

From vague economic criteria to real economic transformation: evidence-based assessment for the Western Balkan candidate countries

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Introduction

EU integration remains a strategic priority for the Western Balkan (WB) region. In addition to this, the EU has committed itself and continuously articulates that WB will have a place in the EU family. Accession processes of the candidate countries from the WB region have shown to be long, complex and complicated. To the moment, membership, if based on conditionality, remains far away. Economic conditions related to the economic criteria tend to change in a long-run period, as they need to be supported with long-lasting reforms and sustainable policy measures that also require adequate financial support.

After the so-called period of enlargement fatigue, the new enlargement methodology aimed to boost the WB accession processes, but also to help countries understand and assess more easily their progress and preparedness, having more interaction with the EU, while increasing transparency and credibility of these processes. Still, critics remain active with regards to the perspective of the new methodology and the so-called difficulties of the EU conditionality.

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Introducing new elements, dealing with a group of chapters, putting focus on the fundamentals and penalizing regression/deterioration with an effect on financial assistance, this new methodology has adopted the approach of multiple assessment. But, strengthening conditionality does not imply that appropriateness in assessing compliance with the criteria has improved. Critics remain on the increasing formal, bureaucratic and reporting approach, making those accession processes even more difficult. In addition to this, failure of the conditionality articulated at the EU level has not been reflected into a self-reflection of the EU role as an economic transformative power.

Objective of this paper is to conduct a detailed analysis on the current level of preparedness and of the progress achieved annually by the WB region candidate countries, regarding their fulfilment of the economic criteria. For this purpose, a two-fold comparative analysis will be provided based on: (a) the scoring used at the EC progress reports for the chapters and the clusters applied in the new enlargement methodology (focused only on those directly linked to the economic criteria); and (b) additional indicators and indexes linked to the economic criteria, provided by other international institutions and explaining further the dynamics of the individual countries in their economic performance and convergence potentials. This two-fold assessment covers four candidate countries of the WB region (respectively Albania, North Macedonia, Montenegro and Serbia, currently under negotiations although in different stages) with their economic performance and dynamics in meeting the economic criteria over the last decade (2013-2023).

After dealing with a critical approach on the relevance of the economic criteria, summarizing main critics and difficulties of EU conditionality, the paper will explore the logic of switching to the real economic transformation and convergence, as crucially relevant for the WB countries. In the following, assessment of progress and preparedness in complying with the economic criteria will be faced with an alternative quantitative approach for a complex assessment, reflecting also new theories emerging in this research field. Lastly, some recommendations are provided to support the WB economies performance in meeting the EU conditionality, catching-up and closing socio-economic development gaps.

The Economic criteria, dynamics and main critics

In general, economic criteria have generally proved to be less sensitive compared to the political criteria, especially for the WB region, even though the former may prove difficult to meet (EMS, 2016). Economic governance and criteria have become even more important in the enlargement process in recent years. With regards to the economic governance,

each candidate country prepares a medium-term economic reform program (ERP) on an annual basis, setting out the macro-fiscal policy framework and a structural-reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the WB (EC, 2023).

In the field of EU integration studies, there is a persistent discussion on the difficulties to evaluate the relative weight of political and economic factors in boosting or impeding integration (Wallace, 2005). With lessons learned from EU accession from previous rounds (in 2004 and 2007), it became obvious that the Copenhagen criteria do not appropriately reflect a country's readiness to enter the union, but still both criteria have a direct impact on the length and dynamic of the accession processes. In addition, a series of criticisms for those criteria have arisen since those enlargement rounds.

Some of the critics of those criteria articulated quite early relate to the fact that they are rather vague, they use loose terms (for instance, market economy or sufficient competition), leave a lot of scope of interpretation and subjective decision, representing more and more a higher need for more specific or indeed quantitative conditions to be required for fulfilment (Sigma, 2007). Critics of another nature relate to the idea that the EU should rethink its policies and differentiate the countries according to local criteria, meaning that an overall view or comparison between the countries is not feasible, but each country should be judged upon individual merits through an historical perspective (EFB, 2010).

Among those critics articulated on the accession criteria, some are highly relevant for the case of WB countries: (a) vagueness and ambiguity (too numerous to provide an unequivocal measure of progress in preparing to join the EU); (b) dominance of political criteria (again, ambiguity in giving precedence to the political criteria, but also stressing the importance of the economic criteria); (c) asymmetry between a number of requirements for future EU members and actual practice in the present EU member states; (d) contradiction between some of the criteria (such as reforming markets/sectors, but also keeping balanced budgets); and (e) real convergence seems to be the neglected criteria (upon membership, the nominal convergence criteria with regards to joining the monetary union are more specifically defined) (Uvalic, 2010). For these reasons, before the start of formal negotiation processes in the region, it is articulated the need for a more suitable and practical approach that would be that of focusing more on key economic areas (such as agriculture), along with early preparations for the adoption of the Acquis and advancement in official status (Anastasakis, 2008). Still today, alternative approaches of deepening key sectors' integration are articulated as necessary to complement (and not replace) the EU membership criteria (Emerson, Lazarevic, Blockmans, & Subotic, 2021).

Despite initial success, the current approach to enlargement has reached its limits, as it seems to be slowing down the integration process rather than accelerating it (EP, 2015). Furthermore, given the economic and political setbacks of recent years, the transformative power of the EU has been weak to amortize and/or reverse those dynamics for the candidate countries, with the latter representing high vulnerabilities to shocks due to large internal market imbalances. (Kmezic, 2020).

Assessment in the progress reports based on conditionality have generally supported the “in-group enlargement” of the WB countries (in contrast to the “own merits” principle), even though for years now it is proved that the integration processes tend to be more individual and country-based (EP, 2016). Nevertheless, negotiations with multiple countries was potentially expected to come with the opportunity to create healthier competition and better outcomes (BiEPAG, 2014).

Lastly, recent discussions on the so-called staged accession¹ (also due to the current geopolitical momentum) do not diminish the importance of compliance of the WB with the economic criteria. From the economic point of view, it remains in the benefit of the countries of the region to maximally perform prior to membership. There are evidences that countries that develop their competitiveness before the accession could more successfully face the increased competition within the union (Schimmelfenning, Borzel, Kortenska, Langbein, & Toshkov, 2015). In addition, experience of Croatia with its economic and structural reforms remaining largely unfinished after accession, highlights the relevance of the increased focus on economic governance and performance over the ongoing accession processes of the WB (EP, 2015). In the case of the latter and with the lessons learned from enlargement, relevance of the economic criteria, performance and convergence has escalated to proposals for these WB candidate countries to gradually be part of the EU economic governance processes and mechanisms before accession (such as the European Semester for the member states or the EU budget) to increase interaction, financing and monitoring as well as common understanding on structural reforms and their relevance (Darvas, 2023).

From conditionality to real economic transformation

Despite their involvement into EU accession processes, to date WB economies suffer from development gaps and poor institutional compatibilities with the EU. The EU accession is

¹ Also known as differentiated/phased/partial/progressive accession

and will remain the main driver for economic development in the WB, although the socio-economic development dimension of accession/enlargement does not seem to be adequately addressed in the region (Bieber & Kmezcic, 2016). Gradually switching the approach towards the real economic transformation builds on the following logic: (a) current stage of low economic convergence² and limited progress in closing the income gap with the EU, persistent structural weaknesses (small and fragmented market with defective competitions) and current trends (emigration, skills shortages, etc.) in the WB economies; (b) quite slow progress in complying with EU conditionality; (c) the need to introduce a complex approach in assessing economic performance of the WB economies with a proactive approach of the EU to gain speed and credibility of the accession processes; and (d) given the articulated date of potential accession (in 2030, also due to the current geopolitical momentum), most probably these economies of the region will not be appropriately prepared, but still performance in terms of markets and competitions remains crucial in order to ensure for a positive-sum game of their membership (cost-benefits analysis).

More specifically, the relevance and necessity of addressing real economic transformation in addition to the economic criteria builds on the following patterns:

(a) Economic integration maturity in the case of WB integration will impact their performance within the union, their convergence, their benefits and also the EU itself costs from enlargement

Economic integration maturity explains more precisely whether and to what extent a candidate country prepares towards integration, with the potential of maximally benefiting from membership, with benefits exceeding costs of entering the EU, particularly linked to facing market pressures. In addition, the EU candidate countries integration preparedness is becoming increasingly relevant in order for these countries to get prepared with their commitment towards the Maastricht criteria fulfilment, minimizing costs and maximizing benefits of integration (Endrodi-Kovacs & Tankovsky, 2023). From the other side, economic integration maturity of the candidate countries prior to accession constitute a promising path towards improving social, economic and living standards in the WB region, at a low economic and political cost for the Union. *(b) Real economic transformation will only be achieved through mixing economic, political and institutional criteria*

² Necessary to avoid negative impact (due to additional costs) of membership and to catch-up; theoretically found as beta and sigma convergence

Indicators of institutional economics together with structural indicators have been analyzed as key determinants of long-term growth, convergence and real economic transformation in EU candidate countries (explaining one third of the economic growth variances in EU and candidate countries). Building efficient and credible institutions and increasing institutional development are assessed and expected to be among the factors to accelerate catching-up and to boost coherence in effectively functioning markets and general economic advancement (Rajasalu, 2002).

The rule of law is also assessed as a key factor for economic growth. While the WB countries still have significant economic potential, challenges related to rule of law weaknesses, poorly functioning institutions and high state presence in the economy hamper economic development (ECA, 2022). The “Fundamentals” Cluster with its relevance highlighted in the new enlargement methodology is expected to foster solid and accelerated economic growth and social convergence (EC, 2020).

(c) Full potential of existing financing mechanisms has not yet been exploited, but still there is a huge need for financially-supported reforms and investments

Financial support remains key to address economic and infrastructure gaps between EU/its members and the WB countries. The EU has provided significant financial and technical assistance to the WB (being the region’s biggest donor), but the resources seem to have not been sufficient to address the complex challenges facing the region. In addition, the EU’s approach in offering assistance is often criticized as too technical and superficial (Zweers, 2022).

To the moment, pre-accession funding for the WB represents around 30% of the level of newest members (Croatia, Romania and Bulgaria) on a per-capita basis (Emerson, Lazarevic, Blockmans, & Subotic, 2021). The IPA III (the main channel of pre-financing in the form of grants, budget supports, capacity building, technical assistance and twinning) accounts for only 1% of the total budget and Next Generation funds under the Multiannual Financial Framework 2021-2027, and it has remained almost unchanged over the last three EU budgetary cycles. The total amount received by the WB region during 2007–2018 was just 12% of GDP (as an average for all the countries), which is nearly three times less than what the EU-CEE countries have received, regardless the fact that EBRD data report for annual investment needs equivalent to more than 10% of GDP in some parts of the WB (WIIW, 2022).

The current Economic and Investment Plan for the WB (EIP 2021-2027) in the framework of the Western Balkans Investment Facility (WBIF) amounts to a total of EUR 30 billion (only

EUR 9 billion for all WB6 economies over the 7-years period, equal to around 1% of annual GDP). To the moment, half of the amount is approved.

With the EU-driven New Growth Plan for the WB additional financing mechanisms are provided, complementary to the previous ones for the period 2024-2027. On a basis of indicative countries envelopes (with population and GDP per capita criteria) but with reinforced principle of conditionality, its impact in supporting priority reforms and investments remains dependent on WB countries absorption capacities, as well as capacities to deliver mature and meaningful projects. Lastly, with regards to all existing financing instruments, transparent government procedures have shown to be a challenge internally. *(d) Full potential of existing initiatives (such as the Common Regional Market) has not yet been exploited, that explains the reason why the region is considered to the moment as an “untapped potential”*

In recent years, several initiatives have been introduced to foster in particular regional economic integration, given that the latter has been assessed to be a stepping stone for increasing region countries competitiveness.

Since 2015, the Berlin Process aims at enhancing interregional cooperation, fostering good neighboring relations, and promoting regional cooperation and ownership. Although it covers connectivity (similarly to the EIP), to date the infrastructure connectivity in the region is still weak. For 2018-2022 EBRD has estimated infrastructure investment needs of up to 12% of annual GDP for the WB countries, which is above the levels of even the poorest EU member states (WIIW, 2022).

Since 2020, the Common Regional Market (CRM) is an initiative structured around the four freedoms. Although it is too early, to the moment, it seems to be an unaccomplished task. Since 2021, the Open Balkans Initiative as a project of economic cooperation agreement has also offered some signs of increased economic interaction, but still, creating synergies at the regional level remains an issue.

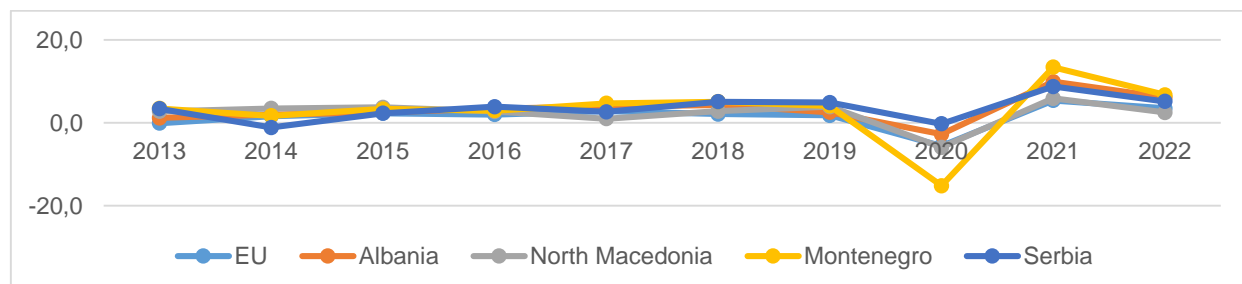
With all these initiatives conceptualized as complementary to the accession processes and to the EU conditionality (here including also the Connectivity Agenda, the Multi-annual Action Plan for a Regional Economic Area - MAP REA, as well as the New Growth Plan for the WB), it is evident that the EU itself has adopted the approach to economically integrate and develop the WB countries. Although all these initiatives are positive, they remain dependent on the internal institutional transformation of the WB economies to appropriately address their economic and development gaps and to maximally benefit from those initiatives.

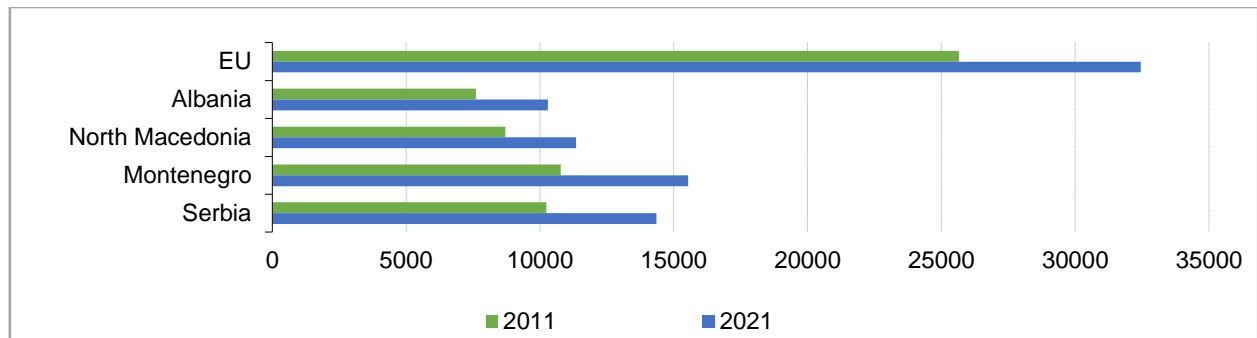
(e) Most of the real economic benefits will only be significant and visible after accession, so based largely on the economic conditionality brings no added-value to such processes

Experience with Romania and Bulgaria show that although not ready to join in 2007, they benefited from membership in terms of economic transformation, development and macroeconomic stability (Endrodi-Kovacs & Tankovsky, 2023). In particular, concrete accession prospects and eventual membership boosted FDIs as they gave foreign investors much greater confidence to enter EU-CEE countries.

Making visible, tangible and significant the benefits from EU accession prior to membership in particular for citizens and companies of the private sector is one of the objectives of the New Growth Plan for the WB, which came as a fresh approach to address economic convergence. Nevertheless, access to the single market does not itself increase competitiveness of the candidate economies, without proper levels of preparedness. Regional GDP per capita stands at just 38% of the EU average in 2022, representing a smooth but continuous improvement from 35% of EU level in 2017 and of 32% in 2012. Currently, the convergence of the WB to the EU is only comparable to the level of convergence of some new member states after their accessions. This is partly due to the original structural weaknesses of the WB economies (small and fragmented markets – around 1% of the pre-Brexit EU GDP - with non-sustainable growth models that do not exploit full potential of growth and productivity) and partly due to the lack and/or weak implementation of the structural reforms with regards to market structure, competition policies, labor market dynamics, skills shortages, foreign capital absorption, and other similar factors. In particular, opening the region economy and economies to more investments and trade (higher economic openness) is assessed to potentially have the highest impact on convergence (Siljak & Nagy, 2018). More than 2/3 of the WB region’s total trade is done with the EU. The EU is the main investor, donor and trade partner for the WB.

Figure 1. GDP per capita growth in the WB region (annual, %) and GDP per capita (in PPPs)





Source: Author's visualization based on data from the WDI, the WB and Eurostat (2023)

Economic integration maturity theory seems to provide a more complex approach in determining a country's matureness to access an integrated union, with benefits from membership higher than costs (Palankai, 2006). In contrast to the membership criteria (minimum membership criteria), the integration maturity components try to examine the criteria (economic, political, institutional and social) that ensure for a successful and efficient integration. This theory highlights also the relevance of putting more emphasis on WB countries competitiveness and convergence, in parallel to the accession conditionality. Lastly, this theory cross-cuts with existing accession criteria, as it is built on the following: (a) functioning market economy; (b) competitiveness; (c) macroeconomic stability; (d) convergence and (e) financing ability.

OECD has prepared a scoreboard to illustrate the region's convergence across five clusters identified as key to achieving sustainable and inclusive economic growth (beyond GDP per capita as the main driver of convergence), respectively: (a) business environment, (b) skills, (c) connectivity and infrastructure, (d) greening, and (e) digitalization³ (OECD, 2023). Indeed, these clusters represent real challenges for the WB economies, requiring costly and sustainable reforms, from design to implementation. Prioritizing reforms in each of the clusters will boost competitiveness of the WB economies and close the development gaps with their OECD and EU peers. Currently, the business environment is the cluster with highest degree of convergence with OECD and EU, whereas the skills cluster represent the least converged cluster. Convergence and performance with the other clusters has shown to be mixed.

³ As will be described below, currently the regional performance varies by clusters

Progress and preparedness in complying with the economic criteria

With its conditionality policy, it is assessed that the EU has successfully exercised its economic transformative power, supporting the countries towards meeting the Copenhagen criteria and, thus improving their economic system and standards (Grabbe, 2006). Given that EU integration processes have shown to be long and complex, the conditionality policy has shown to have not yielded the same results, compared to the CEE countries.

With a clearer approach since 2015 the EC has in place a qualitative scoring system to make progress reported for the candidate countries more comparable. Thus, in the progress reports, the 4-level scoring system used for the progress achieved by the candidate countries annually is as follows: 1- no progress; 2- limited progress; 3- some progress; and 4- good progress. Similarly, the 5-level scoring system used for the current stage of preparedness/readiness of the candidate countries is as follows: 1- early stage/initial level of preparation; 2- some level of preparation; 3- moderate level of preparation/moderately prepared; 4-good level of preparation; and 5-advanced level of preparation.

Translating this EC qualitative scoring system into a quantitative one, an interesting analysis on comparative basis can help to understand further the conditionality difficulties. This scoring system has been used for the economic criteria alone, for all the chapters closely linked to the economic criteria and for the clusters, on the basis of the new enlargement methodology. In this analysis, focus is given only to the economic criteria (of Cluster 1 “The Fundamentals”) and to the individual chapters contributing directly to the economic criteria sub-components⁴. It is evident, that almost all chapters are closely linked to the economic performance of a candidate country, covered under Cluster 2 “Internal Market”, Cluster 3 “Competitiveness and Inclusive Growth”, Cluster 4 “The Green Agenda and Sustainable Connectivity”, as well as Cluster 5 “Resources, Agriculture and Cohesion”.

Annual progress over time will explain annual and current stage of preparedness for the criteria and the chapters. Over the decade, referring narrowly to the economic criteria, annual progress rates are generally higher compared to the average progress for the chapters. All countries show to reflect some progress (average score of 3) and this score decreases when referring to the average of the chapters (less than 3). With regards to the economic criteria alone, since 2018 Serbia shows a deterioration in the annual progress achieved, while progress of Montenegro seems more sustainable, except for the last year

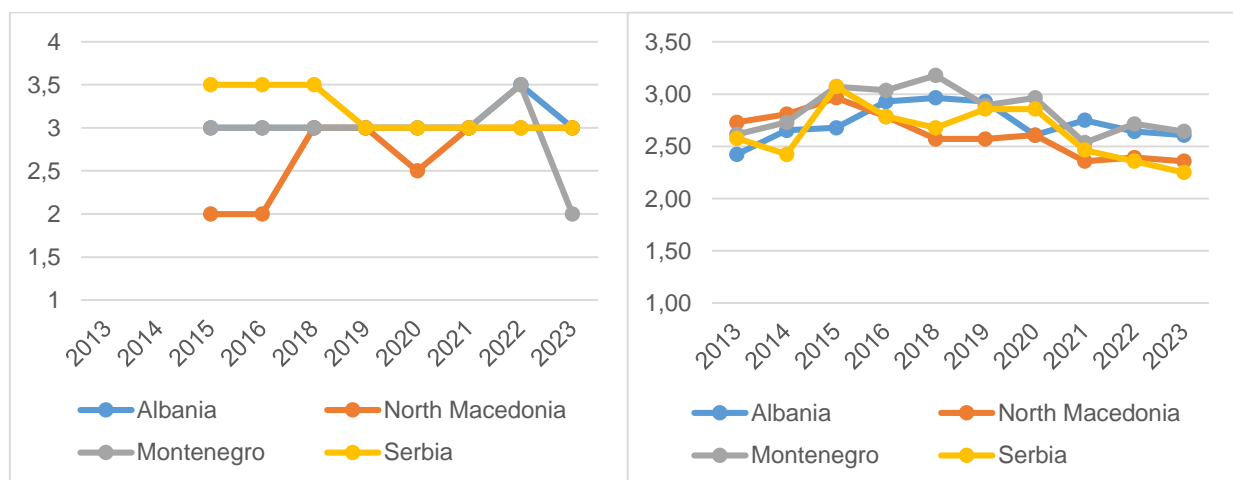
⁴ For this purpose chapters 5, 18, 23, 24, 30, 31 and 32 are excluded, thus excluding cluster 1 and 6, according to the current (new) enlargement methodology in 2020

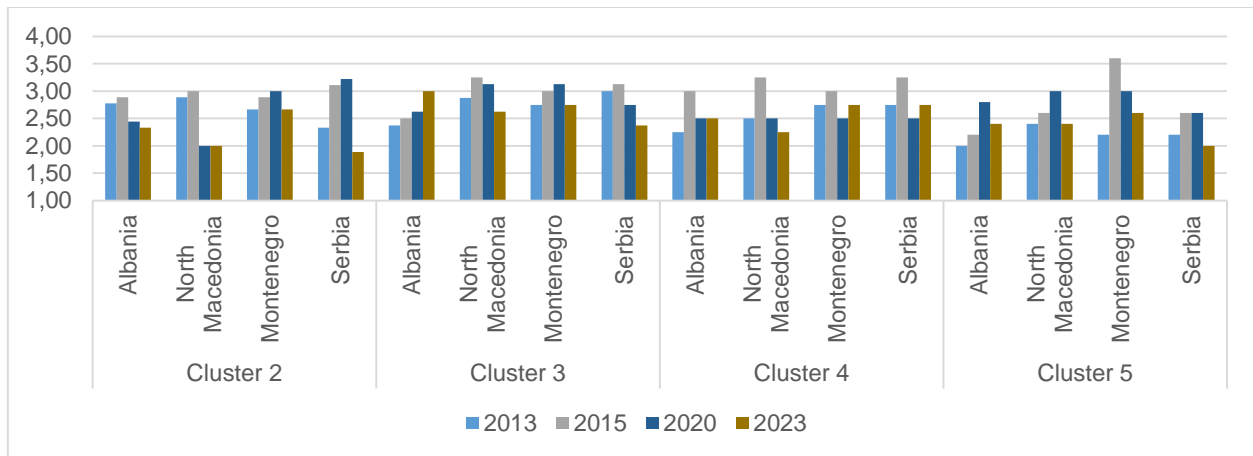
(with limited progress). Albania has followed a similar trajectory of progress with some progress on annual average (best result in 2022, in between some and good progress). With some fluctuations, North Macedonia shows to follow an overall increasing trend of annual progress, although it started from lower levels compared to the other countries analysed.

Referring to the average progress achieved by the countries for the economic criteria and the closely linked chapters, lower scores are evidenced. There are no big differences between the countries in terms of annual rate of progress. And for each country, progress rates tend to be unchanged over the years, on average assessed in between limited and good progress, annually.

Assessing progress for the negotiation clusters, a complex picture is evidenced for all countries. Larger variance on annual progress achieved are evidenced for each country and for each cluster. Considering the fact that clusters 2, 3 and 4 are those with the largest volume of work for the alignment with the Acquis, annual progress for these clusters does not differ essentially from that in cluster 5. Comparing Albania and North Macedonia to Montenegro and Serbia that are negotiating for respectively, 11 and 8 years, annual progress of the former are comparable to those of the latter. For instance, in 2023, Albania reflects the highest progress rate with regards to cluster 3 (score of 3=some progress), while Serbia the lowest rate (score of 2.38 = almost limited progress).

Figure 2. Average of progress (a–for the economic criteria, b–for the chapters, c–for the clusters)





Source: Author's calculations based on the EC Annual Progress Reports, 2013-2023

Assessing preparedness level in terms of compliance with the economic criteria and for the related chapters and clusters, it is even more important from the point of view of the economic transformative power of the EU and the comparative stage of readiness between chapters/clusters and between countries. This allows not only to assess and compare impact of the EU integration processes regarding chapters/clusters and countries, but it also serves as an instrument to increase predictability, reliability and transparency of the accession processes in the region. These have also been articulated from the European Commission, itself.

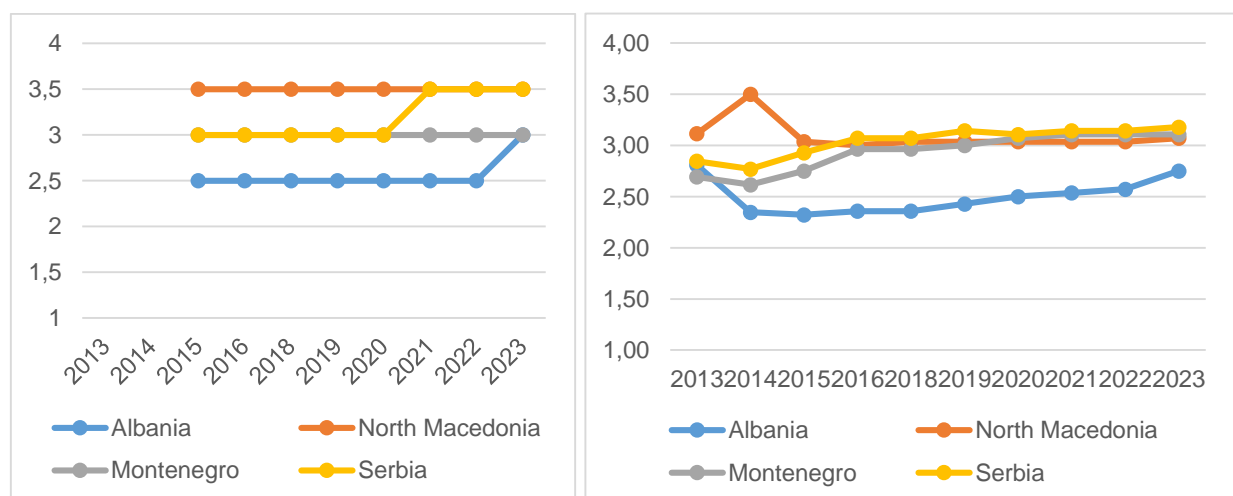
Referring narrowly to the economic criteria with its two sub-components, the level of preparation of each country has not changed over time. All countries remain at an average level of moderate preparation, by the end of a whole decade and regardless the progress achieved and assessed, and which is more important, regardless the impact of the accession negotiations. Only two countries have improved level of preparedness with regards to the economic criteria, respectively Albania (since 2022, which coincides with the opening of formal negotiations) and Serbia (after 2020, after 5 years of negotiations with the EU). Although Montenegro has been negotiating for more than one decade, this country still remains moderately prepared with regards to compliance with the economic criteria (score of 3). Compared to the latter, North Macedonia reflects a slightly higher level of preparedness, although negotiating since 2022.

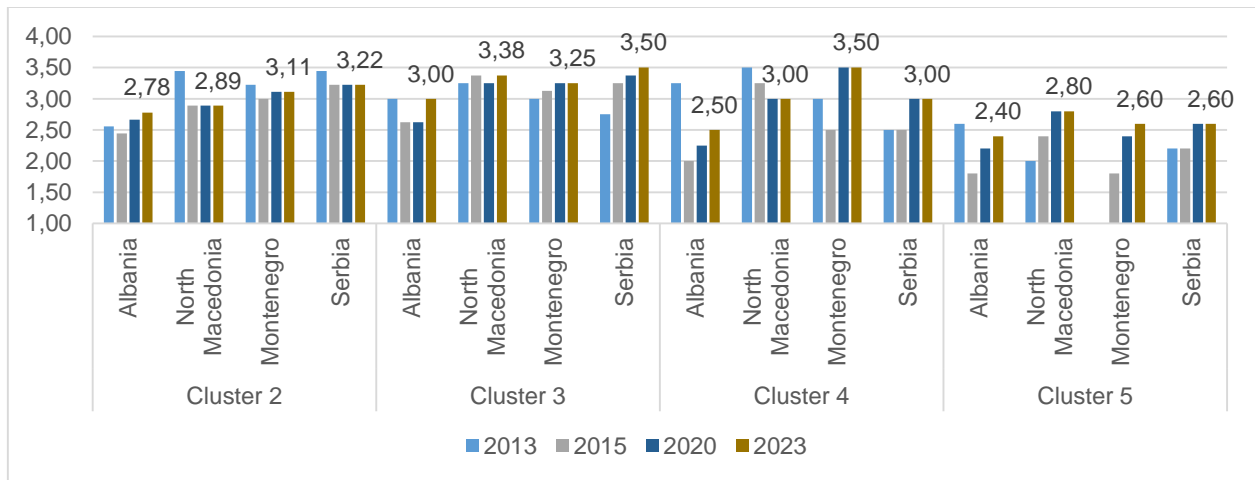
With regards to the average level of preparedness for the economic criteria and for the economic-related chapters, relatively higher fluctuations are evidenced, proving for higher differences between the countries and over the years. Albania reflects the lowest average level of preparation compared to the other countries over time. But regardless the pro-

gress scores, positive increase in the average level of preparation has been noticed between 2018-2021 and after 2022 (coinciding with the positive recommendation and the start of the formal negotiation talks). Evidences for North Macedonia (having comparable level of preparedness with Serbia and Montenegro) seem to prove that considering the overall picture, impact of the negotiation processes has not been meaningful.

Assessing and comparing preparedness of countries for the negotiating clusters, a more complex picture is evidenced as well as larger variance on annual and current preparedness of the countries for the negotiations clusters. Overall, regardless timing of the initiating negotiations, all countries remain in between having some level of preparation and being moderately prepared. In general, Albania and North Macedonia stand slightly behind the other two countries, average differences are relatively small. Among the two, North Macedonia seems to be relatively more prepared. It is worth mentioning that Albania started from lower levels of preparation for the economic criteria. Relatively higher differences in countries' preparedness are evidenced for clusters 2 and 4, namely "internal market" and "green agenda and sustainable connectivity". For the two other clusters, improving preparedness for chapter 3 remains of crucial importance. With the analysis of progress by clusters developed above, highest progress of Albania with regards to cluster 3 have supported in approaching the level of preparation with countries that have been negotiating for longer.

Figure 3. Average of preparedness (a–for the economic criteria, b–for the chapters, c–for the clusters)





Source: Author's calculations based on the EC Annual Progress Reports, 2013-2023

Summarizing the above findings, all four countries analysed in 2023 are on average moderately prepared for compliance with the criteria and for the membership. Situation in technical (both alignment work-demanding and reform-demanding chapters) remains weak, warning for further prolonged accession processes, if based only on conditionality. Such situation is absolutely linked to lack of capacities to implement reforms and appropriately engage and succeed in the accession processes, but also to the political will to push ahead with the necessary and long-lasting reforms targeting markets, sectors and competitions. Although not explicitly expressed (as no benchmark is targeted), it can be said that at least a level of more than “good preparation” would be required by the EC and the member states (advanced preparation=5 seems so difficult to achieve in the near future=2030, as articulated). According to the recently proposed staged integration model, this moderate level of preparation on the clusters average would be appropriate to support an “initial stage of integration”, thus providing the region with higher incentives (both financial and non-financial) (Emerson, Lazarevic, Blockmans, & Subotic, 2021).

The economic criteria will be differently addressed through another quantitative approach based on international indices, aiming at explaining the difficulties of assessing level of progress and preparedness with regards to conditionality. Functioning of markets and coping with competitiveness as complex definitions should be assessed and promoted on the basis of a more complex approach, using different measures.

Alternative quantitative approach for a complex assessment

Difficulty and specificity of the economic criterion is that the approach used by the EC is that of reporting and summarizing policy measures and reforms as well as institutional dynamics using a careful balanced rhetoric, while providing at the end an almost subjective assessment both on the level of progress and assessment but avoiding specific solutions and recommendations.

This is the reason why in response to the critics of many experts with regards to both difficulties and weakness of the conditionality, relevant theories (such as the economic integration maturity) have emerged and have been used, and similarly other assessment approaches have been followed to assess candidate countries readiness in complying the EU criteria, in order to get a comprehensive approach on the overall dynamics and performance of their economies in practice and in different cross-cutting sectors and areas.

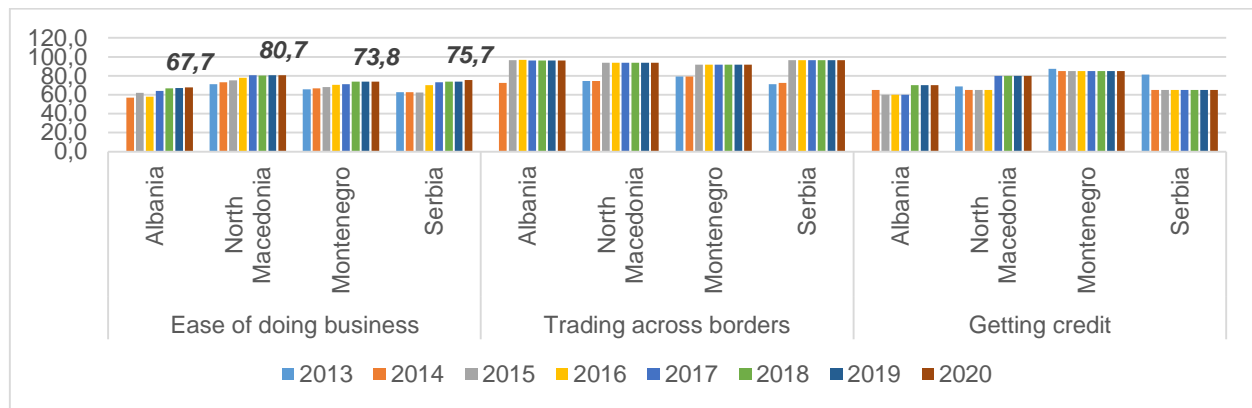
In this sense, use of different indices developed by other international organizations represents an interest for the assessment of the overall progress and preparedness of the WB candidate countries, as they go down to a more detailed and quantified level of sub-components to evaluate key developments, using standardized scale applied to any country. Lists of such indicators may not be exhaustive, but it is important to consider the data availability and reliability for each of them.

Indicators used in this section are indices produced by various well-known international organizations, focusing mainly on transition economies. In addition, they are indicators mostly used in various assessment in economic areas, and they have the added-value of gathering together pure economic and non-economic variables (social, political, institutional). The latter is an approach that suits the accession processes quite well, based on the discussions made on the joint role of the economic policies, the institutional economics and that of the linkages to the political criteria. They are also linked to the areas identified as crucial for the countries' convergence in the long-run and economic integration maturity, and for sure, to the EC economic criterion sub-criteria.

With regards to Doing Business overall index and its sub-indices, North Macedonia seems to be the best performer over almost one decade and Albania the worst one. All countries seem to have progressed relatively better in terms of trading across borders (with the contribution of the EU initiatives such as SAP, in this sense) with a considerable increase after 2014. Unchanged trajectory in trading across borders during 2014-2020 should be further explored qualitatively. All countries have to further improve with regards to getting credit.

By 2020, larger differences in getting credit are evidenced between the countries. Deterioration of Serbia in this sub-index again has to be properly addressed.

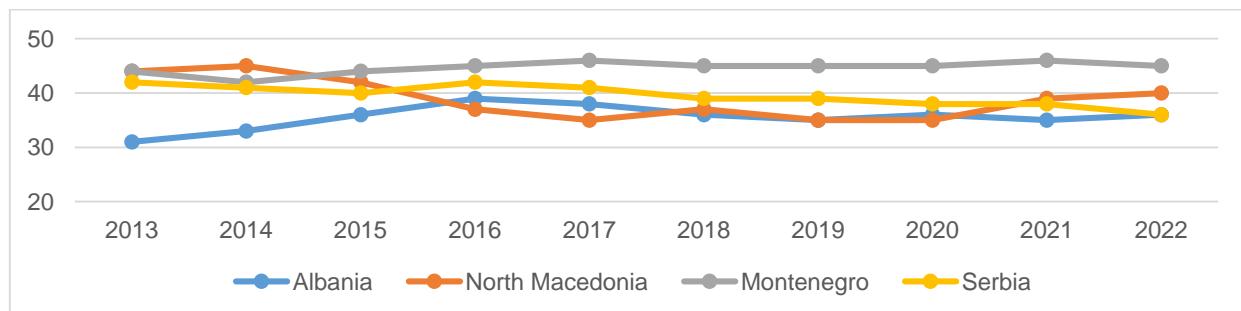
Figure 4. Key indicators of doing business



Source: Author’s calculations based on the data from the Doing Business Report of the World Bank, 2013-2020 (latest year)

As an internal weakness of the countries of the region negatively impacting economic performance and impeding attractiveness of the region, assessing the evolution of the Corruption Perception Index throughout the period under analysis remains crucial. Starting from very high levels of perceived corruption (lowest score) in 2013, Albania has been a very good performer, as it has reached the level of other countries by the end of the decade. Regress/deterioration and sometimes stagnation of Serbia and Montenegro as countries engaged earlier in negotiation talks, need to be properly addressed at the EU and country-level. Same implies for the regress of North Macedonia after 2014.

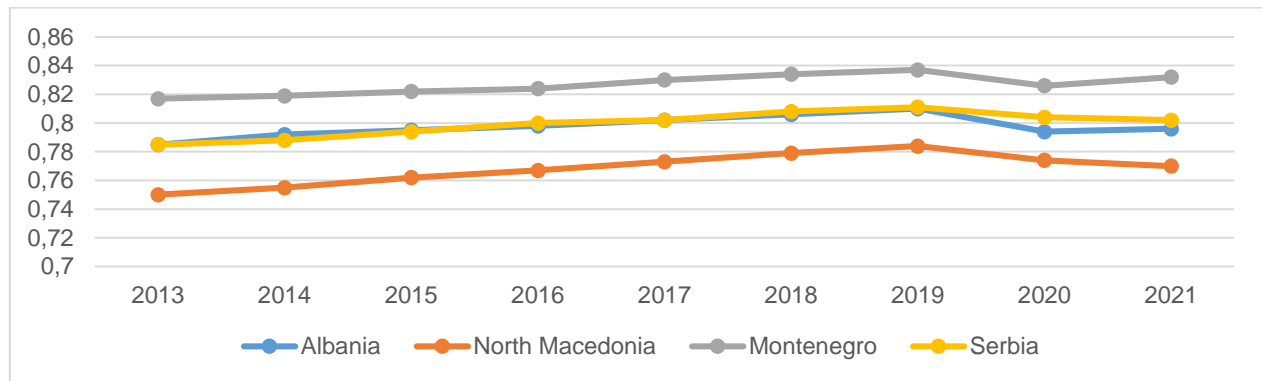
Figure 5. Corruption Perception Index



Source: Author’s calculations based on the data from the Transparency International Report, 2013-2022

Education and skills formation as well as convergence/GDP per capita (all relevant at the EU level and part of the EC assessments) can be captured by the Human Development Index of the UN. It is evident that countries have sustained their pace of progress (slow progress) and currently stand at different levels of this index (high levels). Highest score of Montenegro is mainly linked to its GDP per capita in 2021.

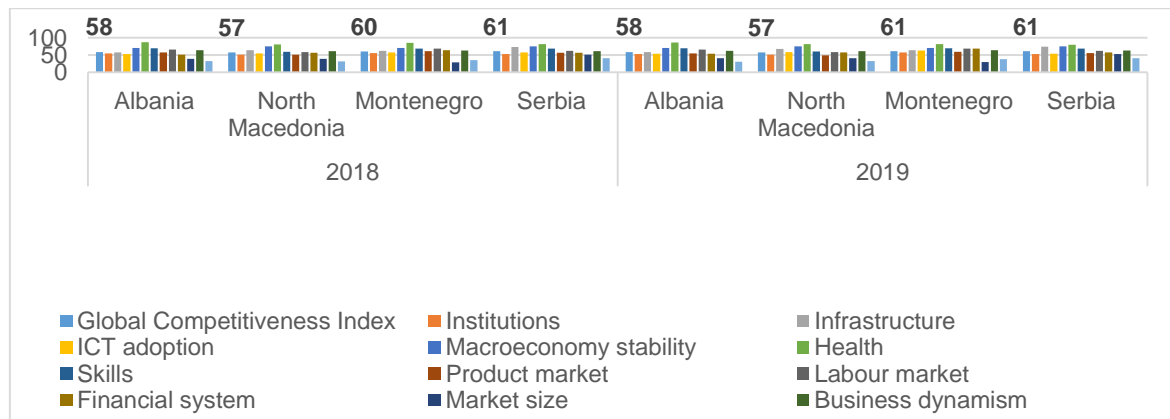
Figure 6. Human Development Index



Source: Author’s calculations based on the data from UN, 2013-2021

Evidences show that candidate countries of the WB region compete with their GCI (Global Competitive Index), with the latter covering microeconomic and macroeconomic components, respectively enabling environment, human capital, markets and innovation ecosystems. Within this comprehensive indicator, competitiveness is determined by institutions, policies and other dynamics of the private sector, mostly. All countries analysed lag behind market size and innovation capability. If not properly addressed (through the existing EU initiatives of Common Regional Market, R&D, Digital agenda, etc.), they will impede boost in competitiveness.

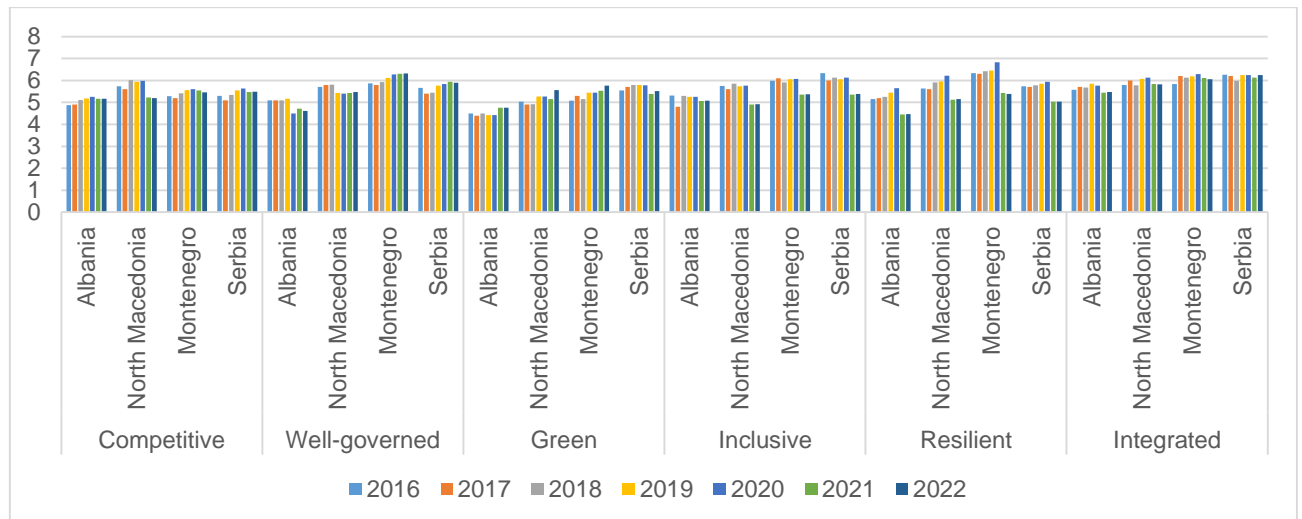
Figure 7. Global Competitiveness Index and its pillars



Source: Author’s calculations based on the data from the Global Competitiveness Index of the WEF, 2019 (latest year, with a methodological change in 2017)

As economies in transition, all countries show to be average performers. Deterioration of North Macedonia after 2020 in terms of competitiveness should be further explored. As countries engaged earlier in negotiation talks, Montenegro and Serbia have positively created better-governed economies. Improvements with regards to greener and more integrated economies for these countries can be linked to their engagement towards EU accession processes. All economies remain insufficiently inclusive and resilient (with regress over time) and these dynamics can impede competitiveness and convergence in the future.

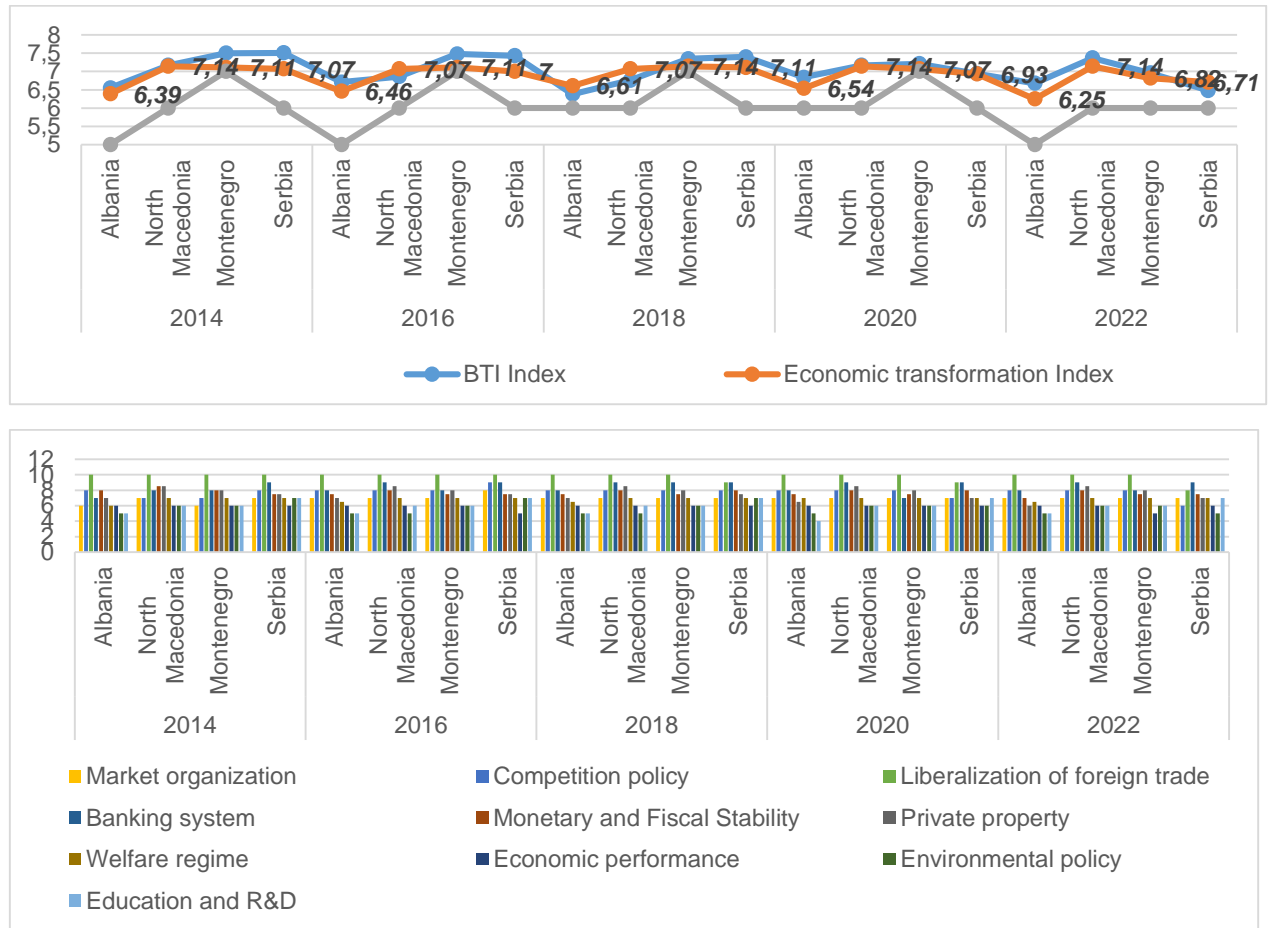
Figure 8. Transition scores for the economies



Source: Author’s calculations based on the data from the EBRD Transition Reports, 2016-2022 (methodological change in 2016)

According to the Bertelsmann Stiftung Index (BTI) in 2022, countries of the WB region have undergone limited economic transformation, except for North Macedonia (advanced economic transformation). Covering aspects of organization of market and of competition, as well as sustainability linked to environmental policy, R&D, BTI indicates that all countries has still to do to transform their economies. Within the group of transforming markets and competition, countries have achieved highest score in liberalization of foreign trade (score=10), except for Serbia which shows deterioration. Similar results for all countries are achieved in terms of competition policy but also of environmental and R&D policies, although Serbia and Montenegro have been negotiating for around one decade.

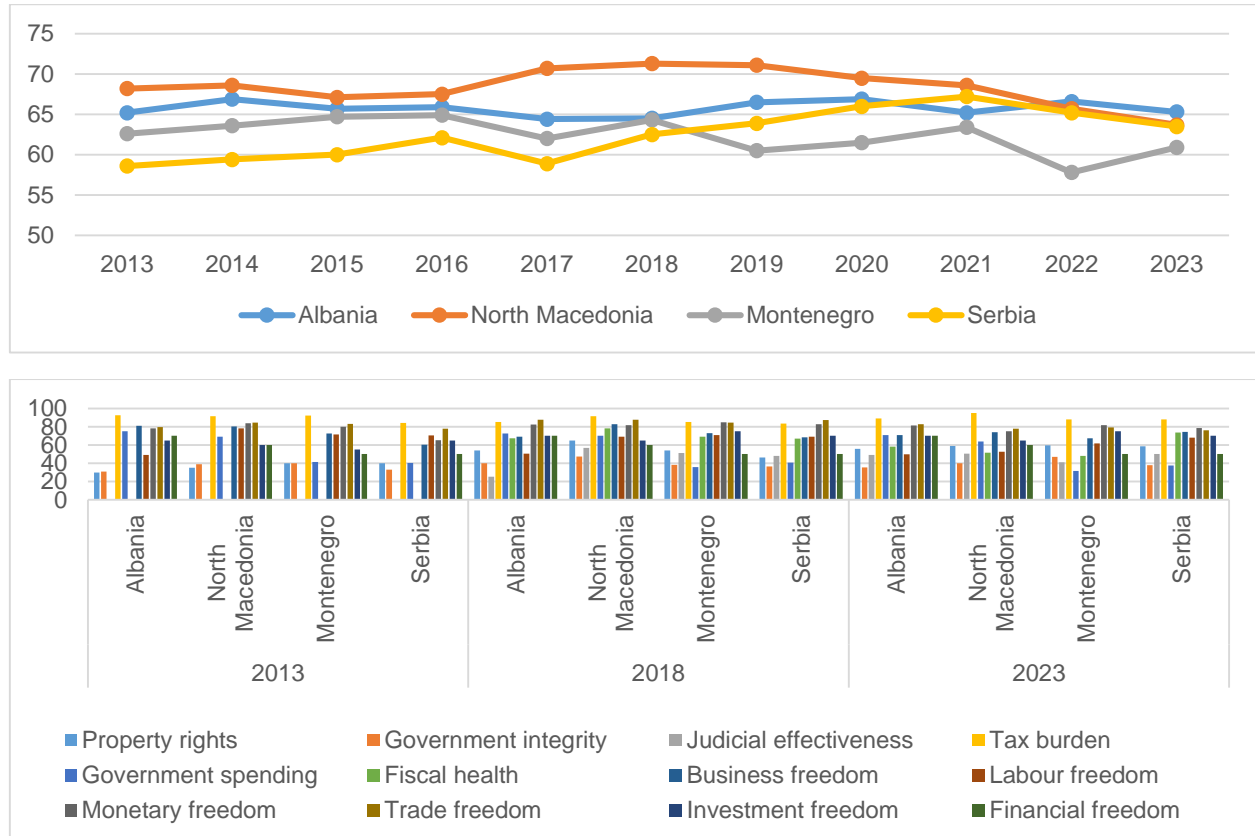
Figure 9. Pillars of the economic transformation scores



Source: Author's calculations based on the data from the BTI Economic Transformation Scores, 2014-2022

The Economic Freedom and its 12 pillars (12 economic freedoms, covering rule of law, government size, regulatory efficiency and open market) have proven to be strongly associated with healthier societies, cleaner environments, greater per capita wealth, human development, democracy, and poverty elimination. Overall, countries are categorized as free economies, worldwide and at EU level. Among the countries, only Montenegro has shown an improved performance in the last year, mostly due to improvement in government integrity. Over time significant fluctuations are evidenced that express the necessity to continue with necessary policies to progress in each of the economic freedoms. Property rights and government integrity are among the lowest scores achieved for all countries, and often, with an annual regressing trend.

Figure 10. Economic Freedom Index (a) and its pillars (b)



Source: Author's calculations based on the data from the Heritage Foundation, 2013-2023

Summarizing the analysis from above, progress of countries from the point of view of a series of quantitative indicators covering several areas of economics and development, provides a good assessment framework to compare speed and trajectory of progress of each individual country compared to its fellows in region. It also supports in assessing current stage of preparedness for EU accession, towards coping with competitiveness in larger markets, but also towards facing additional costs and maximizing benefits from membership.

Disadvantage of the above quantitative analysis is that it is unable to in-depth identify and assess specific policy dynamics and instruments country-based. Combining assessment approach of the EC based on conditionality with in-depth comparative assessment country and cross-country based, provides a more complete picture of developments and dynamics of real economies of the WB. Assessment of the progress by field of policymaking helps in further understanding internal dynamics at the country level and in assessing better each

country attempts towards the reforms and policy measures, identifying current bottlenecks and priorities.

Similarly to the use of quantitative indicators above, on the basis of the economic integration maturity and with the aim to have a deeper understanding of the ongoing and long integration accession processes of the WB with quantifiable results, a composite indicator⁵ created has assessed that WB are currently not ready to access the EU. Aspects such as market transformation and competitiveness still represent some bottlenecks. Even Serbia and Montenegro represent high level of CPI, unsound public finances and low levels of FDI. (Endrodi-Kovacs & Tankovsky, 2022).

As all the above results are generally in line with the EC statements in the progress reports and with the current stage of the accession processes across the Balkans, such assessments with quantification of the accession processes can help in a more comprehensive understanding and promoting the EU accession processes of these countries.

Recommendations

General recommendations on the EU conditionality, assessment and enlargement:

- Translating the EC scoring into a quantitative system will permit aggregation and averaging of assessment across chapters and clusters, supporting comparison of performances between the countries and regulating the staged integration.
- A more complex, multiple and comprehensive approach in assessing countries progress and preparedness towards the membership criteria and towards the real economic transformation remains useful to address the difficulties and critics of the EU conditionality and to promote EU accession processes.
- Economic preparedness and integration maturity prior to accession will ensure that benefits from membership exceed costs.
- Given the slow progress in meeting the EU criteria, the low level of convergence, the weak and low absorption capacities and the fact that most benefits will be evident after the accession, staged integration with progressively increased financing

⁵ Strongest contribution in the composite index: CPI, GCI, HDI, debt to GDP and GDP per capita

amounts based on conditionality, would be of benefit for the countries of the WB region.

- Preventing future blockages and delays in the accession processes should be an important component of any future strategy not only in terms of credibility of the enlargement policy but also as an incentive for the WB to commit and conduct necessary reforms.

Specific recommendations for the Western Balkans:

- The WB countries should conceptualize their accession processes as drivers of internally transforming their economic systems. Those countries should be rigorously committed to address their structural imbalances and weaknesses. Improving economic, social, political and institutional indicators should remain a priority to achieve a satisfactory economic transformation, prior to accession. Economic openness, freedom and modernization can support those countries preparedness and maturity to integration, beyond merely meeting the criteria.
- Increasing regional economic integration is imperative to prepare the small national economies to face larger markets pressures and to advance with improving standards and practices. A stronger and clearer political will to boost regional cooperation is needed also based also on the lessons learned from the Visegrad countries.
- The WB should be clearly oriented towards exploiting full potential of existing EU and regional initiatives and towards making better use of existing and increasing EU financing for the region. To do so, increasing administrative capacities is needed for the funds absorption through delivering mature projects and ensure for their implementation, appointing and prioritizing reforms and strategic investments, as well as ensuring for transparent governance practices when using those funds.

Specific recommendations for the EU and/or Visegrad countries:

- The EU should focus more explicitly on the real economic transformation of the WB region, on closing their convergence gaps and preparing the candidate countries to face the economic and institutional challenges when entering the union. This becomes particularly important in a context of having articulated the staged integration and a potential accession date of 2030, date on which most probably the countries of WB will not be sufficiently prepared.
- Including the candidate countries to the EU economic and financial governance (here referring to the European Semester and to the EU budget) prior to their ac-

cession would support the real transformation of their economic systems and better preparation for membership through closer interaction, exchange and coordination and more substantial engagement of the EU and with the EU.

- Mobilization of additional resources for the WB seems to be necessary before accession while also ensuring for maximum use of the existing financing instruments.
- Access to the single market conditional on advancing with the common regional market should be now concretized with an EU action plan with regards to sectors, to steps, to administrative preparation and timely information and preparation of the private sector companies.

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