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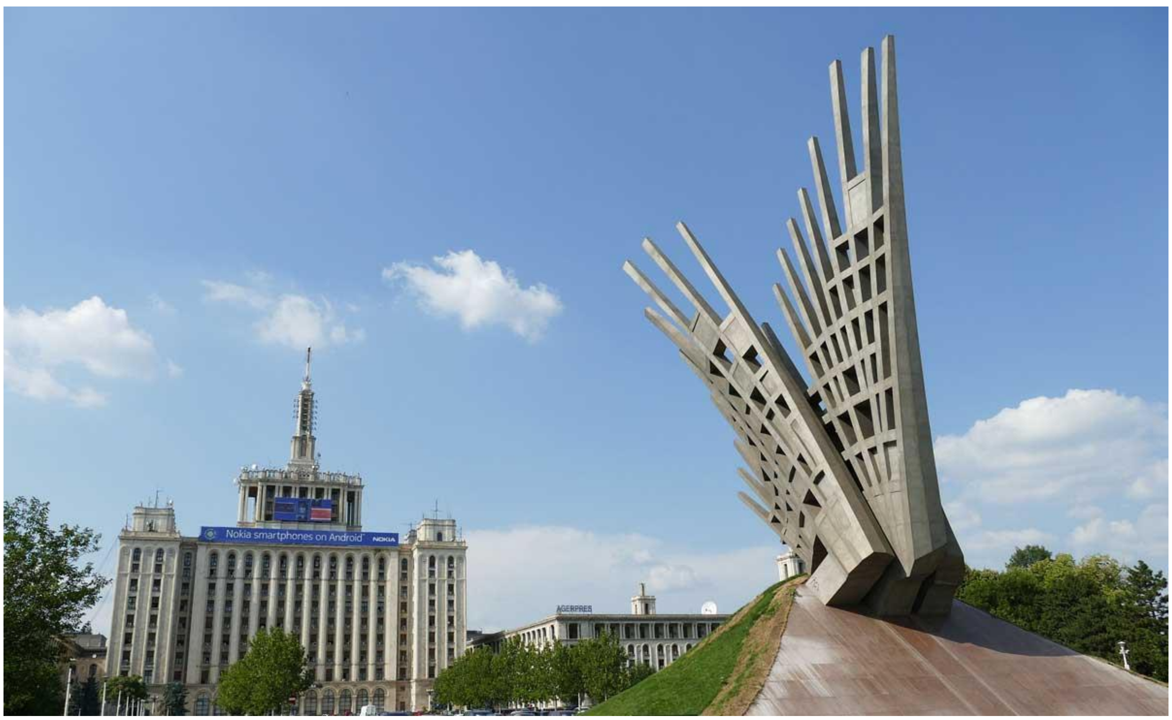


# *The unviable economies*

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*The views presented are those of the authors and do not necessarily represent the views of the Marshall Center, and the U.S. Department of Defense or its Components.*

After more than three decades of transition and a triple dip economic recession, economic security is the main challenge in the Western Balkans. Unemployment, poverty, corruption, and brain drain are the main challenges that threaten the everyday security of average citizens in the region[1]. Suffering from a lack of competitiveness and dangerous public debts, the current Covid-19 crisis has further exacerbated existing structural problems, deteriorating people's social and economic conditions, and threatening hopes of future convergence with western advanced economies.

The old economic model in the Western Balkans is challenged. Thirty years ago, as the former Socialist economies transitioned into free market economies, they adopted quick liberalization and deregulations rules and rapid privatization. Hopes were to replicate the successful transition experiences of Central European countries. Instead, in the Western Balkans this model manifested several weaknesses, favouring insiders and fostering corruption. International observers have raised concerns about the quality of democracy, market economy and political management in the new democracies of the Western Balkans.

The fragile institutions developed over the last thirty years were associated with a highly unequal distribution of socio-economic resources and opportunities. The main institutions of the market economy (free trade and competitive markets, private ownership and property rights) were further undermined by the informal economy showing the serious deficit of rules in the market economy. In such conditions, those with political and economic power have used it to shape the rule of law to provide a framework within which the market place can be exploited, thus creating a rent seeking environment that favours monopolies and hinders inclusive sustainable development.

Since the fall of the Berlin Wall and the dissolution of Yugoslavia, the political West — the United States and the European Union — and their clear foreign policy toward the Western Balkans have been crucial throughout the process of stabilization, reconstruction, state consolidation and, finally, NATO and EU integration. For the Western Balkan countries, accession to Euro-Atlantic institutions has been viewed internally and externally as the main mechanism for security, stability and democracy

[1] See https://www.rcc.int/pubs/95/balkan-barometer-2020-public-opinion-survey

in a troubled region. Albania and Croatia joined NATO in 2009, Montenegro in 2017 and North Macedonia in 2020.

While integration into the EU is a core foreign policy objective for all countries in the Western Balkans, the slow and difficult process has been additionally burdened by EU internal uncertainties and "enlargement fatigue", spilling over a "reform fatigue" in the region[2]. Western "inattentiveness" in recent years has created a vacuum of power allowing new opportunities for Russia and China to increase their footprint in the region, in a new competition between the free and democratic world and the autocratic powers[3].

### *Old Economic Model to be revised*

In the beginning of the 1990s, countries of the Western Balkans were encumbered by their unfavourable starting positions with low incomes and high unemployment. The military conflicts further deteriorated the situation, destroying any existent industrial capacity, disrupting regional trade, and worsening the economic situation. Lagging behind other countries in transition in Eastern Europe, structural economic reforms started after 2000, while hopes were high to catch up with the western European economies.

In the "prosperous" decade of the 2000s, economic growth was mainly driven by the accumulation of physical and financial capital, swallowing deficits and sovereign debts, while competitiveness remained poor. The relative high rates of economic growth rates were mainly based on domestic demand-led expansion, made possible by large capital inflows through privatization, credit expansion, and private transfers. In addition, the financial capital inflows were mainly allocated towards consumption rather than productive investment activities. The current structure of the regional economies is dominated by services, trade, and real estate, while the production of goods remains at the lower end of the value chain based on cheap and unskilled labour.

The Western Balkan countries were negatively affected by the 2009 financial crisis and the lagged reaction of the euro-zone crisis, additionally burdening their fragile economies. Economic contraction in 2009 was -0,3% on average, followed by zero growth rates in 2012. The main contagion channels were the drop of Foreign Direct Investment (FDI), the decline of exports and trade in general, the

[2] https://nationalinterest.org/feature/how-improve-process-integrating-western-balkans-european-union-185994
[3] https://perconcordiam.com/dancing-in-the-dark/

reduction of remittances from expatriate workers, and the credit crunch. Since 2013, anaemic growth rates returned in the region, as governments slowly implemented the required economic structural reforms.

The Covid-19 pandemic took a dangerous economic and social toll on the Western Balkans, far more damaging than the global of 2008-2009 crisis with a contraction of 6% in 2020, with national estimates ranging from a low of 1% in Serbia to a high of 15% in Montenegro. This was the worst downturn on record, as a result of drops in both domestic and foreign demand, disruptions in supply chains, and fall of tourism as one of the main sectors of the economy. Such a recession has caused a collapse of government revenues, increased the already high levels of debt, and deepened economic and social inequalities. Since the start of the pandemic, almost 140.000 jobs have been lost in the region, and between 165.000 and 336.000 people were pushed into poverty[4]. Rising fiscal liabilities in the region have reduced space for fiscal support for the suffering economies, stretching government budgets further with additional spending necessary to counter the damaging economic effects of the COVID-19 crisis, thus contributing to macroeconomic imbalances[5].

### ***Stalled Economic Convergence***

The economies of the Western Balkans lag behind the rest of Europe, with very low incomes and living standards. The average per capita income levels fluctuate at $6,100 in current prices, as low as only 16% of the EU average of $37,000. These income levels vary from the lowest in Kosovo with only $4.300 per capita to the highest in Montenegro with $7.700.

Average GDP per capita in the Western Balkans saw an increase of only 20% in the last decade, going from an average $4.800 in 2010 to $6.100 in 2020. The growth of average income was much lower compared to the "prosperous" decade of the 2000s when regional GDP per capita, increased by three times, going from an average of $1.500 in 2000 to $4.800 in 2000. This drastic difference in progression between the two time periods can be explained by the lower economic growth rates in the region, as the 10-year average annual GDP growth dropped from 4,5% on average in the decade

[4] https://openknowledge.worldbank.org/bitstream/handle/10986/35509/Subdued-Recovery.pdf?sequence=1&isAllowed=y
[5] https://openknowledge.worldbank.org/bitstream/handle/10986/34518/9781464816437.pdf

of 2000s to only 1,7% in decade of 2010s[6]. Little growth spurt followed by stagnation simply lower the average growth and prolong the process of catching up with the advanced economies.

According to World Bank predictions, regional economic activity is expected to expand to 4,4% in 2021, but moderate again to 3,7% in 2022-2023[7]. If forecasts prove to be true, the idea of any quick convergence with western countries will be hard to sustain. Economists use the Rule of 7% to approximate how long it will take a country to increase its income. This theory posits that income and output double at a 7% growth rate every decade, meaning that average growth rates should be at least 7% in the next 10 years to pass the $10.000 threshold by 2030. As per this rule, it would take the at least 20 years for the Western Balkans on average (at this current pace) to double its income, and more than 50 years to catch up with the European average.

***Structural challenges in the Western Balkans***

Slowly, countries of the region are falling into the "middle income trap," as factors that have enabled the economic catch-up diminish and growth starts slowing down as markets become structured and industries that drove growth in the early period have become non-competitive due to rising wages and cost of life.

Economic indicators show a significant lagging performance in the enterprise sector and market competitiveness. With a very low productivity, economic growth has been so far based on increased efficiency. Competitiveness in the region is very unsatisfactory, with countries ranking poorly in the Global Competitiveness Report 2019[8], especially when it comes to institutions and innovational capabilities. The competitiveness index takes in consideration four main pillars: the enabling environment, human capital, markets, and innovation ecosystem. Out of 141 countries researched from the World Economic Forum, the Western Balkan economies rank between the 72nd position held by Serbia to the 92nd held by Bosnia and Hercegovina.

Together with the un-friendly business environment characterized by weak institution and rule of law, the very limited role of innovation is another big challenge that contributes significantly to the low

[6] Author's calculations based on International Monetary Fund Data https://www.imf.org/en/Publications/WEO/weo-database/2021/April.
[7] https://openknowledge.worldbank.org/bitstream/handle/10986/35509/Subdued-Recovery.pdf
[8] Kosovo is not researched in the Global Competitiveness Report http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

competitiveness of the region. Considering the very small markets and the weak domestic demand, local companies in the region are unable to generate sufficient profits for investment in innovation, thus leading as a result to weak interests in modernization. Total factor productivity can only increase through innovation and technological progress. Innovation is costly and the developing economies of Western Balkans do not have the necessary financial and human capacities, but new technologies and knowledge can be imported from advanced economies through trade, foreign direct investment, and brain circulation.

### *Western Balkans and Trade Partners*

The EU is the most important trading partner for the Western Balkans. In 2018, almost 72% ($57 billion) of the region's $80 billion in foreign trade was with the EU; more specifically 84% of exports and 64% of imports, according to data from the European Commission. Trade relations between the EU and the Western Balkans have increased rapidly in the last decade, up from $34 billion in 2008.

China has quickly become the region's second-largest trading partner, but with $4,5 billion in 2018, it accounts for only 5,8% of overall regional trade, and almost half of that is with Serbia ($2,2 billion), China's strategic partner in the region. To put it in perspective, trade with the Western Balkans is only 4,3% of China's total trade with the 17+1 platform, $103 billion) in 2018, according to UN Comtrade data[9]. Russia (4,7%) is the third largest trading partner for the region and the trend has been a decline over the last decade. The other two main partners are Turkey (4,2%) and the USA (2%).

### *Foreign Direct Investment: is the Western Balkans attractive?*

The region started gaining the attention of foreign investors in the beginning of the 1990s because of market openings after the collapse of the state-controlled system. In the beginning, the availability of natural resources played an important role in the attraction of the FDI, as well as incentives offered by governments alongside the large-scale privatization process. The Euro-Atlantic integration process increased the opportunities for these small economies in the international market. Particularly the EU integration process introduced in steps the free trade zone, as an important intermediary phase, while

[9] https://comtrade.un.org/

supporting the harmonization of legislative frameworks with those of the common market, positively influencing the FDI attraction in the region.

However, foreign investors have shown little interest to get into the Western Balkans; despite the fact that all countries embraced open investment and trade regimes, all important and necessary factors for the competitiveness of a country, but not sufficient. The New Paradigm of Development focuses on the concept of institutional assets, meaning the quality of institutions, as a significant component of the competitive advantage along with the attractiveness of a particular country's location[10].

Constituting a market of 18 million consumers, the Western Balkans has the potential for fast-growing economies, easily connected to the common market of the EU. However, economic growth is hampered by poorly functioning institutions, informal economies, rampant corruption, poor infrastructure, low productivity, low competitiveness, and lack of regional integration.

The Western Balkans offers unique opportunities in terms of strategic position, proximity to Western markets, natural resource, relatively low labour costs, yet it still attracts very few FDI. In 2019, the six countries together attracted USD 7,5 billion FDI, the largest amount going to Serbia, which is the largest economy in the region with USD 4,5 billion, followed by Albania with USD 1,3 billion, while Kosovo and Bosnia and Hercegovina have the lowest FDI with USD 300 million and USD 365 million respectively[11]. FDI in the region are mainly natural resources seeking, related to the privatization processes, services and financial sector, or retail trade, but rarely export oriented.

When observing the stock of FDI since the beginning of the 1990s, it amounts of USD 80 billion in 2019. To put it in perspective, the stock of inward FDI in the Western Balkans makes up only 0,24% of the total world FDI. In the EU-27, the stock of inward FDI was USD 9 trillion, or 23% of the world total[12]. This means that the stock of FDI in the Western Balkans is less than 1% of stock of inward FDI in the EU market. On the other side, the EU countries are the biggest investors in the global economy making up 33% of the global outward FDI (including the UK), with more than USD 13 trillion. The Western Balkans, in the front yard of the EU have received only 0,6% of the European investments in the global economy. For easier regional comparisons, we can look at the stock of FDI

[10] Dunning, J. H. (2006). Towards a New Paradigm of Development: Implications for the Determinants of International Business Activity. Transnational Corporations, 15(1), 173-228
[11] https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx
[12] https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

per capita, where the best performing country is Montenegro with USD 9.000, and Kosovo is the worst performing with only USD 1.100.

Research has shown that the high quality of institutions is strongly correlated with the attraction of FDI throughout the region, reflecting the confidence of foreign investors in the institutional and investment environment in the host country[13]. On the other side, it has been statistically proven that there is a negative relationship between levels of corruption and the attraction of FDI, reiterating the negative role of corruption in fostering development through domestic and foreign investments. Corruption represents an additional cost to the economy, by distorting market competition, leading to poor allocation of resources, diverting public policies for private vested interests, and keeping away serious foreign investors. According to Transparency International's Corruption Perception Index 2020, the Western Balkan countries rank from the 67th position held from Montenegro, to the 111th place such as Bosnia and Hercegovina and North Macedonia, with the worst results in the region[14].

***China: A New Player?***

In line with Beijing's economic and geopolitical agenda in Europe, the Western Balkans has seen an increased Chinese footprint, both economically and diplomatically. Despite offering a paucity of viable market opportunities to Chinese investors, the five Western Balkan countries (Kosovo is excluded as not recognized), have been included since 2012 in China's 16+1 Platform for economic engagement with East and Southeast Europe. These countries are also official members of the Belt and Road Initiative, and the region is increasingly targeted for BRI-related projects as a result of their key strategic geographical position — a Balkan Silk Road of infrastructure networks and logistical corridors between the Port of Piraeus in Greece (Beijing's flagship project in the region) and markets in Western Europe. Beijing aims to use the region as a commercial gateway and transit platform to Western Europe, where China's real interests lie.

China has used easy money and soft power to gain influence, taking advantage of the lack of infrastructure in the region, combined with a lack of capital, loose regulations, lax public procurement rules, and poor labour regulations. Chinese companies (mainly state-owned enterprises) maintain distinct advantages compared to western companies because they are supported by large government

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[13] Zeneli V. (2014), The role of institutions and good governance for attracting Foreign Direct Investments: Evidence from Southeast Europe", Business and Economics Journal, Volume 5, Issue 2.
[14] https://www.transparency.org/en/cpi/2020/index/nzl

subsidies and state banks, and are willing to build at low costs without the stringent (and costly) requirements of meeting environmental and social standards.

Chinese investment (Greenfield investment and contracts) in four countries of the Western Balkans (excluding Albania and Kosovo) during 2005-2020 was $15,4 billion, with Serbia leading with $10,5 billion, according to China Global Investment Tracker data from the American Enterprise Institute (AEI)[15]. This equals to almost 20% of total FDI in the region ($80 billion in 2020). A misleading aspect of the reported data is that most of the money is not actual FDI, but loans. In fact, most Chinese economic engagement in the region amounts to lending for BRI-related infrastructure projects, mainly in transportation and energy. According to AEI's data, about half ($7,2 billion) of the Chinese money in the Western Balkans goes toward transport and infrastructure contracts financed by Chinese banks. Another $4,7 billion is investment in the energy sector, financed by loans.

Economic cooperation is typified by the use of Chinese loans for infrastructure development, Chinese state- owned enterprises (SOEs), Chinese workers, and the spreading of Chinese labour and environmental standards, which are distinctly weaker than EU standards. Chinese implementing firms often profit from unsustainable deals, as sovereign guarantees shift risk onto host countries, at the expense of the financial stability in the region, for some countries risking to get trapped in debt servitude with China[16]. More than 80% of total Chinese investment in the region is financed by loans, with studies showing that construction costs would not be repaid in hundreds of years.

Among the biggest infrastructure projects in the region is the Belgrade-Budapest railway, 85% ($2.5 billion) financed by China Export-Import Bank and constructed by China Railway and Construction Corp. Another important project is Bar-Boljare highway in Montenegro financed by Export-Import Bank of China, which loaned 85% of the estimated $1 billion and is being built by the China Road and Bridge Corp. In North Macedonia, two highways — Miladinovici to Shtip and Kichevo to Ohrid — cost $580 million and are being built by Sinohydro Corp. Ltd.

### *FDI and "absorptive capacities"*

Research clearly shows the positive impact of FDI for economic growth and development in the Western Balkans. Nevertheless, this relationship is more complex than what it seems. Not all FDI

[15] https://www.aei.org/china-global-investment-tracker/
[16] https://thediplomat.com/2020/02/the-western-balkans-low-hanging-fruit-for-china/

leads automatically to growth, rather it depends on the "absorptive capacities" of the host country, important both for attracting and reaping the full benefits of FDI. Benefits of FDI do not accrue automatically and evenly across countries, sectors, and local communities. Instead, they largely depend on the conditions of the host countries, where national policies and the investment architecture are very important. Host countries need to have a threshold of trade openness, human capital, technological capability, domestic credit, and efficient domestic institutions for FDI to have the desired positive impact in the host country. Strong institutions and fair rule of law create the standards for a level playing field for business development, competition, and trickledown economics in the economy.

### *Human capital and brain drain*

The quality of human capital has a two-fold importance: for attracting high quality FDI and maximizing its benefits. Countries with a non-highly qualified workforce tend to attract smaller foreign companies, investing in mature industries and looking for exploitation of cheap labour, with short-term positive impact though increased employment, but less than clear long-term developmental impact.

To make things worse, emigration of young people and brain drain will continue to negatively affect the economic future of the region[17]. In the long run, emigration of the young and skilled will generate mismatches between the available skill levels and the required composition of the work force in the region.

According to the 2020 World Migration Report, three of the Western Balkan countries have been listed among the twenty emigration countries in the world with the largest numbers of migrants as a share of population, since the early 1990s, such as Bosnia and Hercegovina (33%), Albania (29%), and North Macedonia (24%)[18]. Based on current indicators, the Western Balkans will be an exporter of people for the years to come, and mostly educated ones, within a migration dynamic that will be controlled by the destination countries[19]. Reasons for emigration from the region are more contemporary than just historical in nature, ranging from economic, political, and institutional causes.

[17] https://www.theglobalist.com/european-union-migration-brain-drain-and-the-western-balkans/
[18] https://publications.iom.int/books/world-migration-report-2020-chapter-3
[19] https://www.ecfr.eu/publications/summary/the_way_back_brain_drain_and_prosperity_in_the_western_balkan

What makes it more concerning is that their emigration seems to be permanent, with only a limited number of returns in the region, speaking about an unstructured circular migration. People are economically and institutionally motivated to leave the region, the latter one a growing concern for skilled migrants, while the unskilled emigrants are attracted by job opportunities and the generous social benefits in Western European countries[20]. With the income and institutional quality gap widening more, the push and pull factors driving emigration from the Western Balkans will persist even stronger in the future.

Unfortunately, the magnitude of the brain drain from the Western Balkans is difficult to estimate without reliable statistics; looking at the trends, the region will be the main loser. However, for policy makers in the Western Balkans, emigration has been seen as beneficial, as it has helped to lower unemployment rates, to release government pressures for social benefits, and bring more remittances home.

Despite the fact that the level of remittances (financial transfers made by migrants directly to families in their countries of origin) in the Western Balkans has decreased over the last decade, it still averages at 9,6% of the Gross Domestic Product of the region (ranging from 16% in Kosovo to 3% in North Macedonia)[21]. This level remains very high compared to European standards, considering that the average remittances as a percentage of the GDP in the EU is only 0,64%.

Youth unemployment in the Western Balkans averages almost 38% (from 49% in Kosovo, 47% in Bosnia and Hercegovina, 45% in North Macedonia to 24% in Serbia), compared to the EU with 14,3%[22]. The segments of the youth population that are not in employment or education (NEET) are also extremely high placing many people at risk of poverty and social exclusion, with an average of 24% compared to the EU average of 10%[23].

### ***Western Balkans: Opportunities for "Viable Economies"***

The Western Balkans is at a critical juncture: in a desperate need for modernization while struggling with the most difficult economic crisis in the last three decades. To escape this vicious cycle, it needs

[20] https://www.theglobalist.com/europe-western-balkans-immigration-economy/
[21] https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?view=chart
[22] https://tradingeconomics.com/country-list/youth-unemployment-rate?continent=europe
[23] https://www.seejobsgateway.net/sites/job_gateway/files/Western%20Balkans%20Labor%20Market%20Trends%202019.pdf

to change gears, revise the actual model of economic growth by accelerating socio-economic reforms and accelerating speeding up measures to modernize the economy. Good economic drivers and comprehensive policies are needed to implement the much-needed structural reforms and improve competitiveness. Sustainable economic development should be focused on strengthening institutions to create a fair and friendly business environment (economic rule of law), regional economic integration, attraction of FDI, regional near-shoring, the digital economy and EU-driven development.

- ***Regional economic integration***

Regional integrated growth is key for the region to achieve more in the international stage collectively and bring multiple positive effects for each country. Despite the considerable progress in trade relations and reduction of barriers, complete trade liberalization of products and services is imperative to increasing regional intra-trade and enhancing consumer choices in the Western Balkans. The Western Balkan Action Plan for the Common Regional Market 2021-2024, together with the Green Agenda were adopted at the Western Balkans Summit in November 2020 as important steps in deepening regional cooperation.

Regional producers would benefit from bigger markets and greater competition, which would mean new opportunities in terms of resource exploitation, new markets, and new trade partners. A regional integrated area would foster cross-border production chains by leveraging each other's comparative advantages and subsequently export the finished products outside the Western Balkans.

However, regional cooperation needs to be put in a much wider development context, aiming at the advancement of human capital by strengthening the regional value chains and supporting the creation of transnational clusters and business networks. A bigger and integrated market facilitates innovation. The promotion of linkages between academia, industry, and policy makers is very important for promoting the free flow of talent throughout the region, encouraging brain gain, supporting private and public sector investment in R&D, and regionally coordinating policies that would enhance innovation and promote the knowledge economy.

- ***FDI and Regional "Near-shoring"***

It is necessary for the Western Balkans to collectively promote and develop a friendly environment for the attraction and targeting of "qualitative" FDI towards sectors that augment domestic investment, to be then channelled into exports and lead to sustainable economic growth. Countries should cooperate on a "pooled" competition for FDI. Creating a regional strategy for investment promotion and developing a single capital market would help improve the region's global competitiveness.[24] Regional links through FDI typically play a prominent role as they did in the 1990s when Central European countries became integrated in European production chains. Increased foreign investment in the region along with the direct positive effects for economic growth, employment and higher incomes, would be a source for economic modernization and improvement of skills and overall productivity. Carefully targeted FDI, focused on specific industries would be imperative for creating technological and industrial clusters and introduce not only new technologies but also new skills and knowledge. FDI is key for economic growth considering the very low savings rates and the anaemic domestic investment in the Western Balkans.

The region has a new window of opportunity because of the post Covid-19 European economy, where near shoring will play a new role, offering the potential of attracting serious western investment. This will only happen if conditions are in place, a favourable and fair business environment based on rule of law and transparency, but also regional economic integration. European companies are looking to relocate their supply chains closer to home. Lower labour costs and better connectivity in terms of energy and transport to the Western Balkans make the region attractive, but regional governments need to diversify and modernize their economies, develop infrastructural links and create friendly business environments. The Western Balkans have therefore a key role to play in the global value chains that supply the EU, and this role could be further reinforced. In the long term, this will also contribute to the EU's strategic autonomy.

- ***EU- Driven Economic Development***

It is imperative for the Western Balkan countries to seriously commit towards meeting the EU conditions of accession, and consider the current crisis as an opportunity to push through tough reforms as the best way to ensure economic and social development. While membership into the EU

[24] European Commission (2010), p. 2

will take time, it would be important to deepen the integration of the region into the EU ahead of full accession, including more access to the EU budget, entry into the single market and the customs union, and more support from the EU for innovation and industrial development in the Western Balkans.

In fact, the EU will invest more than $10,5 billion (EUR 9 billion) for the period 2021-2027 to help bring their economies in line with EU standards, to support economic convergence with the EU through investments and support to competitiveness and inclusive growth, human capital, sustainable connectivity, and the twin green and digital transition. The Economic and Investment Plan[25] for the Western Balkans is designed to help develop transport and energy infrastructure to foster economic growth and employment[26]. It aims to unleash the untapped economic potential of the region and the significant scope for increased intra-regional economic cooperation and trade. In parallel to the Economic Investment plan to support the region, the EU Commission has presented guidelines for implementing the Green Agenda in the Western Balkans.

- ***Digital Economy***

The Western Balkan governments should seize the opportunities for the fast-growing digital economy, using the EU's digital strategy as the guiding principle for a human-centric digital transformation of their economies and societies. This is a new area where the Western Balkans do not face a disadvantage compared to the Eastern European countries (like in manufacturing), and for this reason the region should be able to attract FDI in the form of outsourcing investment in the digital and services sector from Western European countries. To help change the economic development model and make the important transition to the digital economy, governments need to build on existing success stories of IT hubs, promote and financially support them, focus government policies on IT-related infrastructure, and invest in the quality of education to match the needs of foreign and domestic investors with the labra force.

True economic growth and development are not possible without good governance, strong and reliable institutions, and economic rule of law. Political leaders in the region have a huge responsibility to ensure that institutions and societal entities are able to organize and utilize resources, capacities, and markets available to them, and at the same time create a friendly business environment for

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[25] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf
[26] https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811

domestic and foreign investors. Political, institutional, and financial investment from the EU is key to help the Western Balkans get through the current crisis and grow economically, but it would also offer the EU a strategic advantage to gain influence in a region that is so close and important geographically, especially given the upswing in Chinese investment over the last few years.

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