

INNOVATIVE
POLICY
PROPOSAL

CEFTA AND COMMON REGIONAL MARKET

POTENTIAL GAME CHANGER FOR THE REGION

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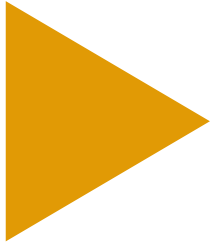


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EXECUTIVE SUMMARY



On the auspices of the Berlin Process Summit, WB agreed upon creating a Common Regional Market and tasked CEFTA Secretariat with leading the implementation efforts in trade-related issues. Despite initial success, underlying issues of political mistrust persisted interfering with substantial change. This policy paper argues that:

CEFTA Secretariat should be given executive powers with authority strictly limited to trade-related aspects of the Action Plan.

An effective, rules-based, and reliable dispute settlement mechanism should be arranged.

CEFTA should closely cooperate and coordinate its actions with regional organisations interested.

CEFTA should closely collaborate with civil society organisations in every step of the way.

Promotive and informative activities should be implemented.

At the latest Berlin Process Summit, held on November 10, 2020, in Sofia, the Western Balkan leaders (WB) agreed upon an ambitious plan to create a **Common Regional Market** (CRM). Aside from the **Political Declaration** reiterating their commitment to intensified regional cooperation, WB adopted a detailed **Action Plan** sketching out concrete steps along the way. The initiative was heralded by the European Commission as a **stepping stone** towards EU membership and its complementarity with the long-awaited **Economic and Investment Plan** was praised. As to assist with the implementation, WB assigned regional organisations with **CEFTA Secretariat** assuming a central role and leading the implementation efforts in trade-related matters. This policy proposal aims at analysing the compliance with the adopted Action Plan whilst identifying hurdles faced along the way and offers recommendations on how to overcome them. One year after, significant progress has been made but underlying issues of mistrust and bad politics remained. Therefore, in order for regional cooperation to have a transformative effect on the region, it is necessary to equip CEFTA with **executive authority** to implement already agreed upon measures and come to terms with an effective **settlement dispute mechanism**.

BREAKING DOWN COMMON REGIONAL MARKET

Building on the achievements of the **Regional Economic Area**, agreed upon at the Berlin Process Trieste Summit in 2017, the idea behind the introduction of the CRM is to further intensify intraregional economic cooperation, prompting higher investment attractiveness, creating additional job opportunities, and offering greater choices at lower prices for consumers. This is particularly echoed by the **WB Chamber Investment Forum**, which **argues** that an integrated 18 million people market, with aligned investment policies and joint promotion activities, could significantly enhance investor confidence and generate higher investment inflows. Liberalisation of trade through reduced formalities and the introduction of paperless trade based on electronic documentation coupled with integrated border controls and mutual recognition of quality certificates would reduce costs for companies doing business in the region, increasing their competitiveness. Additionally, regional start-up and early-stage innovation financial support schemes, attracting public and private funds, could open up yet untapped potential of the region.

Moreover, as the establishment and better facilitation of regional workspace has been envisioned, both employers and employees will likely find ample job opportunities across the region. Recognition of professional qualifications in several professions would be coupled with the abandonment of work permits for intercompany transfers and service providers. **Citizens** of the re-

gion would be amongst the highest beneficiaries, as they would be able to **travel only with IDs**, have their social security rights recognised across the region, and shop online free of customs. In addition to the creation of a regional academic network, automatic recognition of higher education diplomas, and open access to universities in the region for the students, the CRM envisaged lower banking charges for money transfers and a roadmap for 5G network instalments. The proposed measures could significantly increase intraregional mobility, broadening employment opportunities that would lead to intensified economic cooperation spurring additional growth.

Initial Year of Commitment – Limited Success

In order to create a functional CRM and reap the benefits, the adopted Action Plan outlined a series of measures needed to be taken by national authorities by the end of 2024. As it requires more than a **few dozen actions** in the initial year only, regional cooperation commands strong commitment from the ministries and regional institutions leading the implementation efforts. In this regard, activities of the CEFTA Secretariat have been particularly important as it spearheads the efforts to implement measures based on the **four core freedoms**. If the commitment between the economies were to reach the level of that between the EU members, the *World Bank Western Balkans Regular Economic Report* **suggests** that **growth in real GDP** could amount to **6.7%**. By analysing databases of entrusted regional organisations and WB governments, it is possible to determine the track record of implementation insofar. With a little over 30 actions agreed to be taken by the end of 2021, the tally is as follows:

““ ACTIVITIES OF THE CEFTA SECRETARIAT HAVE BEEN PARTICULARLY IMPORTANT AS IT SPEARHEADS THE EFFORTS TO IMPLEMENT MEASURES BASED ON THE FOUR CORE FREEDOMS. IF THE COMMITMENT BETWEEN THE ECONOMIES WERE TO REACH THE LEVEL OF THAT BETWEEN THE EU MEMBERS, THE WORLD BANK WESTERN BALKANS REGULAR ECONOMIC REPORT SUGGESTS THAT GROWTH IN REAL GDP COULD AMOUNT TO 6.7%.”

Free movement of goods

- **Green Lanes**, enabling faster crossing for certain types of goods, **have been implemented** and extended to all crossing points in CEFTA.
- The electronic exchange of pre-arrival data between the administrations **has been enacted** with the System of Electronic Exchange of Data (SEED+). Among other things, the system has been made available 24/7 to all services of agencies involved in the clearance of goods.
- Appropriate lane management systems separating cars, buses and trucks **have been applied**.
- A **roadmap** for harmonising key regulatory rules and setting up key principles for regional electronic commerce has been agreed upon.
- The **decision** on mutual recognition of the Authorized Economic Operators came into force with limited scope. Up until now, Moldova, Serbia and North Macedonia have undergone validation procedures, preceding full implementation, with only Montenegro and Albania expected to follow suit by the end of the year.
- A **proposal** to extend the Green Lanes to crossing points with the EU has been put forward with **negotiations underway**. Up until now, Greece has already agreed to participate, with Italy expected to follow suit.
- **Negotiations** on amending the **Dispute Settlement Mechanism** are **underway**, with a clear methodology and timeline agreed. They are scheduled to be completed by the end of 2021, with the aim of enhancing the transparency of trade issues.
- The Regional Supply Chain Protocol and the mapping of the existing regional automotive cluster **have yet to be concluded**.
- **Common Rules of Origin** within CEFTA and Regional Disciplines on Domestic Regulation **have not been enacted**.

Free movement of capital

- A regional investment **promotional page has been created**, with an additional exchange of information between **Investment Promotion Agencies**.
- A **review** of COVID-19 measures in light of Investor-State Dispute System risks **has been completed**.
- The Regional Early-Stage Innovation Funding Scheme, providing financial assistance to start-ups, **has not been established**.

Free movement of services

- The **Regional Roaming Agreement has been executed**, with telecommunication services offered free of charge across the region.
- The 4th WB **Digital Summit has been held** from 11-13 October 2021 in Podgorica.
- **Consultations** on a **roadmap** to lower roaming costs between the WB and the EU have

been held, with additional consultations anticipated.

- **Discussions** on the CEFTA Framework for Trade in Tourism have been held, but **no agreement has been concluded**.
- Institutional cooperation with regard to the exchange of good practice in the field of digital transformation, in particular e-government, **has not been applied**.

Scanning of financial markets with the aim of a Common Regulatory Framework for the Development of Fintech and integration into this sphere **has not been implemented**.

Free movement of people

- A **Regional Network of Women** in STEM (science, technology, engineering, and mathematics) **has been established**.
- The WB Agreement on Freedom of Movement and Stay, including coordinated removal of visas for third party citizens, **has not been reached**.

Trade liberalisation has been the primary field of cooperation with quite a successful track record when it comes to implementing measures aimed at reducing border duties. Bearing in mind that 2021 is a recovery year from the pandemic, with societies and economies still affected, the insofar made progress is encouraging and a clear sign of commitment. Besides significantly reducing waiting time at the crossing points and enabling an uninterrupted flow of goods even in times of pandemic, investment visibility of the region has been improved with a promotional web page created and coordination in this regard established between national Investment Promotion Agencies. Negotiations on amending the Dispute Settlement Mechanism and the launch of SEED+ are expected to increase the availability of data relevant to the business community as well as offer additional guarantees for investors, improving the investment attractiveness of the region. Therefore, it is realistic to expect **further intensifying of intraregional trade** and an **increased inflow of investors** utilising a broader, 18 million people market.

TRADE LIBERALISATION HAS BEEN THE PRIMARY FIELD OF COOPERATION WITH QUITE A SUCCESSFUL TRACK RECORD WHEN IT COMES TO IMPLEMENTING MEASURES AIMED AT REDUCING BORDER DUTIES. BEARING IN MIND THAT 2021 IS A RECOVERY YEAR FROM THE PANDEMIC, WITH SOCIETIES AND ECONOMIES STILL AFFECTED, THE INsofar MADE PROGRESS IS ENCOURAGING AND A CLEAR SIGN OF COMMITMENT.

However, despite a promising start and the successful implementation of several required actions, a few shortcomings still linger. For example, Early-Stage Innovation Funding Scheme has not yet been implemented with political elites jeopardizing an agreement on mutual recognition of licences in tourism. But, perhaps the most significant shortage in implementation of the Action Plan comes from highly-debated and unsuccessful attempts to conclude an **Agreement on Freedom of Movement and Stay**, thus creating a Western Balkan version of the Schengen area - recently renamed to **Open Balkan initiative**. In spite of the initial traction that this proposal gained, Montenegro and Bosnia and Herzegovina decided to remain **spectators**, with **Kosovo*** refusing to participate even after they committed to it in the signed **document** in Washington D.C. last year. Without enabling citizens to travel and work freely across the region, it is unrealistic to expect the increased transfer of skills, knowledge, and ideas quintessential for the economic and societal advantages envisaged by the CRM to materialise.

Underlying Issues as a Potential Stumbling Block

Exploiting the full benefits of CRM requires a certain level of trust and good neighbourly relations. Although the WB have clearly shown determination to deepen economic ties, they nevertheless remain reluctant to put aside **underlying differences** in the interest of spurring real change and growth in the region potentially putting the entire endeavour at harmsway. In fact, in a region tormented by past political elites often resort to hostile rhetoric to boost domestic support, leaving **regional cooperation in permanent limbo**. Repeated **accusations** of meddling in internal affairs have left Podgorica-Belgrade relations in tatters and strained Montenegro's commitment to CRM and especially the Open Balkan initiative. On that note, Bosnia and Herzegovina has remained quite reserved, failing to come to an **operational agreement** within its complex institutional framework along the ethnic lines, and contribute wholeheartedly. Additionally, an obvious stalemate in the Belgrade-Pristina dialogue with no clear perspective on normalisation of relations offers fertile ground for constant **tensions**. Such tensions have already in the past inflicted **damage to economic relations**, with the unilateral imposition of trade tariffs, making the agreement on a revised Dispute Settlement Mechanism all the more important to guarantee legal shelter for the business community from political interference. Unless these differences are put aside, and elites are clearly discouraged from using them for cheap political points, deeper regional cooperation and economic benefits might end up being nothing more than an empty promise.

It is of utmost importance to address these differences, while not losing sight of envisaged joint benefits. Case in point, as of July this year, citizens of the WB have at their disposal **telecommunication services free of charge** throughout the region. Additionally, Albania, North Macedonia, and Serbia decided to take regional cooperation one step further, by opting for differentiated integration with the Open Balkan initiative. The trio has agreed to **abolish any border checks** by 2023 and offer **free access to the labour market** for their citizens, with the rest of the WB failing to join. Concluding an agreement on the Free Movement and Stay be-

tween all of the WB economies would further open up unexplored potential, while at the same time contribute to intraregional exchange of experiences and cultural understanding. In return, citizens familiarised with their neighbours could reduce costs for decision-makers promoting regional cooperation. Enabling citizens to fully grasp the possibilities offered by enhanced regional political and economic relations could be the key to overcoming an array of issues. With the next few years being crucial for the successful implementation of the Action Plan, decreasing tensions and promoting clear economic benefits could prove to be essential.



ALTHOUGH THE WB HAVE CLEARLY SHOWN DETERMINATION TO DEEPEN ECONOMIC TIES, THEY NEVERTHELESS REMAIN RELUCTANT TO PUT ASIDE UNDERLYING DIFFERENCES IN THE INTEREST OF SPURRING REAL CHANGE AND GROWTH IN THE REGION POTENTIALLY PUTTING THE ENTIRE ENDEAVOUR AT HARMSWAY. IN FACT, IN A REGION TORMENTED BY PAST POLITICAL ELITES OFTEN RESORT TO HOSTILE RHETORIC TO BOOST DOMESTIC SUPPORT, LEAVING REGIONAL COOPERATION IN PERMANENT LIMBO.



EUROPEAN PERSPECTIVE OPPORTUNITY TO BREAK THE IMPASSE

If Regional cooperation does reach its full potential, it could help break the impasse currently faced by the WB on their EU accession paths. Despite demonstrating firm commitment and undergoing painful reforms, the commencement of accession negotiations with Albania and North Macedonia still remains uncertain, whilst others in the region have made only limited progress in recent years with no major breakthroughs. When introduced, the idea of CRM was heralded by EU officials as a clear step in the **right direction** that could **unblock further integration**. As the initiative builds mostly on the four core freedoms of the EU Single Market and European regulations on the matter, if implemented, it would lead to accelerated compliance with the EU *acquis*. With the successful implementation of the Action Plan, the WB would prove themselves credible partners capable of high-level regional cooperation.

On this note, CRM goes hand-in-hand with the long-term approach of the Union aimed at accelerating the **economic convergence** of the region with the EU average. To this end, the European Commission has put forward an **Economic and Investment Plan** generating €9 billion from the pre-accession funds while also potentially mobilising up to €20 billion from private financial institutions with the assistance of the **Western Balkans Guarantee Facility**. As this mix of grants and loans is unlikely to narrow **the socio-economic gap** between the EU and the WB on its own, the WB leaders have an additional incentive to work on maximising intra-regional cooperation while exploring opportunities to strengthen ties with the EU. To that extent, negotiations to extend the Green Lanes regime to crossing points with the EU could yield another **30% reduction** in time goods spend at borders. If successful, it would complement the mentioned investment efforts in **bringing the two markets closer together**. The expected lowering of roaming costs between the WB and the EU would have the same effect. Thus, creating an integrated regional market could prove to be a bedrock for utilising additional investment opportunities and leveraging the privileged relationship between the region and the EU market.

Furthermore, regional integration could contribute to maximising the potential of the **revised enlargement methodology** proposed by the Commission, aimed at bringing new energy to the enlargement process. What makes this methodology stand out is the fact that it opened up the possibility of **differentiated, sectoral integration**, enabling candidates to access different policy areas at their own pace and conditional upon meeting set benchmarks. Completing the CRM, while at the same time implementing EU *acquis* in the matter, could further stimulate the preparedness of the region to **advance engagement in the EU Single Market**. Conditional on the successful implementation of the Action Plan, citizens and companies of the region could potentially benefit from freedoms equal to those of Norway or Iceland – prior to achieving full membership. This could prove to be a good example of differentiated integration, with sceptical member states averting any debate on full membership, while at the same time, the WB could have an opportunity to prove that they can be constructive members.

Establishing a track record of successful sectoral integration, starting with market integration, could strengthen the commitment to fully implementing the revised enlargement methodology. This could, in turn, open the door for the participation of the WB in different EU policies and programmes, while including possible observer status in meetings on matters of substantial importance to them. Such integration would include **gradual access** to both the rights and obligations that regular member states have, with **full membership** as the final goal of the process. As these ideas have largely remained unaddressed in the aftermath of the adoption of the revised methodology, bringing back the much-needed enthusiasm to the enlargement process, by completing the CRM, becomes all the more important. Otherwise, the major political and socioeconomic benefits of the accession process are still likely to arrive only at the point of accession, which still seems as far distant into the future.

BEYOND A REGIONAL TRADE AREA

The Common Regional Market initiative offers tangible economic and societal benefits for the region potentially breaking the deadlock that is current EU integration process. The track record for the initial year of implementation has shown **little over two-third** of actions either successfully applied or on a good path to be so by the end of the year. However, underlying issues of mistrust and the lack of political commitment could seriously jeopardize implementation of the Action Plan especially in later stages preventing the region from reaching its full potential. Existing **political differences** must be set aside in favour of a more pragmatic and citizens-centred approach. As to strengthen the commitment to the CRM initiative and equip the region with much-needed tools to transform this endeavour into regionally owned, the following recommendations are made:

CEFTA Secretariat should be given **executive powers** to implement agreed measures. Its composition could resemble that of the European Commission, with each party having their representative, and a clear mandate to execute previously agreed Action Plan. Its authority would strictly be limited to trade-related issues of the Action Plan and its decisions could be binding in full or, alternatively, binding in terms of goals to be achieved. In this way, CEFTA would actually have the required powers to achieve what it has been assigned to overcoming the problem of political meddling.

- An **effective, rules-based, and reliable dispute settlement mechanism** should be arranged. It should both serve to settle disputes between states, businesses, or citizens, and disputes regarding the authority or obligations of CEFTA itself. A completely new judiciary body could be set up or, alternatively, already existing arrangements such as International Court of Arbitration could be used. This could significantly contribute to the credibility of the entire process providing legal certainty to all actors.
- CEFTA should closely **cooperate and coordinate** its actions with:
 - **Regional Cooperation Council** – as RCC is charged with the overall implementation monitoring the two institutions could have valuable insights to offer to each other. Additionally, they should present a united front when advocating for measures to be implemented and especially when negotiating with third parties such as the EU.
 - **Western Balkan Chamber of Commerce** – as they bring together business community of the region regular consultations should be held in order to utilise the expertise and experience by the very people that will

- do business in this new environment.
 - **EU institutions** – not only that they can provide invaluable experience in building a common market, but CEFTA could also advocate for a faster integration with the EU Single Market and potentially speed-up opening of some clusters.
 - **All other regional organisations** interested in promoting cooperation for the benefit of all.
- CEFTA should **closely collaborate with civil society organisations** in every step of the way. Their commitment could prove invaluable in tracking the implementation of measures agreed in the CRM Action Plan, supporting policy reforms where needed, and allowing stakeholders, including citizens, to provide input on the effectiveness of steps taken. Moreover, civil society could offer unexploited expertise and provide strong advocacy for cross-cutting measures affecting different segments of society.
- **Promotive and informative activities** should be implemented. As citizens can already enjoy tangible benefits, it should be clearly communicated that it was made possible by regional cooperation that still has a lot to offer. In this way, public support for the continuation of this process could be strengthened alleviating a lot of the difficulties arising from public disapproval.



If everything above is to be implemented, CEFTA would truly become more than a regional trade area. It would have the power to harness expertise of the region and implement the best possible solutions uninterrupted by political short-sightedness. The region would be equipped to make a real change in the interest of all. Transferring small portions of sovereignty onto the supranational institution seems like a small price to pay for something that could have a transformative effect on the region, potentially bringing it closer to the EU than it has been for years.



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