

Two Years of the Open Balkan Initiative – The Concept, Progress and Perspectives

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Open Balkans Initiative – the origin of the idea and objectives

The Open Balkan Initiative has been formally established end of July 2021 with the objective to increase trade and improve bilateral relations between the three undersigning Balkan countries – The Republic of Serbia, Albania, and the North Macedonia. The idea behind the Open Balkan Initiative follows the Berlin process¹. It has been even considered as its second phase aimed at deepening economic cooperation facilitated through the CEFTA² agreement, which currently gathers Serbia, Albania, North Macedonia, Moldova, Montenegro, Bosnia and Herzegovina and Kosovo. Removing administrative barriers between the Balkan countries, inspired by the European Schengen Agreement, was mentioned for the first time in the early 1990s, but the idea has been abandoned due to civil war. After several meetings taking place over 2018-2020 period, the three member countries declared their intention to create a unified market of 12 million people and work together on removing barriers for the free movement of people, goods, and capital.

In general, initiatives related to establishment of the free trade economic areas, or specific bilateral and multilateral agreements aimed at enhancing trade and strengthening economic relations are considered highly desirable among economists. There are not so many economic statements reaching such a strong consensus such as superiority of trade liberalization and free trade over protectionism including the economic benefits resulting from the increase in trade. As a matter of fact, there are also economists that underline the necessity of professional criticism when negotiating trade agreements as they are not necessarily bringing benefits for each partner. Without intention to challenge the well-known and two centuries old “principle of comparative advantage” developed by Ricardo, Rodrik (2018) provided important observations systematically criticizing the general acceptance of the trade agreements as such, and pointing out some of the typical issues such as potential dominance of the large states and manipulations related to specific trade conditions which could benefit particular interest groups at the expense of others. Even though real-world agreements differ from the theoretical ones and should be carefully assessed to avoid potential misleading arrangements, the purpose of this paper is not to assess specific cost and benefits arising from the Open Balkan Initiative as such, but to reflect on the main aspects, potentials and challenges regarding its implementation. Apart from CEFTA, there have been over 40 agreements, mechanisms and initiatives preceding the Open Balkan including the Energy Community, Western Balkans Investment Fund (WBIF), Brdo-Brijuni Process, Regional Cooperation Council (RCC) and Regional Youth Cooperation Office (RYCO), (Semenov, 2022). Although the Open Balkan does not bring anything fundamentally new, its novelty particularly lies in the fact that it was initiated and led by the local countries which provides additional value in terms of ownership.

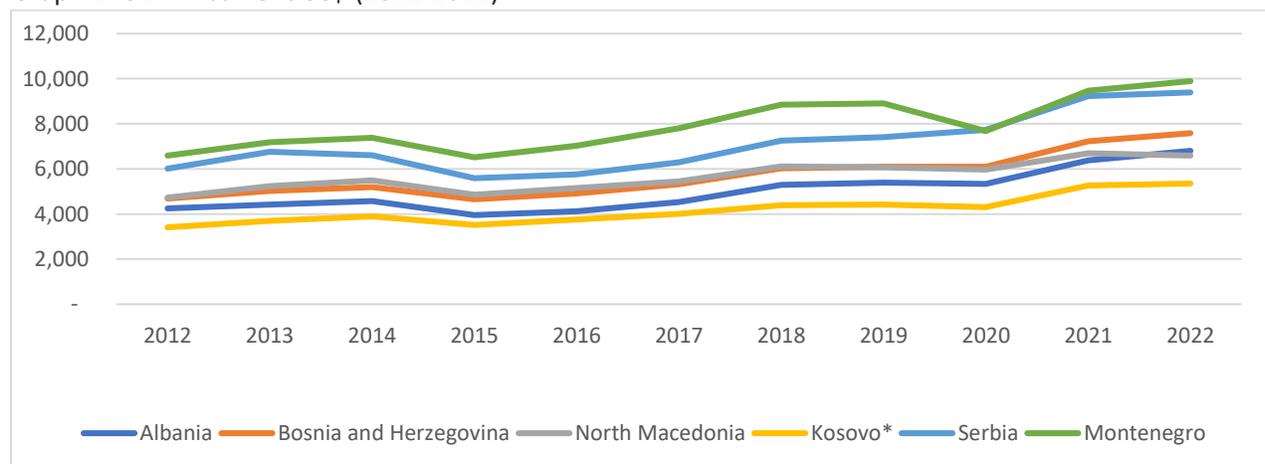
¹ <https://www.berlinprocess.de/>

² <https://cefta.int/>

The fundamental idea of the Open Balkan Initiative refers to the development of the single market. Under the joint statement given upon the signing of the Initiative, the representatives of the three participating countries also signed three agreements related to joint response to natural and other disasters, removing barriers for citizens to work in other member country and minimizing delays in transport of goods³. The Initiative is therefore expected to bring economic benefits for local companies in terms of simplifying administrative procedures (eg. VAT information sharing system that will enable cargo to move without stopping at borders), promoting tourism potentials, supporting close cooperation between the Chambers of Commerce and realization of the joint projects particularly in the field of sustainable energy production and infrastructural development. According to the World Bank estimates⁴, participating countries would save up to 3.2 bln \$ and 30 mln hours annually. Western Balkan countries are the second largest trade partner for each of the countries in the region following the EU.

The main economic indicators of the WB countries and data on mutual exports between Open Balkan initiative members are presented in the following Graphs (1-3.) and Table 1. It could be observed that all of the WB countries recorded solid improvement of the economic performances measured by GDP growth. Serbia and Montenegro are top performers, while Kosovo has been clearly lagging and failing to catch up over the last decade. The share of attracted FDI in the GDP has relatively stable trend. However, it should be noted that GDP is still relatively low if compared to the EU. Finally, all of the countries could be considered small open economies, thus, not surprisingly, the share of exports in GDP in some of the observed countries (eg. Montenegro) has been surpassing the EU average in the last years. Data on mutual trade clearly indicates huge potential for increase in the future period. Clearly, Serbia is comparatively more developed in terms of export potentials with a total export being almost 2.2 times higher compared to Albania and North Macedonia combined. Consequently, Albania and North Macedonia are by far less important export destinations for Serbia than vice versa. On the other hand, about 9.2% of the Macedonian exports goes to Serbia, making the Serbian market vitally important for the Macedonian economy.

Graph 1. GDP in current US\$ (2012-2022)

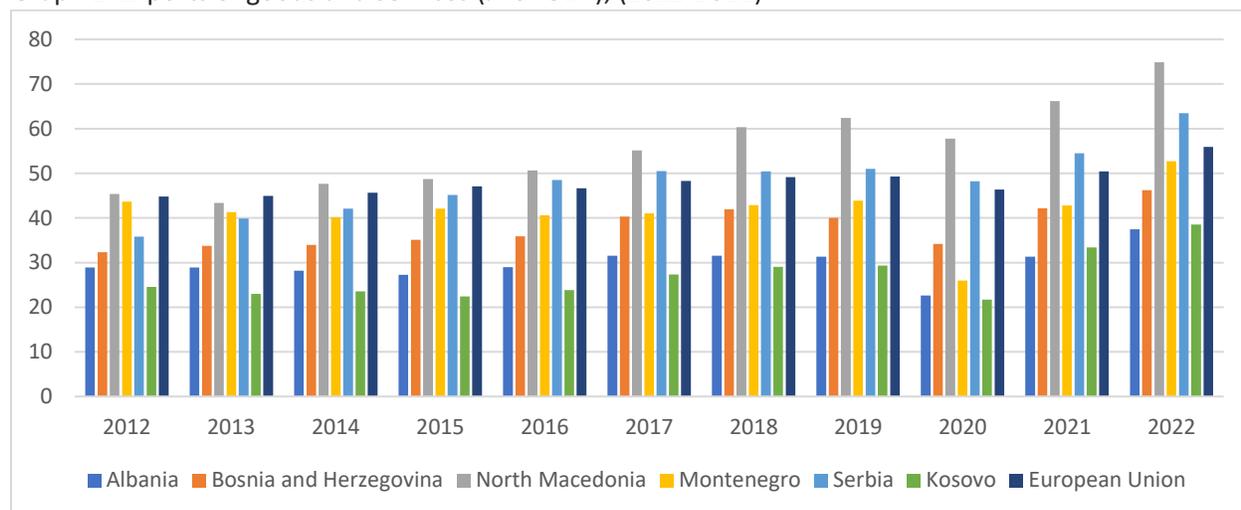


³ <https://vlada.mk/node/26063?ln=en-gb>

⁴ <https://www.euronews.com/my-europe/2021/08/31/as-eu-membership-stalls-balkan-countries-make-controversial-move-to-create-their-own-mini->

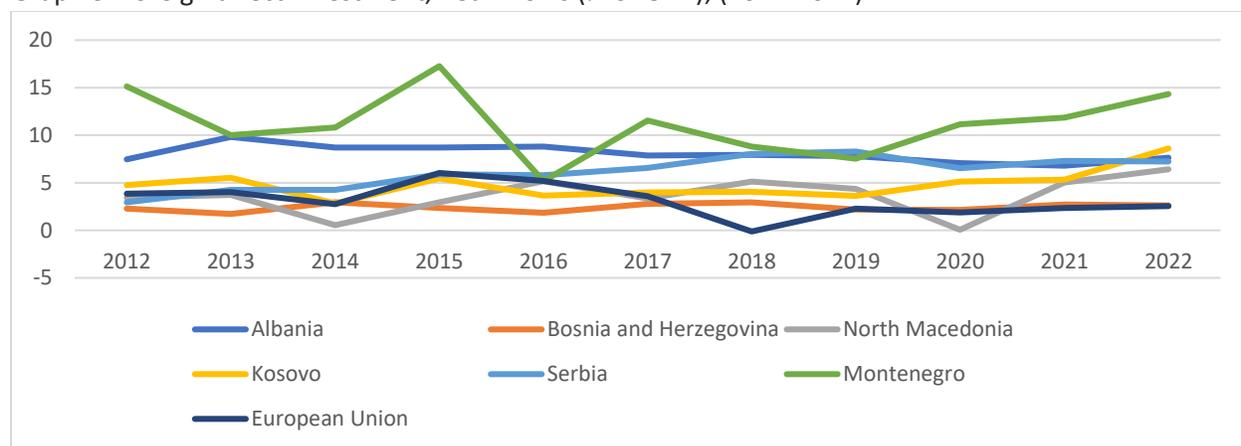
Source: World Bank

Graph 2. Exports of goods and services (% of GDP), (2012-2022)



Source: World Bank

Graph 3. Foreign direct investment, net inflows (% of GDP), (2012-2022)



Source: World Bank

Table 1. Mutual export in the US\$ and in % of the total exports in 2022

Export/Import	Albania	North Macedonia	Serbia	Total export
Albania	/	80,362* (1.8% of the total trade)	293,335* (6.7% of the total trade)	4,394,572
North Macedonia	107,402 (1.2% of the total trade)	/	800,724 (9.2% of the total trade)	8,729,356
Serbia	215,856 (0.8% of the total trade)	987,230 (0.8% of the total trade)	/	28,565,681

Source: Trademap.org database

*Data for 2020

Note: The row data express export of the country to the specific WB country (column)

Retrospective of the two years of implementation

Strengths and achievements

Over the last two years of implementation, the Open Balkan initiative has clearly produced some measurable results, mainly referring to cooperation in the field of agriculture and tourism. Mutual recognition of the documents including food safety procedures as well as phytosanitary and veterinary inspections simplified transport of goods. As a result, trade in agricultural goods has become much faster. As per North Macedonia Prime Minister, Mr. Kovachevski, the external trade exchange between North Macedonia and Serbia has grown by 50 percent compared to 2019, while the exchange between Albania and North Macedonia has grown by 40 percent⁵. Additionally, traveling with only ID card for the citizens of member countries and free movement of foreign tourists across the region without visa requirements provides important stimulus for tourism. The number of Serbian tourists in North Macedonia grew by 500 percent in 2022 compared to 2021⁶. Another important achievement is the establishment of mutual assistance mechanisms with the aim of dealing with emergency situations such as fires, floods and handling winter storms and snow drifts. The Open Balkans clearly made easier supply of food and electricity in the potentially affected border areas. As per research conducted by Macedonian think-tank Analytica on the sample of 150 export-oriented companies including 100 from the manufacturing and 50 from the tourism sector, 88% and 58% companies respectively have positive attitudes towards opportunities arising from the Open Balkan initiative⁷.

One of the most important but hardly measurable positive effects of the Open Balkan is the “signaling effect”. As one of the most important barriers for the economic development in the region are political tensions, any initiative which promotes regional cooperation including direct communication between people, institutions and local businesses, prioritizes economic interests and supports open trade should be encouraged. Given the historical ethnic tensions, the opposite views on the territorial disputes and minority rights, which occupied diplomatic narratives between Serbia and Albania, as well as Albania and North Macedonia. Open borders, joint infrastructure projects and diplomatic initiatives should be considered as a part of the solution also being complementary to the EU integration processes.

Challenges

Despite aforementioned positive sides of the agreement, the fact is that only three out of six Western Balkan countries decided to participate in the Open Balkan initiative, whereas each of the other three – Bosnia and Herzegovina, Montenegro and Kosovo*⁸ (with a total population of around 5.6 mln people), are still reluctant for various reasons. Kosovo Prime Minister, Mr. Kurti, disputes any regional initiative prior to Serbia’s formal recognition of Kosovo as an independent state. Not all the political factors in

⁵ <https://mia.mk/en/story/initiatives-best-measured-by-results-open-balkan-to-remain-open-for-all-says-kovachevski>

⁶ Ibid.

⁷ <https://www.kosovo-online.com/en/open-balkan/macedonian-companies-satisfied-effects-open-balkan-18-5-2023>

⁸ * This designation is without prejudice to positions on status, and is in line with UNSC 1244

Kosovo are supporting Kurti's position, believing that Open Balkan could bring certain economic benefits to the local population and should not be linked to negotiations over the status of the country⁹. Governments in Bosnia and Herzegovina and Montenegro are also divided. Serbian entity in the Bosnia and Herzegovina supports the initiative, while the Federation of Bosnia and Herzegovina is strongly against. It seems that the Open Balkan, similarly to many other issues in Bosnia and Herzegovina, was used as a tool for internal political battle between the two political entities, whereas the content and the potential effects have been left aside. Montenegro Governments were also sending ambivalent signals over the last years. As being the most successful among the WB countries in the EU integrations, Montenegro officials provided some signals of interest to join the initiative such as participation in Ohrid meeting as observer. However, they also reported that the EU accession is the first priority of the foreign policy indicating skepticism that new regional agreements would speed up the EU accession process. Some analysts also reveal that real reasons for hesitating refer to fears that the agreement would pave the way for Serbian economy to dominate the regional market as being twice larger than Albania and North Macedonia combined. Serbian economy is about 14 times larger than Montenegro's.

External support for the Open Balkans from the EU and the USA has also not been very convincing. Although it is hard to oppose any initiative which stipulates economic cooperation and encourages strengthening cultural ties, it is indicative that the most important economic and political actors did not show stronger political support to the process. Public opinion in the Western world is relatively divergent. Some analysts perceive the Open Balkan as vitally important for regional economic development spurring foreign investments and being complementary to the Berlin process¹⁰. The opposite voices express fears based on the premise that Serbian economy, being the largest and more developed than others, will benefit the most. Furthermore, Serbian economic power will eventually translate to political power. For all of the analysts claiming that Serbian autocratic regime is a polygon for Russian influence in the region, while nurturing close economic ties with China and Hungary, this is considered unacceptable since further aggravating political issues and undermining the Berlin process¹¹.

Another source of criticism with regards to Open Balkans is the assumption that it is only a political maneuver of the local political elites that intentionally create some form of replacement for the slow EU integration process. Through mimicking regional integration, they only create a false impression among the local population supporting the more intense EU integration process. Meanwhile, they benefit from the status quo and the lack of democratic and institutional capacities (Djukic, 2022). It is questionable whether the Open Balkans brings anything concrete given the noticeable lack of transparency in terms of signed agreements and future plans. There is almost no information presented on the webpages of the official institutions. Thus, it is not clear whether the Open Balkan is different or complementary to the Action for Joint Regional Market and what is the concrete value added behind the idea for the local economies.

Unresolved status of Kosovo* represents a millstone around the neck not only for Serbia and Kosovo but also for other WB countries. First of all, it distracts from the political and economic reforms, being an excuse for any delay including the EU integrations. Second, it also represents a source of manipulation of

⁹ <https://n1info.rs/english/news/hoxhaj-kosovo-should-join-the-open-balkan-initiative/>

¹⁰ <https://www.swp-berlin.org/en/publication/the-open-balkan-initiative-complements-the-berlin-process>

¹¹ <https://www.dw.com/en/open-balkan-initiative-risks-aggravating-political-problems-in-the-region/a-62834261>

public opinion pursued by political leaders playing on the card of emotions and patriotism of the citizens, thus being an important factor for any forthcoming elections. Clearly, there is no country that has joined the EU without previously defined borders. Some form of normalization of relationship between Serbia and Kosovo* is therefore precondition for real economic cooperation including the initiatives such as Open Balkan. The Kosovo* issue could hardly be ignored by other WB countries and recent escalations of conflict only confirm this assumption¹². North Macedonia with large Albanian minority and the history of ethnic tensions, and Albania¹³ are also interested in some form of durable political agreement between Serbia and Kosovo.

Perspectives

The perspective of the Open Balkan initiative is hardly predictable. However, based on the provided analysis, there are several factors that will have critical importance with regards to success of the initiative and benefits that it could bring to the local economies. Firstly, it would be hard to expect some noticeable results without external support, namely from the EU, which is also related to other countries' decision to join the initiative. Secondly, unfreezing of the EU integration process would clearly provide impetus for greater economic cooperation in the region. The EU integration process is highly correlated to institutional development and provide pressure on the Governments to proceed with deep structural reforms including dealing with corruption and human rights. Thirdly, some form of normalisation of relationships between Serbia and Kosovo is precondition for any form of deeper regional economic integration since economic cooperation is hardly possible with continuous tensions and potential security threats. Finally, the initiative itself needs some more concrete and measurable steps in the future period with the aim to boost trade and foreign investments. Most of the plans are still formulated in a declarative manner lacking indicators of success. Some of the concrete steps might prove determination including plans for improvement of the transport infrastructure (eg. Belgrade – Tirana highway), improvement of the traffic options (direct flights and train connections), joint investment in infrastructural projects, etc. The positive examples refer to Central European Free Trade Area (CEFTA) and the Baltic Free Trade Area (BFTA) as discussed by Kosma et al. (2003), as well as potential benefits from improved regulatory environment confirmed in ASEAN countries (Otsuki, 2011).

¹² <https://n1info.rs/english/news/tensions-between-vucic-rama-in-serbia-people-choose-their-godfathers/>

¹³ More than 90% of population in Kosovo are Albanian ethnic group

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