countries joining OBI, apart from the data presented in tables 1 through 6 above, it is important to examine the RCA of each OBI country in relation to the three non-OBI countries. However, since data for this analysis are from the UNCTAD database, there are no data on Kosovo, and the data from the Kosovo Agency for Statistics are not at all comparable to the UNCTAD data.

The top five categories of products that Albania exported to Bosnia and Herzegovina and Montenegro in 2020 were:

1. *primary products* (33% of total exports to Bosnia and 22% of total exports to Montenegro);
2. *resource-based manufactures* (22,5% of total exports to Bosnia and 30% of total exports to Montenegro);
3. *unclassified products* (20% of total exports to Bosnia and 27% of total exports to Montenegro);
4. *low-technology manufactures – textile, garments, and footwear* (20% of total exports to Bosnia and 9% of total exports to Montenegro); and
5. *agro-based manufactures* (2% of total exports to both Bosnia and Montenegro).

The above shows that the Albanian RCA (and competitiveness of Albanian exports) in relation to the non-OBI countries is not different from how it matches up against OBI member countries – the competitiveness of Albanian exports to Bosnia and Herzegovina and Montenegro lies solely in low-tech industries and resource-based manufactures.

The top five categories of products that North Macedonia exported to Bosnia and Herzegovina and Montenegro in 2020 were:

1. *resource-based agro products* (33% of total exports to Bosnia and 34% of total exports to Montenegro);
2. *medium-tech manufactures* (22% of total exports to Bosnia and 12% of total exports to Montenegro);
3. *high-tech manufactures* (15% of total exports to Bosnia and 10% of total exports to Montenegro);
4. *primary products* (10% of total exports to Bosnia and 18% of total exports to Montenegro); and
5. *low-technology manufactures* (9% of total exports to Bosnia and 17% of total exports to Montenegro).

Again, the findings do not change – although the specialisation and competitiveness of North Macedonia are similar to those of Albania, Macedonian economy is somewhat more advanced.

The top four product categories that Serbia exported to Bosnia and Herzegovina and Montenegro in 2020 were:

1. *resource-based agro products* (23% of total exports to Bosnia and 24% of total exports to Montenegro);
2. *primary products* (15% of total exports to Bosnia and 12% of total exports to Montenegro);
3. *low-technology manufactures* (12% of total exports to Bosnia and 14% of total exports to Montenegro); and
4. *medium-tech manufactures* (11% of total exports to Bosnia and 20% of total exports to Montenegro).

Yet again, there is no change in the findings – in relation to the non-OBI countries, Serbia's economy is more advanced and more competitive.

The main message of this short dynamic SWOT analysis, under the assumption that the remaining three WB countries will become OBI members, is that the general SWOT of the OBI countries will not change. Their strengths, weaknesses, opportunities, and threats retain the same general pattern:

- the biggest positive impact will be that the opportunities/possibilities will be greater (higher economy of scale);
- the weakness and threat, that North Macedonia and Albania can have an outflow of labour (since Bosnia and Herzegovina and especially Montenegro have higher average wages), also remain valid.

Conclusions about Insiders and DSWOT

Due primarily to the relatively comparable factor endowments and the models of transition and development that have been implemented in OBI member countries in the last couple of decades, the general structures of the economies of these countries – as well as of the three non-OBI member countries – are, by and large, quite similar. In addition, all WB countries belong to the group of middle-income countries.

The analysis of the revealed comparative advantages (RCA) of the OBI countries shows that the competitiveness of Albanian exports relies primarily on low-tech industries and resource-based manufactures, with relatively low added value and prices per unit. North Macedonia has a similar specialisation and competitiveness pattern to that of Albania, but it is somewhat more advanced and competitive. Finally, in relation to the other two OBI countries, Serbia's economy is more advanced and competitive.

Under these circumstances, trade facilitation and liberalisation, as well as the liberalisation of the movement of labour among the three OBI countries, could bring positive gains to all of them, although not equally. OBI can also create opportunities for finding/creating cheaper solutions for the possible lack of energy and expensive foodstuff. However, in order to overcome the existing weaknesses and threats and convert them into strengths and opportunities, Albania and North Macedonia have to push harder with reforms in the areas of education and health systems, the social justice system, tax, etc. Also, in order to circumvent the threat of an outflow of labour, both Albania and North Macedonia have to increase wages, but in a sustainable way (through the growth of productivity, not by administratively increasing the minimum wage).

Finally, if non-OBI countries become members, the findings on the effects of OBI do not change – opportunities for growth will be enhanced, opportunities for the growth of exports even more so, but the threat of an outflow of labour will also increase. Therefore, recommendations for passing complementary reforms stated previously remain at least equally valid.

Analysis of Outsiders

Open Balkan Initiative-Non-OBI Countries

Under the assumptions of the first scenario – that the current situation (the "outsiders" remaining as such) will not change in the foreseeable future – the SWOT analysis of the outsider countries has almost no merit. Since outsider countries are not signatories of OBI agreements and MoUs, they cannot exploit their potential benefits. On the other hand, these countries are most likely not going to be losers either, since the possibilities for trade-diversion effects due to OBI agreements and MoUs are minimal. What can be said under this scenario for the non-OBI countries is that their situation regarding the OBI will remain unchanged.

Assumptions and Data for the Dynamic SWOT (DSWOT)

Under the assumptions of the second scenario – 1. that the non-member OBI countries will become members in a relatively short period of time and 2. that the current crisis will be followed by recovery as of 2024 – the situation would be different. This part of the analysis reveals some of the likely outcomes. Before turning to the SWOT analysis, however, and apart from the data presented in tables 1 to 6 above, additional information on the revealed comparative advantages of the non-OBI countries is due. The lack of data on Kosovo is again an issue.

The data on the RCA of Bosnia and Herzegovina show the following:

- The top five categories of products that Bosnia exported to Albania in 2020 were: *resource-based agro manufactures* (38% of total exports); *unclassified products* (33% of total exports); *resource-based manufactures* (7% of total exports); *low-technology manufactures* (7% of total exports); and *high-tech manufactures* (4,5% of total exports).
- The top five categories of products that Bosnia exported to Montenegro in 2020 were: *low-tech manufactures* (36% of total exports); *resource-based manufactures* (16% of total exports); *primary products* (16% of total exports); *resource-based agro manufactures* (12% of total exports); and *unclassified products* (7% of total exports).
- The top four product categories that Bosnia exported to North Macedonia in 2020 were: *resource-based agro manufactures* (37% of total exports); *low-tech manufactures* (22% of total exports); *primary products* (20% of total exports); and *medium-tech manufactures* (14% of total exports).
- The top five categories of products that Bosnia exported to Serbia in 2020 were: *resource-based manufactures* (30% of total exports); *low-tech manufactures* (25% of total exports); *resource-based agro manufactures* (17,5% of total exports); *primary products* (8% of total exports); and *unclassified products* (7% of total exports).

The RCA data show that the economy of Bosnia is very similar to the economy of North Macedonia – somewhat more advanced and competitive in relation to Albania, but somewhat less than Serbia. It is not surprising that only 16% of Bosnian exports are marketed to WB countries, while among them only Serbia is among the top five trading partners of Bosnia.

The data on the RCA of Montenegro show:

- The top five categories of products that Montenegro exported to Albania in 2020 were: *resource-based agro manufactures* (33% of total exports); *resource-based manufactures* (28% of total exports); *low-technology manufactures* (15% of total exports); *primary products* (14,5% of total exports); and *medium-tech manufactures* (3% of total exports).

- The top five categories of products that Montenegro exported to Bosnia in 2020 were: *unclassified products* (32% of total exports); *resource-based agro manufactures* (27% of total exports); *resource-based manufactures* (13% of total exports); *low-tech manufactures* (9% of total exports); and *low-tech manufactures - textile, garments, footwear* (8,7% of total exports).
- The top four product categories that Montenegro exported to North Macedonia in 2020 were: *resource-based agro manufactures* (59% of total exports); *primary products* (20% of total exports); *medium-tech manufactures* (11% of total exports); and *high-tech manufactures* (5% of total exports).
- The top five categories of products that Montenegro exported to Serbia in 2020 were: *unclassified products* (21% of total exports); *high-tech manufactures* (20% of total exports); *resource-based agro manufactures* (20% of total exports); *primary products* (10% of total exports); and *resource-based manufactures* (7% of total exports).

The RCA data show that the competitive capacity and performance of Montenegro's economy are similar to those of Macedonia, Bosnia, and Serbia. The share of Montenegrin exports to the WB region, same as the share of exports from Kosovo to the WB region, is considerably higher than the share of the exports of Albania, Bosnia, North Macedonia, and Serbia to the WB region, but its overall amount is quite low.

Regarding the situation with Kosovo, in the same context, the lack of comparable data makes it impossible to gain better insight, but it can still be reasonably argued that the economy of Kosovo is the least developed and competitive of all WB countries. On the other hand, since Kosovo's economy is the most dependent on the situation in the region out of all the WB countries, it can also be suggested that Kosovo could be the biggest beneficiary of joining the trade facilitation and liberalisation initiatives in the region. However, for that to happen, deep and courageous reforms are needed. Only time will tell whether Kosovo's authorities can and will stand up to meet that challenge.

Strengths of Outsiders Given the OBI MoUs and Agreements

The first segment of the SWOT analysis for OBI outsiders, under the assumption that they will become members, concerns the strengths of each non-OBI country relative to the OBI countries and with regard to the signed agreements and MoUs under OBI (shown in the table below). The analysis shows that Montenegro has the most strengths, as well as that its strengths are more sustainable. These strengths include high average wages, ICT readiness, trade openness, FDI stock (per capita), and the share of exports to WB countries. The strengths of Bosnia rely on the relatively high average wages and trade openness, while the only strength of Kosovo is the huge share of its exports to WB countries.

Strengths (of each country relative to the three OBI countries)		
Bosnia	**Kosovo**	**Montenegro**
Average wages (in relation to WB countries)	Huge share of exports to WB countries in total exports	High average wages among WB countries
Trade openness		ICT readiness
		Trade openness
		FDI stock per capita

		Share of remittances to GDP
		High share of exports to WB countries in total exports

Weaknesses of Outsiders Given the OBI MoUs and Agreements

Considering the weaknesses of each non-OBI country relative to the OBI countries and with regard to the signed agreements and MoUs under OBI, which are shown in the table below, the situation is as follows:

- Montenegro's weaknesses include its lack of a labour force and its lower rank for the ease of trading across borders;
- Bosnia also has weaknesses that include a lack of a labour force, low ICT readiness, a low rank for the ease of trading across borders, and lower trade openness;
- Kosovo's weaknesses comprise the lowest average wages in the region, low indicators for the ease of trading across borders, low ICT readiness, and low competitiveness of exports.

Weaknesses (of each country relative to the three OBI countries)		
Bosnia	**Kosovo**	**Montenegro**
Lack of a labour force, especially for certain sectors	Lowest average wage among all WB countries	Lack of a labour force, especially for certain sectors
Low level of exports to WB	Low indicators for ease of trading across borders	Low rank for ease of trading across borders
Low indicators for ease of trading across borders	Specialisation in relatively low sophisticated export products	
Specialisation in relatively low sophisticated export products	Low ICT readiness	
Low ICT readiness		

Opportunities for Outsiders Given the OBI MoUs and Agreements

The signed agreements and MoUs under the OBI create opportunities for the three member countries that non-OBI countries cannot currently exploit. However, under the assumption that they will become members of OBI, and again without getting into a "winners versus losers scenario" and without quantification, non-OBI countries will have opportunities for economic gains. Those opportunities, presented in the table below, are reflected in the following:

- potential for faster growth of the GDP,
- faster growth of exports of goods and services (this is particularly true for Kosovo),
- bigger inflow of FDIs,
- utilisation of networking possibilities for local firms (SMEs) with FDIs in the other two countries,
- inflow of labour from the other countries (this is especially true for the inflow of labour into Montenegro),

- potential for faster growth of tourism (especially in the case of Montenegro), and
- possibilities for swift structural reforms.

Of course, as highlighted previously, in order to reap those potential gains, Bosnia and Kosovo have to push harder with reforms in numerous policy areas.

Opportunities		
Bosnia	**Kosovo**	**Montenegro**
Potential for faster growth of GDP	Potential for growth of exports	Potential for faster growth of GDP
Potential for bigger inflow of FDI	Potential for faster growth of GDP	Potential for bigger inflow of FDI
Potential for growth of exports	Potential for bigger inflow of FDI	Inflow of labour from WB countries
Potential for cheaper imports (of some products and services)	Potential for cheaper imports (of some products and services)	Potential for growth of exports
Potential for faster structural reforms	Potential for faster structural reforms	Potential for cheaper imports (of some products and services)
		Potential for faster growth of tourism
		Potential for faster structural reforms

Threats to Outsiders Given OBI MoUs and Agreements

For both Bosnia and Kosovo, the biggest threat regarding the agreements and MoUs under OBI is a possible outflow of their labour force (due to migrants to Serbia and/or Montenegro seeking higher wages). In order to avoid such a threat, both countries have to push reforms for increasing wages, but in a sustainable way (through the growth of productivity, not by administratively increasing the minimum wage). Another possible threat for all three countries is a potential outflow of FDIs.

Threats		
Bosnia	**Kosovo**	**Montenegro**
Loss of workforce	Loss of workforce	Potential for outflow of FDI

Main Messages on the Economies of the Six Countries if All are Part of OBI

For non-OBI members, this analysis presents a very clear message: if some of the countries in the WB embark on reforms for the facilitation and liberalisation of trade and the flow of labour, the economies that stand aside cannot utilise the possible gains; they can only lose, albeit maybe not a lot. Hence, joining the initiative for the facilitation and liberalisation of trade and the flow of labour is the most desirable and efficient solution.

However, the Western Balkan region is highly specific. On one hand, the countries are similar in terms of their overall economic structures, factor endowment, belonging to the same group of middle-income countries, etc. On the other hand, the region is also quite unbalanced – one country has the size and economic power of nearly all the other five countries combined, and at the same time, is somewhat more developed than the rest of the countries. This is always a problem in international (economic) integration.

The main message of this analysis is: the region needs one initiative for regional economic integration. Perhaps it would be best to merge both of the existing initiatives – the Berlin Process and the Open Balkan Initiative.

A Note about the Latest Developments of the Berlin Process from the November 3rd Summit

The last Berlin Process (Leaders) Summit, held on November 3rd in Berlin, was very important due to two main reasons: 1) it was held in unprecedented times of prolonged crisis (the energy crisis in 2022 after the Covid-19 pandemic in 2020 and 2021), and 2) more significantly, it delivered on a crucial part of the commitments from the Common Regional Market, adopted at the Sofia Summit two years prior. This achievement was possible because of additional efforts following long negotiations of WB6 administrations and experts and the strong support of the German Federal Government, the European Commission, and the facilitation of the Regional Cooperation Council and the CEFTA Secretariat.

The most important deliverable of this Summit was the signing of the three so-called "mobility agreements" by the leaders of all six Western Balkan countries. These agreements include the Agreement on entry, transit, and short stay within the Western Balkans using only ID cards, the Agreement on the recognition of academic qualifications, and the Agreement on the recognition of professional qualifications. The three agreements are considered to be very tangible results. The first one simplifies the administrative procedures for entry, transit, and short stay within the Western Balkans using only ID cards, so it contributes to a closer and better-connected region, while ensuring equal treatment of all citizens in the whole region and strengthening people-to-people relations. The second agreement removes the fees for applications of recognition of higher education qualifications for students, while the third agreement enables the mobility of students and academic staff in the Western Balkans based on the Lisbon Convention for Recognition and the Bologna Process, through the establishment of common standards and procedures for the recognition of qualifications. Regarding the recognition of professional qualifications, the benefits of the provisions pertain to the services of doctors of medicine, dentists, and architects, based on the EU Directive on the recognition of professional qualifications. It establishes the uniform application of rules and lays the foundation for the mobility of professionals throughout the region. The next step is the signing of the agreements on the remaining four regulated professions: midwives, nurses, pharmacists, and veterinary surgeons.

Observed from a more general point of view, the signing of the three agreements is a stepping-stone to future reforms within the Common Regional Market Action Plan. WB countries and their administrations now face significant additional work to deliver on more substantial issues, including improving institutional capacities and the efficiency and competitiveness of WB economies and the whole region. Their work will need to include upgrading the capacity for innovations, research and development, structural reforms based on smart specialisation strategies, etc.

Apart from the signing of the above-mentioned agreements, another crucial deliverable of the last Berlin Process (Leaders) Summit was the endorsement of the Declaration on Energy Security and Green Transition in the Western Balkans. With this Declaration, the leaders of the WB6 committed to the following:

- accelerating the implementation of the Green Agenda for the Western Balkans at both the national and regional level;
- supporting the REPowerEU initiative and the European Green Deal;
- reiterating the determination to adopt the 2030 energy and climate targets (preliminarily agreed upon in July 2022);
- accelerating the reform of the economies and their energy sectors in line with the national energy and climate plans already adopted or under adoption;
- introducing ambitious targets and actions to diversify energy supply sources and reduce the dependence on fossil fuels, especially of Russian origin;
- harmonising crisis and emergency measures, including with EU Member States;
- improving the security of energy supplies and preparing and implementing national and regionally coordinated targets and mechanisms for dedicated measures reducing electricity and gas demand;
- utilising windfall profits made by producers of electricity and fuel in the relevant jurisdictions to finance the support of poor and vulnerable customers and to enhance the green and just transition;
- combining the day-ahead and intra-day markets for electricity and integrating the balancing and forward markets with the rest of Europe;
- improving the flexibility of the electricity systems;
- continuing to prioritise and incentivise effective energy efficiency measures, including introducing appropriate energy price signals reflecting scarcity, externalities, and costs, and the roll-out of a deep renovation wave;
- preparing comprehensive social and environmental impact assessment procedures for the energy installations; and
- working towards the regionalisation of the energy transition and a regional energy and climate plan for the Western Balkans, complementing national ones.

Overall, the Declaration is a very comprehensive, albeit not legally binding, document that is greatly needed with the ongoing energy crisis in Europe.