

Author: Dušan Ristić, Research Intern; Reviewer: Strahinja Subotić, Programme Manager and Senior Researcher

Common Regional Market and European Perspective

Untangling the Tangled One Year After

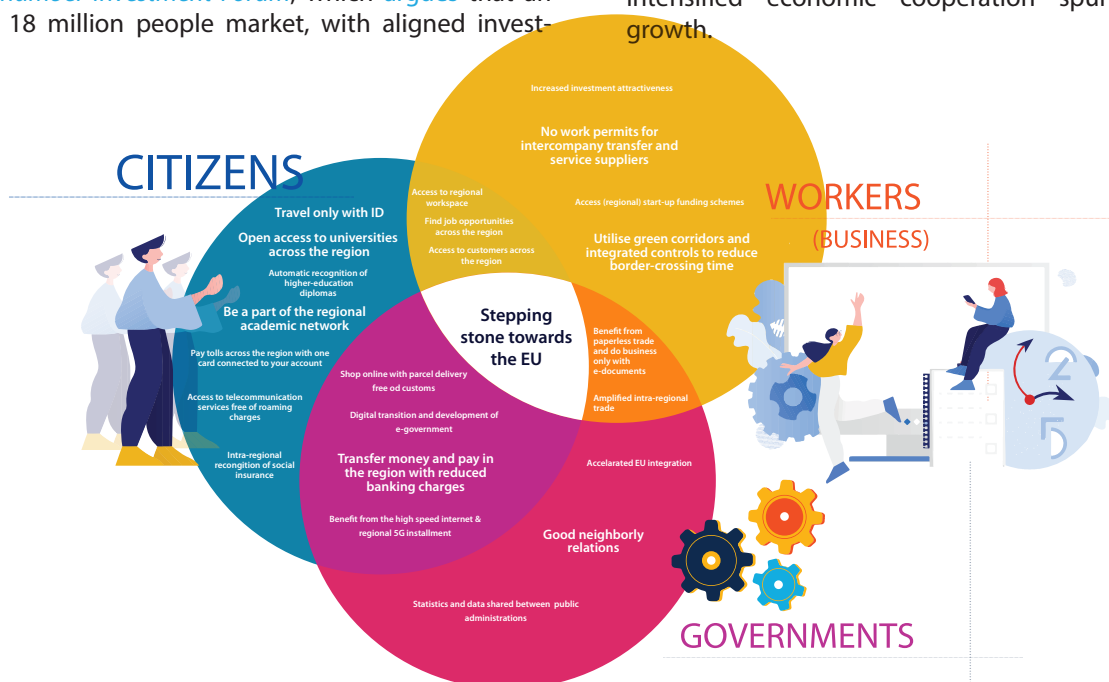
At the latest Berlin Process Summit, held on November 10, 2020 in Sofia, the Western Balkan leaders (WB6) agreed upon an ambitious plan to create a Common Regional Market (CRM). Aside from the [Political Declaration](#) reiterating their commitment to intensified regional cooperation, WB6 adopted a detailed [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. Taking into account that the initiative has become a flagship project of the Berlin Process, and in the light of the upcoming Summit to be organised [in Berlin](#) by the outgoing Chancellor Merkel, it is worthwhile analysing the state of this potentially very fruitful endeavour. Therefore, this Insight aims at breaking down the complex notion of a Common Regional Market and the envisaged benefits of the initiative, whilst analysing the compliance with the adopted Action Plan, bearing in mind the European perspective of the region.

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 [WB6 Chamber Investment Forum](#), which [argues](#) that an integrated 18 million people market, with aligned invest-

ment 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 region 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 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 institutions leading the implementation efforts. If the commitment between the countries 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%. As to assist in this endeavour, WB6 assigned regional organisations, namely, the *Regional Cooperation Council*, tasked with the overall coordination and monitoring of the Action Plan, and the *CEFTA Secretariat*, which is in charge of the implementation of trade-related actions. By analysing databases of entrusted organisations and WB6 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:

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, 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 September 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 is expected** to be held on 11-13 October 2021.
- **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.

However, despite a promising start and the successful implementation of several required actions, a few shortcomings, potentially putting the entire enterprise in harm's way, still linger. For example, mutual recognition of licences in tourism and an Early Stage Innovation Funding Scheme have not been implemented. 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 the [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 WB6 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. In fact, in a region that demonstrates signs of [state capture](#), 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, and contribute wholeheartedly. Additionally, an obvious stalemate in the Belgrade-Prishtina 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, and by agreeing to abolish any border checks by 2023 and offer free access to the labour market for their citizens, with the rest of the WB6 failing to join. Concluding an agreement on the Free Movement and Stay between all of

the WB6 countries 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 benefits could prove to be essential.

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 WB6 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 other countries 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 WB6 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 WB6 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 candidate countries 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 WB6 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 WB6 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.

Going Beyond the Berlin Process

The upcoming Berlin Process Summit is expected to further contribute to regional cooperation and reiterate commitment to the agreed CRM. As it has been an inexhaustible well of ideas for developing the region, its contribution to overcoming presented difficulties is much anticipated. One year after the adoption of the Action Plan,

reflection upon what has been done with possible roadmaps on how to continue can be expected. It is especially encouraging that the Summit will be held in Berlin and, hopefully, with the leadership of Chancellor Merkel, political differences could be set aside in favour of a more pragmatic and citizens-centred approach. Strengthening the commitment to the CRM initiative would equip the region with much-needed tools to transform this endeavour into regionally-owned, transcending the Berlin Process and making it self-sustainable. Moreover, differentiated integration, enabling those willing to integrate beyond the extent conceived by the CRM, could induce additional regional initiatives and embolden those who are not participating to do so in order to utilise the full potential of regional cooperation.

As to equip this initiative with the potency for substantial change in the region, more civil society organisations' involvement is needed. The Berlin Process offered a permanent platform for such engagement with the [Civil Society Road to Berlin Forum](#) organised in June this year, with the aim of exchanging best practices and developing concrete policy recommendations. 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. It is quintessential, therefore, to foster greater participation of civil society in the process of implementation of the CRM and future regional cooperation.

With everything being said, CRM could be evaluated as a valuable initiative worth the effort. 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. With the stress on improving trade relations in the first year, additional efforts to expand cooperation in the area of services (financial, academic, professional etc.) are anticipated in the upcoming period. If underlying issues of mistrust and bad politics are properly addressed, regional cooperation could have a transformative effect on the region, bringing it closer to the EU than it has been for years.

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