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The European Union Growth Plan for the Western Balkans: A reality test for EU enlargement





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Executive summary

The European Union (EU) Growth Plan for the Western Balkans aims to integrate the region into the EU single market, enhance regional cooperation, implement significant governance and rule of law reforms, and boost EU financial support. In doing so, the EU seeks to foster economic development, political stability, and security in the region amid rising geopolitical tensions, while accelerating the Western Balkans' EU accession process.

The Growth Plan holds substantial potential to reinvigorate the enlargement process and counter the stagnation felt by both the EU and the region. By offering tangible benefits before full accession, the plan provides stronger incentives for reform. Additionally, the active involvement of regional governments, who must submit their own reform agendas, should increase buy-in from local leaders. Enhanced economic integration, greater access to the EU market, increased EU funding, and reforms to governance and the rule of law would stimulate investment, promote economic growth, and raise living standards. These improvements would bring the Western Balkans closer to the economic success seen in the Central and Eastern European countries in the EU (EU-CCC) countries over the past two decades. Moreover, fostering deeper regional cooperation will not only deliver an economic boost but also contribute to political normalization. If successful, the plan will bolster the EU's political influence in the region, countering the impact of external actors and encouraging much-needed nearshoring investment from EU firms.

However, the plan faces several challenges. Although conditionality is rigorous, with disbursement of funds tied to strict conditions to prevent misuse, there are concerns regarding its enforceability. The European Court of Auditors has already raised reservations. Additionally, the financial support offered is significantly lower than what EU member states in Southeast Europe receive. The reforms required for fund access and single market integration are substantial and will demand significant political will and institutional capacity—both of which have been lacking in the region at times over the past two decades.

The success of the growth plan will largely depend on its implementation. The EU must ensure rigorous enforcement of conditionality, reward positive reform steps, and increase funding for countries making progress. Civil society in the Western Balkans should be engaged as much as possible to foster broader support and transparency. The EU should also leverage the plan to align with its broader geopolitical and geoeconomic interests, particularly in strengthening its strategic autonomy. Additionally, the Growth Plan should be fully integrated with the EU's competitiveness, green, and digital transition agendas. For their part, Western Balkans leaders should seize the increased agency provided by the plan. They must take ownership of the reforms they propose, participate actively in EU meetings, and design their reform agendas to deliver better living standards and deeper EU integration for their populations.

Strategic context

The European Union's single market is the cornerstone of European integration and prosperity. Since its inception in 1992, it has been the most fundamental driver of economic growth, convergence, and social progress in Europe and has improved living standards. Focused on four main freedoms the movement of goods, services, capital, and people—the aim was to strengthen economic integration among member states by eliminating trade barriers, ensuring a level playing field, and promoting solidarity. Cohesion funds were introduced to guarantee that countries and regions would equally benefit from economic growth and were not left behind due to market liberalization. The aspiration of the six Western Balkans countries to join the European Union and its single market is driven by political, economic, and social considerations, as well as the EU's long-standing engagement in the region. A May 2024 EU growth plan for the Western Balkans now provides a way to phase in integration and enliven what has been a languishing accession process for the Western Balkans nations, while also protecting EU interests amid heightened geopolitical competition in the region and conflict on its eastern flank.

Europe and the world have changed significantly since the single market's launch. Since then, the EU economy has grown from \$7.3 trillion to \$18.3 trillion in nominal prices (\$28 trillion in purchasing power parity) in 2024, but its global market share has declined from 21 percent to 14.4 percent in that period, representing around one-sixth of the global economy. In comparison, China's share of the world's gross domestic product (GDP) has grown exponentially from 4 percent in 1992 to more than 19 percent in 2024, with a GDP of \$18.3 trillion in 2024 (\$37 trillion in purchasing power parity,) according to International Monetary Fund (IMF) data.² In a continuously changing global market shaped by innovation, digitalization, and adaptation to climate change and social transformation, the success of the EU and its single market is based on the pillars of free trade and openness, reinforcing European standards

and upholding the rules-based international order, as well as promoting innovation and sustainable development.

Much More than a Market,³ a report by EU Rapporteur on the Future of the Single Market Enrico Letta, recommended three strategic directions: committing to a fair, green, and digital transition for a sustainable transformation of the European economy and society; deciding to pursue EU enlargement and integration of new members; and enhancing EU security, which implies more demanding decisions in the field of defense. The newly published European Commission report on European competitiveness, drafted by Mario Draghi, mentions EU enlargement to the Western Balkans and calls on the EU to prepare for its future enlargement. The report argues that investing and developing strategic infrastructure—namely transportation, by embedding the six Balkan countries, Ukraine, and Moldova in the Trans-European Transport Network, known as TEN-T—will promote candidate countries' alignment with European standards and, by extension, help the EU to expand its global reach.4

In an ever shifting global economic, demographic, and geopolitical landscape, the EU's need to enhance competitiveness is intrinsically linked to its economic security. In this respect, ensuring resilience across the supply chains to achieve diversification on types and sources of critical materials and needs will be fundamental for the EU. As EU companies look to relocate their supply chains closer to home, investing in the Western Balkans for the production of critical goods would contribute to the EU's strategic economic autonomy,5 one of the main derisking goals of the EU's new Economic Security Strategy.⁶ As European Commission President Ursula von der Leyen reiterated at the Bled Security Forum, in September 2024: "If making Europe economically competitive and capable of defending itself is our fundamental objective, then I see the Western Balkans' integration in the European Union as critically important."7

^{1.} Jacques Delors, the visionary president of the European Commission from 1985 to 1995, fathered the single market concept, which took off with the 1985 Single European Act (SEA) that set 1992 as a target for the market's creation.

^{2.} International Monetary Fund (IMF), World Economic Outlook Database, October 2024, https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD.

^{3.} Enrico Letta, *Much More than a Market*, European Commission, April 2024. Letta also serves as president of the Institut Jacques Delors; earlier, he served as prime minister of Italy.

^{4.} European Commission, *The Future of European Competitiveness—In-depth Analysis and Recommendations*, September 9, 2024, 223, https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en?s=09. Mario Draghi, an economist, is the former prime minister of Italy and earlier served as president of the European Central Bank.

^{5.} Valbona Zeneli, "Western Balkans 'Nearshoring' Can Turn the Region into a Strategic Asset for the EU," *New Atlanticist*, Atlantic Council blog, September 28, 2023, https://www.atlanticcouncil.org/blogs/new-atlanticist/western-balkans-nearshoring-strategic-asset-eu/.

^{6.} European Commission, *An EU Approach to Enhance Economic Security*, June 19, 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358.

^{7. &}quot;Keynote Speech by President von der Leyen at the Bled Strategic Forum," European Commission website, September 2, 2024, https://ec.europa.eu/commission/presscorner/detail/en/speech_24_4502.



EU and Western Balkans leaders at the Western Balkans Summit in Berlin. November 3, 2022. Photo by Reuters.

Over many years, the six Western Balkan countries—Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia—have made strides toward joining the EU. The EU has launched membership talks with each one except Kosovo. Montenegro is hopeful it could wrap up negotiations by 2026 or soon thereafter to become the EU's next member state by the end of the current decade. On October 15, 2024, Albania started substantive talks on eight of thirty-five chapters and is now set to open five accession chapters (fundamentals), having passed through the European Commission's screening process, and has the potential to join Montenegro at the front of the queue bidding to join the EU. North Macedonia may follow suit.

The Western Balkan candidates are benefiting from the tailwind of geopolitical developments. Following Russia's full-scale invasion of Ukraine, the EU has rediscovered the value of enlargement as a political instrument to consolidate its influence in its southeastern periphery. Brussels upgraded its relations with key countries in the Western Balkan region, such as Bosnia and Herzegovina, and has embarked on membership talks with Ukraine and Moldova. Kosovo's citizens now have visa-free travel within the Schengen zone.⁸

At the same time, some long-standing obstacles continue to hinder enlargement. First and most important among them is EU member states' lack of enthusiasm for welcoming new members. Despite the pro-enlargement consensus, EU

countries often prefer to kick the can down the road. First, the rise of far-right populist parties in recent elections across the EU member states is linked to fears of rising immigration,9 including from the Western Balkan region. Second, bilateral disputes involving a member state and a candidate have thrown sand in the wheels: North Macedonia, for example, is due to change its constitution, an EU demand influenced by Bulgaria. Third, the security situation in the region is another significant challenge, as demonstrated by the continued tensions in and around Kosovo. The promise of EU membership has failed to convince Belgrade and Prishtina to compromise and settle their dispute over sovereignty, while normalization talks have stalled. Fourth, negative factors at both the EU and regional levels have been compounded by the democratic backsliding and governance deficits in the individual countries. Strongman populism and state capture have blunted the EU's oft-praised democratic conditionality and undermined enlargement. Fifth, non-European actors such as Russia, a revisionist power, and China, an opportunistic player, have gained ground at the expense of Europe, as the case of Serbia shows.

With enlargement at risk of losing momentum again, EU institutions and its member states have been considering alternative instruments to tie the Western Balkans more closely to the EU. Extending the single market to the region in the short run is such a tool. The aim is to both boost economic growth and deepen already advanced integration into the EU's wider ecosystem.¹⁰

^{8.} The authors are grateful for the informal exchanges they have had with EU officials and officials in the Western Balkan states.

^{9.} Michelle Cini and Nieves Perez-Solorzano Borragan, *European Union Politics* (Oxford, United Kingdom: Oxford University Press, 2017), 2.

Milena Mihajlović and Lukáš Macek, Growth Plan for the Western Balkans: An Important Step Forward, while Much Is Yet to Be Done, European Policy Center (CEP) Belgrade and Centre Grande Europe at Jacques Delors Institute, Paris, March 2024, https://institutdelors.eu/wp-content/uploads/2024/03/PB_240318_New_Growth_Plan_Macek_EN.pdf.

The growth plan and its elements

European Commission President von der Leyen presented a growth plan for the Western Balkans in May 2023. During a November 2023 visit to the region,¹¹ she outlined the four pillars of the plan: enhanced economic integration with the EU single market, completion of a common regional market, fundamental reforms, and increased financial assistance through a new €6 billion (\$6.18 billion) facility.¹² She framed it as a way to boost economic development in the Western Balkans while accelerating progress toward EU membership. The plan was adopted in May 2024.¹³

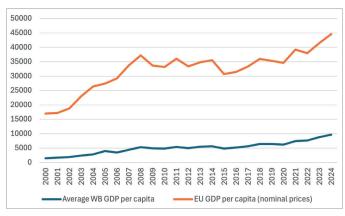
The plan is anchored in both the EU's efforts to revitalize enlargement and the fundamental view that the Western Balkans' accession is in the EU's and its partners' political, security, and economic interests. It is seen as a concrete answer to calls for "phasing in" the EU aspirant countries,¹⁴ especially given how lengthy the accession process has turned out to be. The plan specifically notes that "it is necessary to bring forward some of the advantages of Union membership before accession. Economic convergence is at the heart of those benefits."¹⁵ It also is a concrete recognition of the significant impact that Russia's war on Ukraine has had on the Western Balkan countries, which puts further economic pressures on them and creates risks to their stability.

The Western Balkans market is small, with fewer than eighteen million consumers and an aggregate GDP of \$172 billion in 2024,¹⁶ which is less than 1 percent of the EU's GDP of \$19.4 trillion. Western Balkan nations would be required to make substantial investment and reforms to qualify to join the EU single market, though the impact and costs of this from the

EU side would be negligible. Notably, their convergence with EU economic standards has been slow over recent decades, remaining behind the rest of Europe.¹⁷ The current level of convergence between the Western Balkan countries and the EU member states is not progressing fast enough, with average per capita GDP in nominal current prices of just \$9,700, which is around 20 percent of the EU average GDP per capita in nominal prices of \$44,612, according to IMF data (see figure 1).

Figure 1: Average GDP per capita for six Western Balkans countries and the European Union (EU)

(in US dollars, nominal prices for 2000 to 2024)



Source: Authors' calculations based on data from the IMF World Economic Outlook (WEO) database. $^{\rm 18}$

^{11. &}quot;European Commission's President Spells-out New Growth Plan during Visit to the Western Balkans," West Balkans Investment Framework," last updated June 11, 2023, https://www.wbif.eu/news-details/european-commissions-president-spells-out-new-growth-plan-during-visit-western-balkans.

^{12.} European Commission, "Commission Welcomes Political Agreement on the €6 Billion Reform and Growth Facility for the Western Balkans," April 4, 2024, https://neighbourhood-enlargement.ec.europa.eu/news/commission-welcomes-political-agreement-eu6-billion-reform-and-growth-facility-western-balkans-2024-04_en.

^{13.} Regulation (EU) 2024/1449 of the European Parliament and of the Council of 14 May 2024 on Establishing the Reform and Growth Facility for the Western Balkans, PE/80/2024/REV/1, OJ L, 2024/1449, May 24, 2024, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AL_202401449.

^{14.} Nikola Dimitrov et al., "It's a Package Deal! Reforming and Enlarging the European Union in a Contested World," English version of Política Exterior piece via Institute for Human Sciences (IWM) blog, June 2, 2023, https://www.iwm.at/blog/its-a-package-deal-reforming-and-enlarging-the-european-union-in-a-contested-world.

^{15.} Regulation (EU) 2024/1449 of the European Parliament and of the Council of 14 May 2024. IMF, World Economic Outlook Database, October 2024.

^{16.} IMF, World Economic Outlook Database, October 2024.

^{17.} Zeleni, "Western Balkans."

^{18.} IMF, World Economic Outlook Database, April 2024, https://www.imf.org/en/Publications/WEO/weo-database/2024/April/select-subjects?a=1&c=998.

For the Western Balkans, the benefits of joining the EU single market go beyond trade to encompass investment, economic modernization, democratic progress including respect for the rule of law, and enhanced regional cooperation. Recent initiatives include promoting regional economic integration, including the Berlin Process and its Common Regional Market (CRM) Action Plan (and the next phase, covering 2025 to 2028 and adopted by the six Balkan leaders in October 2024);¹⁹ and the Open Balkan project, a seemingly frozen effort involving Serbia, Albania, and North Macedonia. These initiatives aim to spur market building at the regional level, based on EU rules and regulations and on the four fundamental freedoms.²⁰ They are designed to help Western Balkan economies integrate more effectively into EU value chains and thus enhance their long-term competitiveness. The initiatives have generally focused on four key areas: trade, investment, digitalization, and industry and innovation, while also including initiatives related to developing human capital and competitiveness, both of which are stressed in the new CRM.

In this light, the EU's growth plan is a welcome initiative and has the potential to speed up the region's EU integration by significantly accelerating growth and convergence with the advanced economies of Western Europe. This would ultimately improve the lives of people in the Western Balkan countries, which is also a stated aim of the EU enlargement process. The four main pillars of the plan are the right areas to target: enhancing economic integration into the EU single market via access, boosting regional economic integration, strengthening socioeconomic and rule of law reforms, and investing in more financial support. These four pillars are interrelated, and if well established, can be catalytic. A comprehensive approach recognizing that these elements must be not only thought of together but also pursued together—is a positive development. Overall, the growth plan's ambition is "to double the size of the Western Balkan economies within the next ten years."21

In practice, greater economic convergence requires investments and additional financial assistance to modernize the Western Balkan economies and infrastructure. At the same time, it is necessary to strengthen the rule of law and fundamental rights (an indispensable requirement of the EU acquis²² to advance on the EU path), but also to unleash the benefits of integration. Concretely, these benefits include building modern, dynamic, and decarbonized economies in the Western Balkan countries and region to create a favorable environment to attract private investments, promote sustainable economic growth, and reduce pollution.

A key point to note is that the Western Balkan countries will integrate into the EU's single market only if they deliver on regional economic integration in the specific seven priority areas that are covered in the growth plan. Thus, the plan adds a parallel trajectory to convergence alongside the CRM, which is also based on the merit-based conditionality process for each applicant/candidate country to meet the EU standards. Another important element is that no country in the Western Balkans can block another's integration into the single market in the seven priority areas; in European Commission communications, the CRM is mentioned as a condition. From this perspective, progress can be made individually by countries based on their reform fulfillment and alignment with EU standards. Notably, a country that is not committed in a concrete manner to or hindering the CRM "would only block itself and not the other five" Western Balkan countries.²³ The European Commission has given the CRM center stage because it estimates that progress in that area would add 10 percent regional GDP to the Western Balkan economies over time.24

The growth plan's seven priority areas are intended to deliver substantial economic benefits ahead of accession—aligned with EU standards and based on substantial preparatory work by participating countries. For each one, the offer requires

^{19.} Regional Cooperation Council, *Common Regional Market Action Plan 2025-2028*, October 14, 2024, https://www.rcc.int/pubs/189/common-regional-market-action-plan-2025-2028.

^{20.} Milena Mihajlović et al., "Template 2.0 for Staged Accession to the EU," Centre for European Policy Studies and European Policy Centre, 2023, https://cep.org.rs/en/publications/template-2-0-for-staged-accession-to-the-eu/.

^{21. &}quot;New Growth Plan for the Western Balkans," European Commission webpage, n.d., https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/new-growth-plan-western-balkans_en.

^{22.} Referred to as EU acquis thereafter, the "acquis Communautaire" is the sum of common rights and obligations that constitute the body of EU law that is incorporated into the legal systems of EU member states. It includes thirty-five sectoral chapters, of which candidate (applicant) countries are required to fulfill the requirements before they can join the EU. Following the Lisbon Treaty (2009,) the terminology shifted toward «EU Acquis."

^{23. &}quot;New Growth Plan for the Western Balkans," Western Balkans Info Hub, February 21, 2024, https://www.westernbalkans-infohub.eu/news/new-growth-plan-for-the-western-balkans/.

^{24. &}quot;New Growth Plan for the Western Balkans," European Union informational flyer, October 2024, https://neighbourhood-enlargement. ec.europa.eu/document/download/75354ed6-6f5a-426e-9f29-f1c77ce8ce18_en?filename=NewGrowthPlan-WB-April%202024. pdf.

prior alignment with the EU acquis in the relevant area, which includes having the necessary infrastructure and institutional setup. Western Balkan countries can implement the required measures via the existing Stabilization and Association Agreements (SAAs), targeted complementary agreements, or amendments to the existing Transport Community and Energy Community treaties.

The first priority is the free movement of goods through agreements on conformity assessments and custom and tax cooperation, as well as harmonization of custom procedures and border controls to reduce waiting times. The goal here is to align the Western Balkans with the single market rules and to align regulation and standards with EU rules and standards. This focus on the free movement of goods is intended to increase trade flows and create a more integrated economic space for the Western Balkan nations and the EU, as a key step to prepare the region for future membership.

The second priority is the free movement of services and workers including those services covered by a regional agreement that has been negotiated but not yet adopted and transferring them to CRM auspices (e.g., tourism, e-commerce) and, subsequently, building on services negotiated in the CRM, e.g., mobility agreements for financial services, e-commerce, and related information society services, and implementing the recognition of diplomas and professional qualifications within the region.

A third priority is gaining access to the Single Euro Payments Area (SEPA) to facilitate cross-border commerce and speed up integration into the EU single market. The objective is to ensure that modern payment systems can promote financial inclusion, decrease the costs and time of transactions, foster interoperability, improve competitiveness, reduce cash usage, expand payment services—currently, only 76 percent of adults

in the Western Balkans have a transaction account compared to 99 percent in the EU—and drive the development of new technologies.²⁵ Transferring money between businesses in the Western Balkans for the amount of €20,000, for example, is seventeen times more costly than within the SEPA.²⁶ Easier and cheaper payments would be critical to encourage regional trade, make Western Balkan products and services more competitive in the EU market, support the internalization of small and medium enterprises (SMEs), and attract more EU investment in the region.²⁷ The front-runners are Albania and Montenegro, which were officially accepted into the SEPA on November 21, 2024, 28 a few months after their membership applications in June.²⁹ A decision of the European Payments Council (EPC) makes them (Albania and Montenegro) the first in line to join in October 2025, representing a crucial step in financial integration with the EU. Both North Macedonia and Serbia published decisions in July 2024 to apply for SEPA membership. Bosnia and Herzegovina has not submitted an application yet as the current legislation in the country does not meet the requirements necessary to access SEPA. The estimated regional savings from joining SEPA are about €500 million annually,³⁰ but the indirect effects of fostering stronger economic ties of the region with the EU are much higher as the process involves meeting legal and technical criteria set by the EPC, including aligning their respective national laws and regulations with EU regulations.

The fourth priority is better integrating road transport. This important priority can be aided through means such as integrating the relevant EU information systems (e.g., internal market information (IMI) system, European Register of Road Transport Undertakings) and consideration of further facilitation of bilateral transport operations that go beyond the SAA with the Western Balkans.³¹

^{25.} Xiaoqing Yu, "Bridging Economies: The Catalyst Role of Low-cost Cross-border Payments in the Western Balkans," Opinion, Emerging Europe, May 14, 2024, https://emerging-europe.com/opinion/bridging-economies-the-catalyst-role-of-low-cost-cross-border-payment-transfers-in-the-western-balkans/.

^{26.} World Bank, "Advancing the Modernization and Integration of Payment Systems in the Western Balkans," Brief, May 15, 2024, https://www.worldbank.org/en/region/eca/brief/advancing-the-modernization-and-integration-of-payment-systems-in-the-western-balkans.

^{27.} Ivona Zametica and Fjorent Rrushi, "Western Balkans EU Journey: A Bumpy Road?," Raiffeisen Bank blog, April 5, 2024, https://www.rbinternational.com/en/raiffeisen/blog/market-trends/western-balkans-eu.html.

^{28. &}quot;European Commission Welcomes Inclusion of Albania and Montenegro in the Single Euro Payments Area," Press and Information Team, Delegation of the European Union to Montenegro, last updated November 21, 2024, https://www.eeas.europa.eu/delegations/montenegro/european-commission-welcomes-inclusion-albania-and-montenegro-single-euro-payments-area_en?s=225.

^{29. &}quot;WB 6 towards the Single European Payment Area - Ministers of Finance and Governors of Central Banks Meet in Tirana," Press Release, Bank of Albania, February 28, 2024, https://www.bankofalbania.org/Press/Press_Releases/WB_6_towards_the_Single_European_Payment_Area-Ministers_of_Finance_and_Governors_of_Central_Banks_meet_in_Tirana.html.

^{30.} World Bank, "Advancing the Modernization."

^{31. &}quot;Green Mobility Summit: Western Balkan Authorities Pledge to Advance Sustainable Transport Solutions in the Region," Transport Community, last updated June 7, 2024, https://www.transport-community.org/news/green-mobility-summit-western-balkan-authorities-pledge-to-advance-sustainable-transport-solutions-in-the-region/.

A fifth priority is integrating energy markets, especially the electricity market,32 with a focus on energy diversification through investment in renewable energy to reduce the Western Balkan countries' dependency on fossil fuels, and the development of regional energy infrastructure to foster cooperation in the region and implement joint projects for energy generation and distribution. Four out of the six countries currently produce 60 percent of their electricity from locally mined lignite,³³ and focusing on policies to reduce carbon emissions and prioritizing environmentally friendly projects are among the main priorities for the future. Expanding solar and wind energy will strengthen the economies of the Western Balkans and offer significant strategic benefits in the currently changing energy landscape. Notably, the lack of regional coordination and inconsistent rules create entry barriers that impede serious foreign investment.

Thus, regional harmonization of energy regulations and standards is central to increasing the region's competitiveness and facilitating strategic investment. The Western Balkan countries are currently implementing the EU Third Energy Package³⁴ and preparing for alignment with the Clean Energy Package and Electricity Integration Package. The EU has provided grants totaling €1 billion through the framework of the Energy Support Package to mitigate the effects of the energy crisis and accelerate the regional energy transition. A sum of €450 million was disbursed (between February and May 2023) as part of the first €500 million package, and the second €500 million will be provided through the Western Balkans Investment Framework (WBIF),³⁵ with the expectation that it can generate up to €1.4 billion of new investment in this energy sector in the region.³⁶

A sixth priority is further integration into the EU digital single market in terms of telecommunications, digital services, and advanced technology. Specifically, work needs to be done to build on the current voluntary agreement to reduce roaming charges between the Western Balkans and the EU, increase cybersecurity links between the EU and the region, and establish cross-border interoperability. Fostering a digital regional economy would create conditions in the future for artificial intelligence development and the possibility of integrating the region into the EU's electronic identification, authentication, and trust services in compliance with the electronic Identification, Authentication and Trust Services (elDAS) regulation. The aim is to create a trusted online environment in line with the EU's Digital Services Act and Digital Market Act.

Last, but not least, the seventh priority is integrating the Western Balkans into industrial supply chains, especially sustainable raw materials value chains (including batteries). This is focused on developing sustainable supply chains for critical raw materials that are necessary for the green transition and green technologies, such as batteries for electric vehicles. The process includes mapping existing natural resources in the Western Balkans and advancing sustainable extraction and processing methods while focusing on environmental, social, and governance (ESG) standards.³⁷ The recent memorandum of understanding between Serbia and the EU on the development of lithium mining projects, establishing a strategic partnership on sustainable raw materials, battery value chains, and electric vehicles, is a perfect example.³⁸ To achieve these broad objectives, however, will require significant investment in infrastructure to facilitate the development of these value chains and enhancement of the region's connectivity with the EU, as well as the promotion of collaboration across all stakeholders in the region including industry and civil-society participants.

^{32.} European Commission, "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: New Growth Plan for the Western Balkans," November 8, 2023, https://neighbourhood-enlargement.ec.europa.eu/document/download/8f5dbe63-e951-4180-9c32-298cae022d03_en?filename=COM_2023_691_New+Growth+Plan+Western+Balkans.pdf.

^{33.} Matthew Bryza, "Western Balkans Must Pursue More Competitive Energy Sectors," Issue Brief, Atlantic Council, February 26, 2024, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/western-balkans-must-pursue-more-competitive-energy-sectors/.

^{34. &}quot;The EU Disburses €450 Million to the Western Balkans Partners Delivering on the Energy Support Package for the Region," European Commission, last updated June 8, 2023, https://ec.europa.eu/commission/presscorner/detail/en/AC_23_3196.

^{35. &}quot;Clean Energy," Western Balkans Investment Framework (WBIF) webpage, n.d., https://www.wbif.eu/sectors/energy.

^{36. &}quot;The EU Disburses €450 million," European Commission.

^{37. &}quot;Mapping of Raw Materials Value Chain Calls for Use of Circular Economy," Nordic Innovation (under the umbrella of the Nordic Council of Ministers), last updated July 1, 2024, https://www.nordicinnovation.org/news/mapping-raw-materials-value-chain-calls-use-circular-economy.

^{38. &}quot;EU, Serbia Sign Key Lithium Deal," *Deutsche Welle*, last updated July 19, 2024, https://www.dw.com/en/eu-serbia-sign-key-lithium-deal/a-69712085.

The growth plan and the Common Regional Market

The growth plan complements and is linked with the CRM, a flagship initiative of the Berlin Process. Each has a distinct role: The growth plan focuses on national reforms while the Berlin Process aims to foster regional cooperation. The German government established the latter in 2014 to keep the EU enlargement process alive in the Western Balkans after the Juncker Commission (i.e., the EU presidency of Jean-Claude Juncker from 2014 to 2019) announced a freeze on enlargement for five years. In the last ten years of the Berlin Process, it has transitioned from being a purely political process aimed at keeping enlargement hopes and reforms alive in the Western Balkans to one that has a concrete framework through the CRM initiative.

Western Balkan leaders created and endorsed the Common Regional Market Action Plan (2021-2024) at the November 2020 Berlin Process Summit in Sofia,³⁹ inspired by the EU single market and framed as a prerequisite for EU accession, and not an alternative to EU membership. This phase followed the Regional Economic Area (REA) initiative, which was endorsed at the Trieste Summit in 2017.

A second phase of the CRM Action Plan (2025-2028) was agreed at the Western Balkans Summit in Kotor in May 2024; it was adopted at the tenth Berlin Process on October 14, 2024, marking a significant milestone in enhancing regional cooperation as a result of the unblocking of the Central European Free Trade Agreement (CEFTA as a key pillar for implementing this second phase of CMR). Kosovo secured the right to represent itself in CEFTA meetings, ending the deadlock in the decision-making process of the organization, and being able to be represented as Kosovo and not by the United Nations Interim Administration Mission in Kosovo (UNMIK), after it lifted its 16-month ban on Serbian imports at the Merdare border crossing, a ban imposed in June 2023

as a response to the discovery of weapon caches and Serbian troop movements near the border, aimed at easing regional tensions and aligning with Western efforts to promote reconciliation between the two nations.

Past successes include establishing green corridors between the Western Balkans and the EU, reducing border wait times by 70 percent, fostering free movement with ID cards throughout the region, recognizing diplomas and professional qualifications, and reducing roaming charges within the region and the EU.⁴¹ However, progress has been slow in implementing these important initiatives due to unresolved political disputes, particularly between Kosovo and Serbia. In addition, the CRM must also expand beyond the four EU freedoms of movement to include common economic and social policies that can address "critical challenges such as poverty, inequality, unemployment, and emigration."⁴²

There has been some recent progress in regional trade relations and a reduction of tariffs, such as for Albania, Bosnia and Herzegovina, and Kosovo. But in most cases, trade within the region (as a percentage of the total trade of these countries) has declined since 2013. Serbia's exports within the region have increased—and it has the largest economy in the Western Balkans, with fast growth rates—but there has been no relative, corresponding increase in Serbia's imports from nations in the region. Even for Serbia, though, the importance of trade with the rest of the Western Balkans has lessened. While some may point to a "failure" of regional cooperation, it is more mechanical than it seems, as the region's trade with the vast EU market (which is a hundred times bigger) is increasing.

In the future, full liberalization of tariffs for products and services and the reduction of nontariff barriers would be crucial not only to boost regional trade but, most importantly, to increase Western Balkan exports to the EU market and beyond.

^{39.} Marina Vulović, *The Berlin Process in the Western Balkans: Big Ideas, Difficult Implementation*, Stiftung Wissenschaft und Politik (SWP), December 2022, https://www.swp-berlin.org/10.18449/2022C70/.

^{40. &}quot;Chair's Conclusions," Berlin Process Summit 2024, October 14, 2024, https://www.bundesregierung.de/resource/blob/2196306/23 14982/6cbfacc6d53993529b853bafd1c7ea7e/2024-10-14-chairs-conclusion-westbalkangipfel-data.pdf?download=1.

^{41. &}quot;Common Regional Market," Regional Cooperation Council, n.d., https://www.rcc.int/pages/143/common-regional-market.

^{42.} Branimir Jovanović, "The EU's New Growth Plan for the Western Balkans: Solid Foundations but Shaky Details," Vienna Institute for International Economic Studies (wiiw), March 18, 2024, https://wiiw.ac.at/the-eu-s-new-growth-plan-for-the-western-balkans-solid-foundations-but-shaky-details-n-622.html.

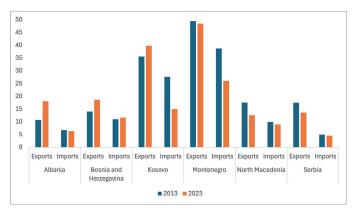


In 2023, the EU accounted for 67 percent of trade in goods from the Western Balkans Six, which is a 135 percent increase from 2013 levels. By integrating closer into the EU single market, the growth plan has the potential to double the region's economy in the next ten years. By CHUTTERSNAP on Unsplash.

Such a development would create opportunities for producers to gain advantages from larger markets, enhance cross-border production chains, increase competition and thereby expand consumer choices, and collectively attract foreign direct investment (FDI) and foster regional business clusters.⁴³ In this sense, regional economic cooperation has a much bigger value politically than just in simple trade numbers—signaling the potential for political and regional stability and offering bigger market opportunities to foreign investors.

Figure 2: Nominal trade in goods with other Western Balkan countries

(percent of total external trade in goods)



Note: Statistics for Serbia do not include trade with Kosovo. Sources: National databases, Vienna Institute for International Economic Studies (wiiw).

^{43.} Valbona Zeleni, "The Unviable Economics," NATO Foundation Defense College, June 2021, https://www.natofoundation.org/wp-content/uploads/2021/06/NDCF-Paper-Zeneli-The-unviable-economies.pdf.

Building on experience

The growth plan for the Western Balkans builds on two single market instruments: one adapted for the Western Balkans and the other one acting, it seems, as a source of inspiration.

First, the European Commission set up an instrument in 2014 that is centered around so-called National Economic Reform Programs (ERPs) to help structure its discussions on economic, social, and structural issues with EU candidate countries. AP Participating countries—including Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia—had to submit programs to the Commission. This arrangement resembles to some extent the EU's European Semester economic-surveillance process, an annual exercise of aligning EU rules and objectives.

In line with the 2023 European Council conclusions that set an aim of integrating the Western Balkans into the European Semester,⁴⁶ the process also includes an annual summit called the Economic and Financial Dialogue. This process involves representatives from the EU member states, the Western Balkans countries, and the European Commission. Representatives from the European Central Bank and the

central banks of the Western Balkans also participate. The new Reform and Growth Facility for the Western Balkans is seen as complementing these dialogues.⁴⁷

Second, in terms of design, the growth plan resembles closely the EU post-COVID-19 recovery plan, the so-called NextGenerationEU (NGEU) instrument, developed by the European Commission and endorsed by the EU member states in 2020, in response to the COVID-19 pandemic crisis. This was an instrument that Gert Jan Koopman, then director general (DG) of the European Commission's budget department, set up and oversaw before he was named as the DG for Neighborhood and Enlargement Negotiations (DG NEAR) in January 2023. Like the Growth Plan for the Western Balkans, the NGEU seeks to transform EU economies and societies, and does so by providing grants and loans to the EU member states to support reforms and investments. The NGEU has allocated €750 billion over the period of 2021 to 2023, on top of the 1.085 billion (in 2018 prices) earmarked under the EU's 2021-2027 budget, the so-called Multiannual Financial Framework (MFF).48

Economic underpinnings of the new growth plan

Some of the measures that the plan proposes, such as single market access, could make a big difference in providing the Western Balkan region with a necessary economic boost. While the existing SAAs themselves could be better utilized, in practice they only offer a fraction of the benefits of the single market and what would be completely frictionless trade with the EU member states after EU accession. The impact of EU membership on a country's exports has been shown to be several times greater than an SAA.⁴⁹ Moreover, the impact that EU membership can have on the economic integration of countries into regional value chains, and the functional and

productivity upgrading potential of this, comes from the sheer size and wealth of the EU market. The results shown in figure 3 indicate that when all barriers to trade are removed, poorer countries from Southeast Europe will see a huge positive impact on their export performance.

When it comes to industrial integration with the EU core and the resulting upgrade in productivity and stronger economic convergence, the EU-Central and Eastern Europe (EU-CEE) process includes numerous positive success stories. The results are well known but highlights bear repeating. In 2000, the per capita GDP (at purchasing power parity, or PPP) of the

^{44.} Zsolt Darvas, "The Benefits of Bringing the Western Balkans into the European Semester," Analysis, Bruegel, 2023, https://www.bruegel.org/analysis/benefits-bringing-western-balkans-european-semester.

^{45. &}quot;The European Semester," European Commission website, last accessed November 19, 2024, https://commission.europa.eu/business-economy-euro/european-semester_en.

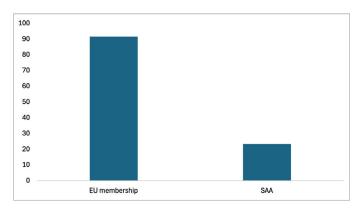
^{46.} Council of the European Union, Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans Partners, Türkiye, Georgia, Republic of Moldova and Ukraine: The Economic and Financial Dialogue between the EU and the Western Balkans Partners, Türkiye, Georgia, Republic of Moldova and Ukraine, May 14, 2024, https://data.consilium.europa.eu/doc/document/ST-9881-2024-INIT/en/pdf.

^{47.} Darvas, "The Benefits."

^{48.} European Parliament, EU Financing for 2021-2027, 2020, https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659371/EPRS_BRI(2020)659371_EN.pdf.

^{49.} Oliver Reiter and Robert Stehrer, *Value Chain Integration of the Western Balkan Countries and Policy Options for the Post-COVID-19 Period*, wiiw, Policy Notes and Reports 48 (March 2021), https://wiiw.ac.at/value-chain-integration-of-the-western-balkan-countries-and-policy-options-for-the-post-covid-19-period-dlp-5696.pdf.

Figure 3: Percentage of change in exports to the EU due to SAA vs. EU accession

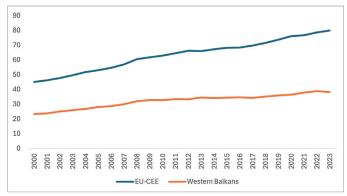


Note: Estimates Bulgaria, Romania. Croatia. apply to and the Western Balkan six countries; the data are from 2005 (or as early as is available) through 2018. Sources: wiiw MC IOD (preliminary version, 2020); authors' calculations. Full wiiw paper: Oliver Reiter and Robert Stehrer, Value Chain Integration of the Western Balkan Countries and Policy Options for the Post-COVID-19 Period, Policy Notes and Reports 48, March 2021, https://wiiw.ac.at/value-chain-integration-of-the-western-balkancountries-and-policy-options-for-the-post-covid-19-period-p-5696. html.

eleven EU-CEE countries⁵⁰ was 45 percent of the EU average; by 2023 it was 80 percent (the Western Balkan countries went from 23 percent to 38 percent over the same period; see figure 4). Slovenia, Czechia, Lithuania, and Estonia are all now wealthier than Spain, Portugal, and Greece. The Harvard Growth Lab's Economic Complexity Index ranks Czechia sixth in the world, with Slovenia ninth, Hungary eleventh, and Slovakia twelfth; all are ahead of the United States and France. This is a measure of the knowledge in a society as expressed in the products it makes. "The economic complexity of a country is calculated based on the diversity of exports a country produces" and the number of the countries able to produce them.⁵¹

The success of EU-CEE relations has been very closely linked to the EU integration process. This incentivized significant reforms (especially in the years before accession) and brought major inflows of EU funds (often several percentage points of GDP per year over decades). In the case of the Visegrad Group of countries—Czechia, Hungary, Poland, and Slovakia comprise the V4—this also resulted in large-scale FDI inflows

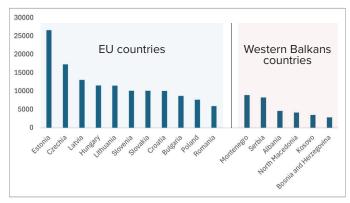
Figure 4: Per capita GDP at purchasing power parity (PPP) (EU-27 = 100) Relative to the total EU-27 GDP



Sources: Eurostat, national databases.

into the tradable sector, which produced an internationally competitive and increasingly sophisticated export base. With this and supported by upgraded infrastructure that was primarily financed by EU funds, the Visegrad countries were able to make the most of being part of the EU single market. Such is the level of industrial integration that the Visegrad countries are now comfortably Germany's most important trading partner, way ahead of China, France, or the United States. ⁵²

Figure 5: Inward FDI stock per capita (in euros, 2023)



Sources: National databases, wiiw.

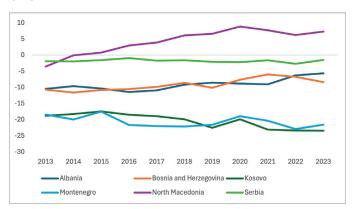
^{50.} The EU-CEE eleven countries refer to the following Central and Eastern European nations: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

^{51.} Gailiana Liew, "Why It's Good to Be Complex...Economically," Opinion, *Bailiwick Express*, June 24, 2021, https://www.bailiwickexpress.com/jsy/opinion/why-its-good-be-complexeconomically/.

^{52.} Germany's total trade turnover with the V4 in 2023 was €373 billion, compared with €255 billion for China and €253 billion for the United States. Poland alone accounted for €174 billion. See "Order of Rank of Germany's Trading Partners - 2023 (Final Results)," Statistisches Bundesamt (Destatis), September 18, 2024, https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/Tables/order-rank-germany-trading-partners.html.

The Western Balkans, by contrast, have only had a pale imitation of this success. True, relative to their GDP, the Western Balkans have been attracting quite a lot of FDI in recent years. But so far, the trajectories of trade balances—except those of North Macedonia and, in part, Albania—have not shown an improvement over the past ten years. This indicates either that the FDI is not of the same quality as what the V4 received, or that it is not going into tradable sectors, which can exacerbate weaknesses in external competitiveness. In per capita terms, the inward FDI stock in the Western Balkans is still low compared to the EU-CEE front-runners (see figure 5).

Figure 6: Merchandise trade balance of Western Balkan countries with the EU as a percentage of GDP



Note: The trade balance is exports minus imports. Sources: National databases, wiiw.

Greater access to the EU budget would also be significant for the Western Balkans. The willingness of the EU to move in this direction should be welcomed, even if the amounts so far are not sufficient (as discussed below). And because of the very small size of the Western Balkan economies (as already outlined), an amount of money that would be significant in terms of local GDP but not a game changer from the EU's perspective would still have the potential to be impactful.

The Western Balkans Investment Framework was established in 2009, serving as a regional initiative and utilizing Instrument

for Pre-accession (IPA) funds as a primary funding source, combined with loans from priority institutions to support priority projects. ⁵³ The Economic and Investment Plan for the Western Balkans (EIP) 2021-2027 allocates up to €9 billion in EU funds, with the potential to "crowd in" and mobilize up to €20 billion of private capital investment through the Western Balkan Guarantee Facility. ⁵⁴ The EIP sought to tie disbursements to reforms, thereby using the prospect of greater funds to incentivize positive institutional momentum in the region. The EIP supports the post-pandemic socioeconomic recovery of the region and helps the region close the development gap with the EU. Since its launch, the EU has earmarked €5.4 billion in grants and is expected to mobilize €17.4 billion overall in investments. This includes funding for sixty-eight flagship projects under the WBIF. ⁵⁵

A clear advantage of a more "joined-up" approach is that regional integration and EU integration are linked. In the past, regional economic integration has often been pursued as a stand-alone goal in the Western Balkans. This makes little sense because the regional market is very small and the upside of regional economic integration alone is therefore limited and many of the prerequisites to make it work (related to regional relations) do not exist. For Instead, the experience of the Visegrad countries shows that regional economic integration can be turbocharged as part of the EU accession process.

While tying together regional integration with single market access makes a lot of sense, there are two important caveats to this. First, the EU is asking for quite significant reforms that, based on recent history, one should be wary of expecting to see in the Western Balkans. This resistance to reform reflects a combination of missing political will and institutional capacity, and likely would require a sufficiently large bunch of carrots to incentivize progress. Aligning with the EU acquis to meet the conformity assessments or customs and tax cooperation to streamline procedures and reducing waiting times at borders are both fundamental for the Western Balkans to take advantage of greater access to the EU market. However, that would involve very serious, likely multiyear reforms that will be very difficult to achieve. The growth plan probably does not include enough carrots to fundamentally alter this situation.

^{53.} WBIF, Economic and Investment Plan, July 2024, https://www.wbif.eu/storage/app/media/Library/12.%20Economic%20and%20 Investment%20Plan/WBIF%20Endorsed%20Flagship%20Investments_July%202024.pdf.

^{54. &}quot;EU-Western Balkans Relations," European Commission information sheet, December 2024, https://neighbourhood-enlargement. ec.europa.eu/document/download/97e732cc-69ce-44a2-80fb-36fcd4fce41f_en?filename=EU-WB-relations-july-2024.pdf.

^{55.} WBIF, Economic and Investment Plan.

^{56.} Bertelsmann Stiftung, *Pushing on a String: An Evaluation of Regional Economic Cooperation in the Western Balkans*, November 8, 2020, https://www.bertelsmann-stiftung.de/en/publications/publication/did/pushing-on-a-string-en.

^{57.} Sandor Richter, Changes in the Structure of Intra-Visegrad Trade after the Visegrad Countries' Accession to the European Union, wiiw, September 5, 2012, https://wiiw.ac.at/changes-in-the-structure-of-intra-visegrad-trade-after-the-visegrad-countries-accession-to-the-european-union-p-2644.html.

Second, even if greater liberalization of trade can be achieved between the Western Balkans and the EU, it is not clear that Western Balkan firms would be able to cope with this competitive pressure (in this sense it is positive that "business competitiveness" is a key focus of the updated CRM Action Plan). In terms of tariffs, trade is already very

liberalized between the Western Balkans and the EU, and the impact is that the Western Balkan nations (apart from North Macedonia) run large and persistent trade deficits with the EU. The region has not been as successful as most EU-CEE countries in attracting FDI into the tradable sector and building a competitive manufacturing sector.

The facility for the Western Balkans: Added value?

The Reform and Growth Facility for the Western Balkans is at the core of the growth plan and its setup resembles the Recovery and Resilience Facility (RRF), the centerpiece instrument of the NGEU.⁵⁸ It was adopted by the European Council in May 2024,⁵⁹ builds on EIP (see above), and runs to 2027. The facility will make available up to €2 billion in grants and up to €4 billion in loans to the six countries of the region over this period, divided between the countries based on the size of each one's population and economy.

The facility will be financed equally (\leqslant 3 billion each) from WBIF (with a focus on infrastructure projects), and the rest via loans given directly for budget support to the Western Balkan countries, with the aim of accelerating growth based on socioeconomic reforms.

This new instrument will complement the financial and technical assistance that the EU currently offers under the Instrument for Pre-accession Assistance (IPA III).⁶¹ The IPA, which seeks to foster sustainable socioeconomic development and align the Western Balkan countries more closely with the EU's values and standards, has been the main instrument since 2007. Through it, the EU has supported the region's enlargement reforms. IPA funds largely cover the same areas as the growth plan, aiming to build up the recipient countries' administrative capacities and legal approximation. The European Commission is aware of the potential dangers of double funding, which the

European Court of Auditors found in the implementation of the RFF,⁶² which the facility's setup largely mirrors (see above). In that context, the European Commission's DG NEAR seeks to ensure that projects funded under the facility and IPA are clearly differentiated.

Currently, the EU is implementing IPA III for the MFF period of 2021 to 2027, with a budgetary envelope of €14.1 billion,⁶³ allocated to the Western Balkans and Turkey. The program prioritizes sustainable socioeconomic reforms, aligning partner countries with EU values and standards. Specifically, it funds reforms in areas such as the rule of law, good governance, the green agenda, sustainable connectivity, competitiveness and inclusive growth, and cross-border cooperation (see the European Commission's graphic in figure 7).⁶⁴

The EU has been the largest financial and development donor to the Western Balkans. Between 2007 and 2013, the EU allocated €10.3 billion for preaccession assistance (IPA I) and €9.5 billion has been already paid. Out of this amount, only €3.4 billion went to the six Western Balkans countries, and around €1.3 billion went to regional programs. The biggest recipient was Turkey, at nearly €4 billion (see figure 8).⁶⁵

Between 2014 and 2020, the EU allocated €10.6 billion through IPA II⁶⁶ for preaccession assistance: €4.2 billion went to the six Western Balkans countries and around €3.3 billion

^{58. &}quot;NextGeneration EU," European Commission webpage, n.d., https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu_en#:~:text=NextGenerationEU%20is%20a%20groundbreaking%20 temporary,digital%20and%20more%20resilient%20future.

^{59. &}quot;Reform and Growth Facility for the Western Balkans Adopted," Press Release, European Council, May 7, 2024, https://www.consilium.europa.eu/en/press/press-releases/2024/05/07/reform-and-growth-facility-for-the-western-balkans-adopted/.

^{60. &}quot;New Growth Plan for the Western Balkans," European Commission informational flyer.

^{61. &}quot;How Does It Work? IPA III Planning and Programming," European Commission IPA III website, last accessed November 20, 2024, https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance/how-does-it-work_en#:":text=Under%20IPA%20III%20the%20performance,Strategy%20Papers%20and%20the%20programmes.

^{62. &}quot;Special Report 22/2024: Double Funding from the EU Budget—Control Systems Lack Essential Elements to Mitigate the Increased Risk Resulting from the RRF Model of Financing Not Linked to Costs," European Court of Auditors, October 10, 2024, https://www.eca.europa.eu/en/publications/sr-2024-22.

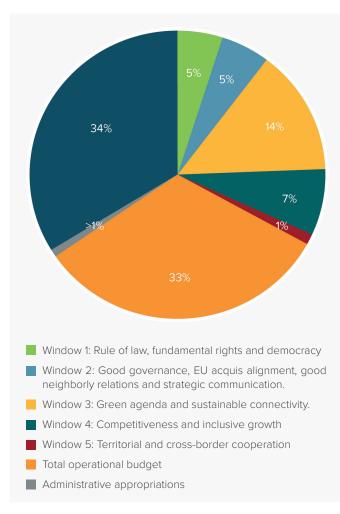
^{63.} European Commission, "Overview - Instrument for Pre-accession Assistance," Directorate-General for European Neighborhood Policy and Enlargement Negotiations (DG NEAR), accessed January 24, 2025, https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance_en.

^{64.} European Commission, "Overview - Instrument for Pre-accession Assistance."

^{65.} European Commission, "Overview - Instrument for Pre-accession Assistance."

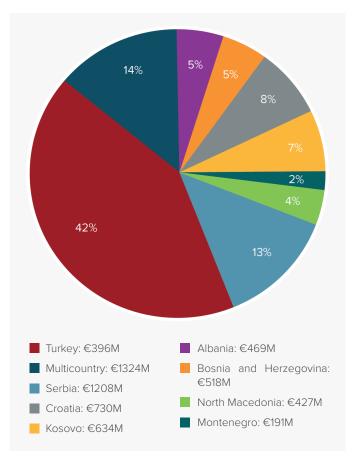
^{66.} European Commission, "Overview - Instrument for Pre-accession Assistance."

Figure 7: IPA III 2021-2027 budget distribution



Source: Authors' chart based on European Commission, "Overview - Instrument for Pre-accession Assistance," https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance_en.

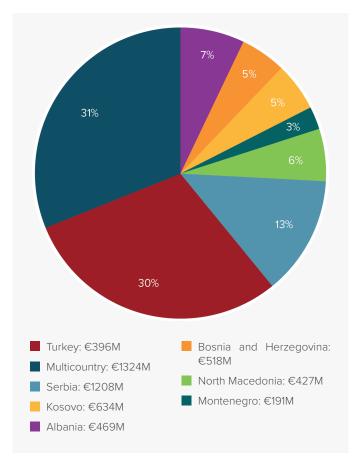
Figure 8: IPA I funds for 2007 to 2014 (paid), in millions of euros by nation



 $\it Source$: European Commission, "Overview - Instrument for Preaccession Assistance."

went to regional programs (see figure 9). In sum, from 2007 to 2020, the Western Balkans countries have received a total of €7.6 billion (as country allocations) from the EU (see figure 10 below,) which would mean an average of €540 million of EU funding per year over the period 2007 to 2020, and an additional €4.6 billion in regional/multi-country projects (with unclear distribution by country. 67

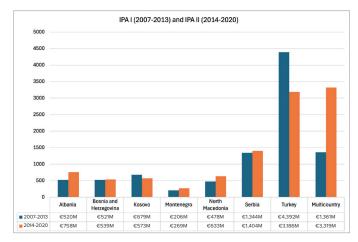
Figure 9: IPA II funds for 2014 to 2020 (allocated), in millions of euros



 $\it Source$: European Commission, "Overview - Instrument for Preaccession Assistance."

While the EU funding to the region is substantial, it is much lower than what the new EU member states receive (due to their full participation in EU programs). The latest EU member

Figure 10: IPA I and IPA II funds (allocated) for the Western Balkans, in millions of euros



Source: European Commission, "Overview - Instrument for Preaccession Assistance."

state, Croatia, had been allocated (and paid) more than \le 12 billion in the period 2014-2020, ⁶⁸ which would translate into an average of \le 1.7 billion every year (2014-2020) or almost three times the yearly allocation of the six Western Balkans countries combined during the same timeframe (i.e., \le 600 million per year for a total of \le 4.2 billion during the MFF 2014-2020.) In terms of per capita funding, it would amount to \le 3,060 per Croatian citizen during that seven-year MFF, while the average IPA II per capita funding available to the Western Balkans region (with a population of less than eighteen million in total) is \le 286 for a period of seven years, or only \le 60 per capita yearly. In conclusion, the six Western Balkans countries have received (on average) less than 9 percent of Croatia's EU funds during MFF 2014-2020 (see figure 11 below.)

A study by the Jacques Delors Centre suggests that if the Western Balkan countries (plus Moldova) were to become full members of the EU, the annual spending for the EU would be an additional €5.8 billion, based on the MFF rules of 2021.⁶⁹ In comparison, the annual EU spending in the case of Ukraine accession (as a full member) would amount to €13.2 billion.⁷⁰ Certainly, the Western Balkans case involves less budgetary pressure for the EU budgets due to its smaller economic and budgetary weight. Overall, if all aspiring countries became EU members, the additional spending would be €19 billion, or around 10 percent of the current EU budget.⁷¹

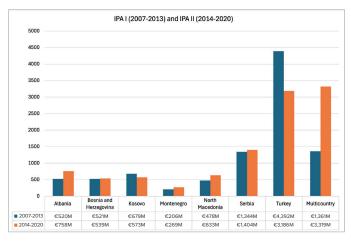
^{67.} European Commission, "Overview - Instrument for Pre-accession Assistance."

^{68. &}quot;MFF 2014-2020 - EU Payment Overview by Country," Cohesion Open Data Platform, European Commission, accessed January 24, 2025, https://cohesiondata.ec.europa.eu/2014-2020-Finances/MFF-2014-2020-EU-payment-overview-by-country/cpw8-kjm2.

^{69. &}quot;Financial Implications of the Next Enlargement," Jacques Delors Centre, accessed January 24, 2025, https://www.delorscentre.eu/en/publications/financial-implications-of-the-next-enlargement.

^{70.} Darvas, "The Benefits."

Figure 11: MFF 2014-2020 per capita: Western Balkans vs. EU's newest member states, in million euros



Source: Authors' calculations based on European Commission cohesion data, "MFF 2014-2020: EU Payment Overview by Country," https://cohesiondata.ec.europa.eu/2014-2020-Finances/MFF-2014-2020-EU-payment-overview-by-country/cpw8-kjm2.

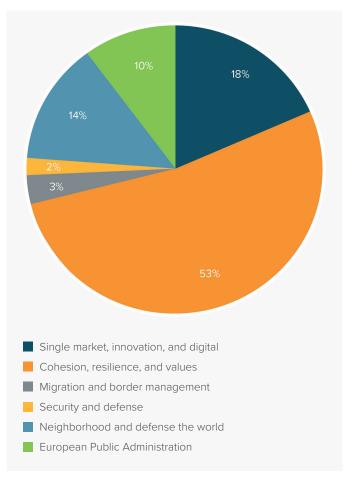
If enlargement is singled out in the EU budget, it doesn't stand out as a mounting pressure; however, given the big picture and increasing demands in critical areas—energy diversification and transition, digital innovation, and defense—there are pressures and choices to make. Debt repayment for the NextGeneration EU recovery plan will begin in 2028. Negotiations for the next MFF will be challenging as competition for resources will be more pronounced.

In line with previous enlargement strategies, these additional funds, allocated for the countries along their accession paths, would go primarily to support cohesion policies aimed at fostering convergence and reducing the disparity gap with the EU, while receiving phased-in support to ease the budgetary and competitiveness pressures. Certainly, there will be financial costs associated with enlargement, but the potential benefits form enhanced regional security and stability as well as enhanced trade and investment opportunities would result in long-term economic advantages for both the EU and the new member states.⁷²

Under the current EU MFF 2021-2017, the EU support to the Western Balkans will be delivered through two distinct but complementary regulations, the Neighbourhood, Development, and International Cooperation Instrument

(Global Europe) and the IPA III commitment, with €14 billion through six windows (see the figure 12 below), where the largest amount will go to the green agenda and sustainable connectivity. IPA III, which is included under neighborhood and the world, accounts for less than 1 percent of the total long-term budget and NextGenerationEU funds for 2021-2027, which amount to €2 trillion (consisting of the EU's long-term budget of €1.2 trillion plus €807 billion through NextGenerationEU). In view of the launch of the growth plan for the Western Balkans, the funding for IPA III decreased.

Figure 12: MFF 2021-2027 budget distribution



Source: Authors' chart based on European Commission, "Overview - Instrument for Pre-accession Assistance," https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance_en.

^{71. &}quot;Financial Implications," Jacques Delors Centre.

^{72.} Marek Dabrowski and Luca Lery Moffat, "The Changing Dynamics of the Western Balkans on the Road to European Union Membership: An Update," Bruegel, July 22, 2024, https://www.bruegel.org/policy-brief/changing-dynamics-western-balkans-road-european-union-membership-update.

It is unclear what the link will be between the two financial instruments, the degree to which the growth plan could replace the IPA, or whether they will continue to run in parallel. Considering that the recent European Commission's outsourced evaluation of the EU's external financing instruments (EFIs) is, overall, positive on the performance of the IPA, ⁷³ it can be argued that no change will be envisaged in the restructuring of the instruments in the immediate future. However, both the EFIs will be revisited at the end of the current MFF cycle, in 2027, which also coincides with the current cycle of the facility.

As with the IPA, the disbursement of the facility's funds is based on rigorous conditionality, essentially two preconditions: First, that the Western Balkan countries should uphold democratic standards, a free and fair media environment, an independent judiciary and the rule of law, and human rights. Second, countries should ensure macrofinancial stability and good management of public finances. In addition to these conditions—applicable across the region—Serbia and Kosovo also have specific conditions to "engage constructively" on the normalization of relations.

To receive the money, Western Balkan countries must submit a reform agenda, explaining how they plan to achieve reforms in line with the facility's objectives. This should include details of how the countries will align with the overall objectives of the growth plan, such as gradual integration into the EU's single market and deeper regional economic integration. Moreover, the EU has stipulated that the Western Balkan governments should consult their respective social partners and civil society when drafting these agendas. The deadline for their submission was August 24, 2024. EU member states will have a role in approving and, if necessary, amending them.

As part of these reform agendas, Western Balkan countries should also illustrate their alignment with the EU's Common Foreign and Security Policy. The governments of Kosovo, Montenegro, North Macedonia, and Serbia have each adopted their own reform agenda, and they are publicly available on each government's webpage.⁷⁴ Bosnia and Herzegovina has

yet to agree on a reform plan, missing several deadlines after agreeing on 97 percent of the reforms as a result of the ongoing political stalemate, jeopardizing its share of the funding (around €1 billion) and missing out on €70 million or so in prefinancing that will soon be released.⁷⁵ Reforms aim to address systemic aspects of the functioning of the countries and focus on the adoption and implementation of legislation, policies, and the functioning of institutions to lead to their approximation with EU legislation, standards and adoption of good practices. It was expected that the first funds of the facility would be released by the end of 2024.

Since the growth plan basically replicates the model of the recovery plan (i.e., NextGenerationEU), it is based on the principle that reform is met with investment. Each Western Balkan country can request prefinancing of up to 7 percent of their total allocation in their respective reform agenda. After that, payments will be issued twice per year if the Western Balkan country meets the qualitative and quantitative benchmarks set out in its reform agenda. If these benchmarks are not met, funds will be withheld; if the conditions are not then met within one year (or two years for the first year of implementation), the withheld amount will be redistributed among the other Western Balkan countries. To ensure transparency, the Western Balkan countries are also required to publish data on final recipients receiving more than €50,000 in total over the four-year lifetime of the facility.

The facility is very important for four main reasons. First, increasing the "carrot" incentive in return for reforms makes sense and is something that several researchers and the European Parliament have long advocated. A bigger carrot does not guarantee everything in the reform path, but increased financial incentives to drive reforms ahead of accession offer better chances for positive progress than the current situation. The Western Balkans' accession process is taking a lot longer than the applicant countries expected and is happening in a much more challenging global economic context than was the case for the accession of new members in 2004. Therefore, providing more financial assistance ahead of accession to

^{73.} L. MacKellar et al., *European Union's External Financing Instruments* (2014-2020 and 2021-2027), Volume I, Synthesis Report, for European Commission: Directorate-General for International Partnerships (Publications Office of the European Union, 2024), https://data.europa.eu/doi/10.2841/05549.

^{74. &}quot;EU Reform and Growth Facility for the Western Balkans: Reform Agenda of Kosova," Summary, accessed January 24, 2025, https://kryeministri.rks-gov.net/wp-content/uploads/2024/10/RGF-Kosovo-Reform-Agenda-Summary.pdf; "Informacija o Procesu Pripreme Reformske Agende Crne Gore 2024-2027 Za Instrument EU Za Reforme I Rast S Predlogom Reformske Agende Crne Gore 2024-2027 Za Instrument EU Za Reforme I Rast," Vlada Crne Gore, accessed January 24, 2025, https://www.gov.me/dokumenta/2cc3baa0-65d6-4d97-a25c-fa171aa559b3; "Informacija o Procesu Pripreme Reformske Agende Crne Gore 2024-2027 Za Instrument EU Za Reforme I Rast S Predlogom Reformske Agende Crne Gore 2024-2027 Za Instrument EU Za Reforme I Rast," Vlada Crne Gore, accessed January 24, 2025, https://www.gov.me/dokumenta/2cc3baa0-65d6-4d97-a25c-fa171aa559b3.

^{75. &}quot;Council of Ministers of Bosnia and Herzegovina," BIH Reforms List Adopted for Implementation of Western Balkans Growth Plan, May 30, 2024, https://www.vijeceministara.gov.ba/saopstenja/saopstenja_predsjedavajuceg/default.aspx?id=43019&langTag=en-US.

^{76.} Dušan Reljić, "Geopolitics and Loans: The EU Does Not Want to Lose the Western Balkans," SWP, accessed January 24, 2025, https://www.swp-berlin.org/publikation/geopolitics-and-loans-the-eu-does-not-want-to-lose-the-western-balkans.



At least 50 percent of the 2 billion euros in grants and 4 billion in loans of the EU growth plan will go into investments provided through the WBIF. The remaining funds will be disbursed directly to the Western Balkans state budgets to accelerate growth based on the Reform Agendas. Photo by Markus Spiske on Unsplash

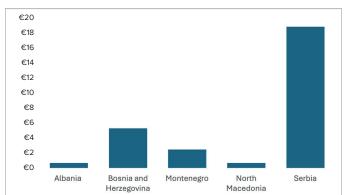
incentivize reforms consistent with the accession process makes sense. As explained above, the Western Balkans (and Turkey) have been allocated only 1 percent of the MFF 2021-2027 and will receive much smaller amounts of EU funding compared to new EU member states such as Croatia. While the growth plan funding is not very high, it still would amount to $\[\in \]$ 1.5 billion a year for the Western Balkans ($\[\in \]$ 6 billion over the 2024-2027 timeframe,) and $\[\in \]$ 500 million per year in grants for the region. This means that the EU funding for the region would be doubling what the countries received from the IPA.

Second, providing money to offset the cumulative effects of EU integration is crucial. Poorer countries integrating into the EU are liable to run big deficits (in goods and people) with the industrial core; in the EU-CEE case over the past twenty years, EU funds going in other directions were an important element to offset. As the green and digital transitions progress, lagging regions may well suffer even more from these agglomeration effects. Therefore, as more barriers are removed to free the movement of goods, services, people, and capital between the EU and the Western Balkans, the more EU funds will need to flow into the region. In this sense, the facility, in combination with deeper Western Balkan access to the single market, makes sense.

Third, we have seen since 2008 that if the EU doesn't provide the financing that the region needs, others have been willing to step in—especially China. The EU is the region's main trade partner, at more than 70 percent of trade, but China is now the second-largest single trade partner for almost all the

countries in the region, especially when it comes to imports. In addition, China has invested significantly in recent years in the region (excluding Kosovo) with over 122 projects for around €27.8 billion (\$31 billion), according to the Balkan Investigative Reporting Network's data⁷⁸ (see figure 13 below). Considering the total amount of FDI stock in the Western Balkans of \$106 billion in 2023, according to the United Nations Conference on Trade and Development (UNCTAD),⁷⁹ Chinese investment—largely greenfield investment and concessional lending—has a significant influence, especially in countries such as Serbia, where China solidified its position as the largest investor in the country in 2023.⁸⁰

Figure 13: Volume of Chinese projects in the Western Balkans, in billions of euros



Source: Balkan Insight, an English-language website of the Balkan Investigative Regional Reporting Network (BIRN), "China in the Balkans," https://china.balkaninsight.com.

^{77.} Aleksandar Ivković, "When Will the First Funds from the EU Growth Plan for the Western Balkans Be Released?," European Western Balkans (portal), April 7, 2024, https://europeanwesternbalkans.com/2024/07/04/when-will-the-first-funds-from-the-eu-growth-plan-for-the-western-balkans-be-released/.

^{78. &}quot;China in the Balkans," map of projects by area and type via OpenStreetMap contributors using Leaflet plug-in and CARTO platform, n.d., https://china.balkaninsight.com.

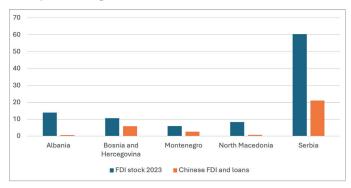
^{79. &}quot;Foreign Direct Investment: Inward and Outward Flows and Stock, Annual," UN Trade and Development (UNCTAD) Data Hub, last updated November 7, 2024, https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock.

^{80.} Stefan Vladisavljev, "How Did China Become the Largest Investor in Serbia?" China Observers in Central and Eastern Europe (consortium of experts), August 8, 2023, https://chinaobservers.eu/how-did-china-become-the-largest-investor-in-serbia/.

This influence cannot be in EU (or US) interests in the current geopolitical and geoeconomic context, and it often isn't in the recipient's interest either, with the Montenegro debt crisis being the most obvious example.81 The penetration of corrosive capital also can negatively impact the Western Balkan countries' respective abilities to reform, adopt, and implement the EU acquis. Research shows that external financing from authoritarian countries to emerging democracies for muchneeded infrastructure investment can have detrimental effects on democracy and good governance, resulting from the lack of transparency and accountability, promotion of corruption, and erosion of institutional quality. That source of financing can decrease an emerging democracy's dependence on democratic partners, preserve vested interests, cause environmental concerns, and increase debts risks-all issues that would affect the prospects of the region's integration within the EU.82

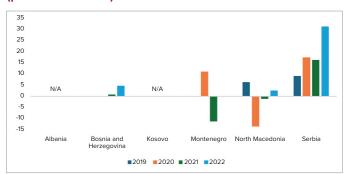
Fourth, and very importantly, the growth plan (unlike the IPA) constitutes a shift in the relationship between the Western Balkan candidates and the EU. The Western Balkan countries are no longer just recipients but are moving closer to being treated as "partners." Rather than a top-down process (as in the IPA) where the EU designs the program and "dictates" the necessary reforms to the Western Balkans, the growth plan is based on a reform agenda that is drafted by each Western Balkan government based on the needs that the candidate country identified and its commitments to aspects of the "fundamentals" cluster (on rule of law reforms), which the country chose to make. More specifically, reforms and reform steps have been identified based on applicant countries' sectoral strategies, i.e., reforms planned by their institutions within the reform dialogue for EU integration that takes place with the EU and in the context of other related mechanisms.83 This by extension puts the responsibility to deliver and the issue of credibility squarely in the camp of the Western Balkan countries

Figure 14: Chinese projects in the Western Balkans as a percentage of total stock of FDI



Source: UNCTAD trade and development data, https://unctad.org/statistics.

Figure 15: Western Balkan FDI inflows from China (percent of total)



Sources: National central banks, wiiw.

^{81.} Nicholas Muller, "Montenegro's Scandal-Ridden Chinese Road," *Diplomat*, January 13, 2024, https://thediplomat.com/2024/01/montenegros-scandal-ridden-chinese-road/.

^{82.} Valbona Zeneli, "Chinese Influence in the Western Balkans and Its Impact on the Region's European Union Integration Process," IWM, June 23, 2023, https://www.iwm.at/blog/chinese-influence-in-the-western-balkans-and-its-impact-on-the-regions-european-union.

^{83. &}quot;Prime Minister Kurti's Address to the Leaders of the Region and Partners in the Joint Discussion about the Growth Plan for the Western Balkans," Office of the Prime Minister, January 22, 2024, https://kryeministri.rks-gov.net/en/blog/prime-minister-kurtis-address-to-the-leaders-of-the-region-and-partners-in-the-joint-discussion-about-the-growth-plan-for-the-western-balkans/.



Addressing Bosnia and Herzegovina's Chairwoman of the Council of Ministers Borjana Krišto, European Commission President Ursula von der Leyen called the growth plan "our roadmap to already integrate parts of your economy into the Single Market. Photo by Markus Spiske on Unsplash

"One Region, Common Vision"

The growth plan was very well received in the region, with the leaders of the Western Balkans Six endorsing it with a joint statement, "One Region, Common Vision," during a regional summit in Kotor on May 16, 2024. They reaffirmed their dedication to regional cooperation and leveraging momentum in the enlargement policy, along with individual expressions of enthusiasm:

- Albanian Prime Minister Edi Rama characterized the plan's approval "as a historic moment for the Western Balkans with a potential to transform regional dynamics and support economic stability."
- Kosovo Prime Minister Albin Kurti termed it "not just a possibility for reforms and economic growth but also a chance for closer regional cooperation and integration among the Western Balkan countries."
- Montenegrin Prime Minister Milojko Spajić called it "an opportunity that the region must seize."
- Former North Macedonia Prime Minister Dimitar Kovachevski (who resigned office in January 2024 ahead of May elections) observed that it was "so far the most serious political confirmation of the EU."
- **Serbian President Aleksander Vučić** underscored "the necessity of establishing a single regional market as a prerequisite for joining the European single market.

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"Spajić in Skopje: Six Billion from the Growth Plan: An Opportunity the Region Must Seize," Government of Montenegro, January 22, 2024, https://www.gov.me/en/article/spajic-in-skopje-six-billion-from-the-growth-plan-an-opportunity-the-region-must-seize;

Nen Si, "EUApproved Growth Plan for the Western Balkans, PM Rama: Historic Moment," Euronews Albania, May 7, 2024, https://euronews.al/en/eu-approvedgrowth-plan-for-the-western-balkans-pm-rama-historic-moment/;

"Prime Minister Kurti's Address" https://kryeministri.rks-gov.net/en/blog/prime-minister-kurtis-address-to-the-leaders-of-the-region-and-partners-in-the-joint-discussion-about-the-growth-plan-for-the-western-balkans/"

"Spajić in Skopje," Government of Montenegro, https://www.gov.me/en/article/spajic-in-skopje-six-billion-from-the-growth-plan-an-opportunity-the-region-must-seize;

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"Vucic: Serbia Met All Criteria under Western Balkans Growth Plan," N1 Belgrade, September 19, 2024, https://n1info.rs/english/news/vucic-serbia-metall- criteria-under-western-balkans-growth-plan/

Fifth, similar to the Recovery and Resilience Facility (RRF), which the growth plan resembles, the facility sets specific milestones and targets that need to be fulfilled before any disbursements and against which the Commission assesses the satisfactory fulfilment of each milestone and target.84 Accordingly, the Commission will establish a facility scoreboard to assess beneficiaries' progress in implementing their respective reform agenda. The agreed upon reforms in these agendas are in the form of projects that are then broken down into qualitative and quantitative reform steps. These steps constitute benchmarks that must be fulfilled to achieve specific objectives. The points are weighted according to ambition, with more ambitious projects receiving more points and therefore more funding. Notably, the points are not correlated to the project cost—only the level of ambition. The most ambitious project receives five points, which is eight times more than the least ambitious one (at 0.5 points). One could be tempted to think that the fundamentals cluster, which is usually perceived as including the most difficult reforms, would receive the most points. However, not every step in the rule of law projects is necessarily considered as very ambitious. Ambition is measured against the sustainability of reforms, their scope, and how they may influence more reforms in the same field. It also is worth mentioning that the European Commission recently took a major step by including the candidate countries in Rule of Law Reports, yet another example of the move to phase in the Western Balkans region. In its resolution, the European Parliament had called for more ambitious measures, including "candidate countries in the EU rule of law mechanism and its annual reporting exercise, automatically activating pre-accession cooperation and verification mechanisms." ⁸⁵

Risks and criticisms

While there is much to be optimistic about, there are some things that call for careful consideration. First, the most basic problem is that the EU money is not sufficient to make a real difference. The facility is much smaller than the 2020 Economic and Investment Plan for the Western Balkans, which has not had huge results so far.⁸⁶ Meanwhile, the grant component of the facility is €500 million per year for the region, which is the equivalent of less than 0.5 percent of Western Balkan GDP on an annual basis. This is unlikely to be a game-changing carrot to incentivize reforms. In per capita terms, the amount allocated by the facility to the Western Balkans is less than a tenth of what Croatia will receive from NextGenerationEU funding alone.⁸⁷

Second, many of the reforms that the growth plan asks for should have already been completed (e.g., as part of the SAAs) or should have been underway as part of the EU accession process through the IPA funds. Presumably, this means there are deep-seated reasons why these reforms have not yet happened. Whether these reasons are a lack of political will,

institutional weaknesses, or insufficient carrots, the amount offered by the facility is unlikely to change this.

Third, there also is a fundamental question about the Western Balkan countries' institutional capacity to manage these reforms. The conditionality of the facility is quite demanding, as it should be. And yet this involves another set of legislative work, implementation, and reporting, on top of all the other reform programs.⁸⁸ The EU should be realistic about what the region can achieve.

Fourth, in theory at least, the EU institutions and member states have significant oversight capacity for how the funds are used, and the idea of reallocating withheld funds within the region could feasibly be a strong incentive for countries to ensure that they meet the criteria to get their share of the money. However, there seems to still be some uncertainty about how strict the assessment of the fulfilment of conditionality will be.⁸⁹ An opinion published by the European Court of Auditors

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^{84.} Data on the common indicators cover all reforms and investments, regardless of whether they are partly or fully financed by the RRF. European Commission, Recovery, and Resilience Scoreboard, Common indicators, n.d., https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/common_indicators.html?lang=en.

^{85.} European Parliament Legislative Resolution of 24 April 2024 on the Proposal for a Regulation of the European Parliament and of the Council on Establishing the Reform and Growth Facility for the Western Balkans, P9_TA(2024)0343, https://www.europarl.europa.eu/doceo/document/TA-9-2024-0343_EN.html.

^{86.} Jovanovic, "The EU's New Growth Plan for the Western Balkans."

^{87.} Jovanovic, "The EU's New Growth Plan for the Western Balkans."

^{88.} Milica Uvalic, "The Potential of the New Growth Plan for the Western Balkans," European University Institute, February 2024, https://epi.org.mk/wp-content/uploads/The-Potential-of-the-New-Growth-Plan-for-the-Western-Balkans.pdf; and Jovanovic, "The EU's New Growth Plan for the Western Balkans."

^{89.} Ivković, "When Will the First Funds."

expressed some concerns that the conditionality of the plan cannot be properly measured.⁹⁰

Fifth, the European Commission has elaborated a clear plan of action (the "stick" part of the conditionality), but in the past the EU had had difficulties and shown hesitancy to cut funding when reforms have not occurred. The implementation of policies and laws and the oversight of the use of the EU budget by member states is subject to control mechanisms across policies. It is by leveraging control across policies that the EU ensures conformity. Experience with enlargement has shown how difficult it is for the EU to leverage countries that are outside the EU. The scenario of a weak stick in the EU foreign assistance programs is a recurrent one and not only in the EU enlargement policy. In fact, despite an elaborate assessment mechanism with quantitative key performance indicators, the risk of negative conditionality in the growth plan is that it may end up reminiscent of the 2011 revamped ENP's "less for less" conditionality that existed in parallel to the positive "more for more" conditionality. Introduced during the Arab Spring awakening, the "less for less" concept was a stick to pressure partner countries to commit to the EU values and rule of law reforms. Nevertheless, the EU did not actually use that conditionality despite the progressive return of authoritarianism in the region, 91 and the concept eventually evaporated from subsequent Commission communications on the ENP. This aptly shows that conditionality is not only technical (monitoring by the European Commission), but also political (decisions by the EU member states).

Sixth, it is not clear what the measurement benchmarks for progress are and particularly how nonquantitative progress will be assessed. The growth plan most resembles the RRF, which sets specific milestones and targets that need to be fulfilled before any disbursements and against which the Commission assesses the satisfactory fulfilment of each milestone and target. Each reform agenda is meant to include key performance indicators—including those in IPA III—for assessing progress toward the achievement of general and specific objectives of the facility. Moreover, the Commission will establish a facility scoreboard to assess the progress in implementing the reform agendas of the beneficiaries.

Growth plan and nearshoring

The growth plan offers an opportunity to push the Western Balkans more toward the successful Visegrad model in two important ways. The first way is by catalyzing EU integration in a holistic sense through a combination of deeper EU market access, regional integration, reforms, and financial support. This has been the basis of the Visegrad success story.

A second way is evident in the seventh priority area in the growth plan—integration into industrial supply chains—and is potentially very interesting from a Western Balkan perspective. Although the details provided so far are limited, the growth plan mentions an offer of strategic partnerships on raw materials value chains. This is important because it acknowledges an area where the Western Balkan region has something to offer the EU and recognizes the rapidly shifting geoeconomic context in which the EU integration of the Western Balkan countries is happening. In 2004, a driver of industrial integration was cost optimization in the automotive sector. Now, in the context of the pandemic, Russia's invasion

of Ukraine, and the increasingly all-out US-China economic war, strategically important materials and security of supply in general are much more prevalent concerns and will be central to the next phase of European economic integration.

The concepts of nearshoring and "friendshoring" have been very prevalent in the public debate and it is in this context that the potential of the seventh priority of the growth plan should be understood. Some or all Western Balkan countries could benefit from nearshoring (i.e., prioritizing supply security over pure cost optimization by moving production closer to home) and friendshoring (moving production to politically allied nations), and indeed many may already be doing so. Recent data on new FDI inflows into the Western Balkans look very positive. And investor surveys suggest that there is much that foreign firms like about the region. If the EU is serious about securing the Western Balkans more firmly within its geopolitical orbit, it should be thinking about ways to support and incentivize the private sector in Germany and other member

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^{90.} European Court of Auditors Opinion 01/2024 (concerning the proposal for a Regulation of the European Parliament and of the Council on establishing the Reform and Growth Facility for the Western Balkans), January 2024, https://www.eca.europa.eu/ECAPublications/OP-2024-01/OP-2024-01_EN.pdf.

^{91.} See, for example, T. Schumacher, "How to Make the European Neighbourhood Policy Fit for Purpose, Friends of Europe, June 25, 2015, https://www.friendsofeurope.org/insights/how-to-make-the-european-neighbourhood-policy-fit-for-purpose/.

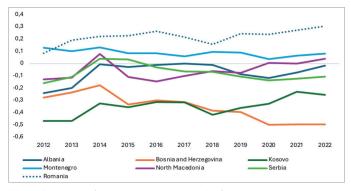
^{92.} Data on the common indicators cover all reforms and investments, regardless of whether they are partly or fully financed by the RRF. European Commission, Recovery and Resilience Scoreboard, Common indicators, n.d., https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/common_indicators.html?lang=en.

states to direct nearshoring and friendshoring investment toward the region.⁹³ In parallel, the new growth plan should also reassure potential investors that the EU remains serious about integrating the region.

Developing European industrial clusters in the Western Balkans would increase the EU's competitiveness, a key priority of the second von der Leyen Commission, including in key areas such as green and solar industries, biotech, and electric vehicles. Meanwhile, ports in the Adriatic Sea could play a crucial role in maintaining the resilience of trade routes and hold potential for investment in liquefied natural gas (LNG) transportation as well.94 Lower labor costs and strong strategic connectivity in energy and transportation could make the Western Balkans an attractive region.95 Increased EU investment would be essential to enhance Western Balkan infrastructure networks given the significant challenges in connectivity: The average infrastructure development in the region "is about 50 percent lower than the EU average," according to the IMF.96 Such EU investment in Balkan strategic infrastructure projects (to boost interconnectedness) would also counter China's increased economic and diplomatic footprint in the Western Balkans, 97 which challenges European business interests and fuels practices that hinder the EU's interests in promoting Western norms and standards.

There are, however, some reasons to be cautious about how much new investment the Western Balkans can attract under current conditions. First, from the perspective of a foreign investor, the region has weaknesses including labor shortages and weak governance standards. Using the World Bank Worldwide Governance Indicators as an example, there has been little or no reform progress in much of the Western Balkans over the past decade, and the region's gap with even the EU's institutionally weakest member states, such as Romania, has grown (see figure 16). This is not surprising given the stalled EU accession process, which removes the single biggest incentive to reform.

Figure 16: World Bank Worldwide Governance Indicator estimates (average of six indicators)



Note: Average of six indicators: control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law, voice and accountability. Maximum score = 2.5, minimum score = -2.5. Source: World Bank.

Second, in terms of country risk perceptions, the Western Balkan countries are at a disadvantage to the EU-CEE countries. Currently all EU-CEE countries are rated "investment grade" by all three major ratings agencies, and all Western Balkan countries except Serbia (which was recently upgraded) are rated "speculative grade" (see figure 17). Whether due to perceptions of local political instability, concerns about sovereign creditworthiness, or the role of outside actors, foreign investors are somewhat cautious about pledging long-term capital to the Western Balkans. This is especially the case for the non-NATO members of the region, given the importance of security considerations in the current geopolitical climate.

Third, although last year was a good one overall for the Western Balkans in terms of FDI attraction, recent data indicate a relative shift of FDI away from CEE in general by German firms, which appear to be allocating the largest share of new capital to the United States (see figure 18). This may be partly about labor shortages in the CEE region, but more likely reflects bigger geoeconomic trends, including the attraction of the US Inflation Reduction Act.

^{93.} Richard Grieveson, Zoran Nechev, and Roderick Parks, "How Germany Can Realize Friendshoring in Its Neighborhood," German Council on Foreign Relations, September 2023, https://dgap.org/en/research/publications/how-germany-can-realize-friendshoring-its-neighborhood.

^{94.} Ana Canomanuel Avila, "Discussions on Use of LNG for Maritime Transport in Adriatic-Ionian Region," Third Annual EUSAIR Forum, May 24-25, 2018, Conference of Peripheral Maritime Regions (website), https://cpmr.org/cohesion/discussions-on-use-of-Ing-for-maritime-transport-in-adriatic-ionian-region/17857/.

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^{96.} Kyriakos Kakouris, "EU Infrastructure Investment Develops Western Balkans," European Investment Bank, January 12, 2024, https://www.eib.org/en/stories/infrastructure-development-western-balkans.

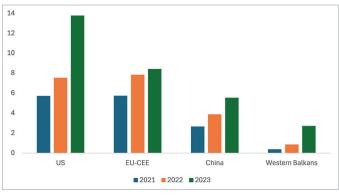
^{97.} Zeneli, Chinese Influence.

Figure 17: Long-term sovereign credit ratings for EU-CEE and Western Balkan countries

	Moody's		S&P		Fitch	
Investment grade	Aaa		AAA		AAA	
	Aa1		ДД+		ДД+	
	Aa2		AA		AA	
	Aa3	Czechia	AA-	Czechia, Slovenia	AA-	Czechia, Estonia
	A1	Estonia	Д+	Estonia, Slovakia	Д+	
	A2	Lithuania, Poland	А	Lithuania, Latvia	А	Lithuania, Slovenia, Slovakia
	A3	Latvia, Slovenia, Slovakia, Croatia	A-	Poland, Croatia	A-	Latvia, Poland
	Baa1	Bulgaria	BBB+		BBB+	Croatia
	Baa2	Hungary	BBB	Bulgaria	BBB	Bulgaria, Hungary
	Baa3	Romania	BBB-	Hungary, Romania, Serbia	BBB-	Romania
Speculative grade	Ba1		BB+		BB+	North Macedonia, Serbia
	Ba2		BB		BB	
	Ba3	Albania, Montenegro	BB-	Albania, North Macedonia	BB-	
	B1		B+	Bosnia and Herzegovina, Montenegro	B+	
	B2		В		В	
	В3	Bosnia and Herzegovina	B-		B-	

Notes: Updated as of November 29, 2024. Blue = EU member states, orange = Western Balkans. Sources: Moody's Ratings, S&P Global, Fitch Ratings.

Figure 18: Greenfield investment by German firms in selected markets; new capital pledged (in billions of euros)



Sources: FDI markets, wiiw.

The growth plan and the prospects for EU enlargement

The growth plan for the Western Balkans reflects the changing dynamics around EU enlargement. Russia's full-scale invasion of Ukraine, in February 2022, gave rise to hopes that the union would expand rapidly to bring into its fold countries in Eastern Europe and the Western Balkans. The European Commission pushed for EU interinstitutional negotiations (i.e., trilogues) to finish in time for adoption of the growth plan proposal under the last legislative term so that it does not become, according to former European Commissioner for Enlargement Oliver Várhelyi, "a lost opportunity to build on the renewed momentum for enlargement. Timely adoption ensures that financial assistance in exchange for reforms can be provided more quickly."98 In fact, preparations for and negotiations on the reform agendas and with each of the Western Balkan states started before the plan was adopted in 2024. Montenegro, for example, dated the growth plan to the November 2023 publishing date of the 2023 EU Enlargement Package because the plan was mentioned there.99 Albania, Kosovo, North Macedonia, and Serbia have adopted their respective reform agendas. Nevertheless, despite recent gains, including the green light for Bosnia-Herzegovina to start accession talks, the fact remains that membership is still at best a long-term goal.

The Commission heralds the initial economic contribution the growth plan has made. It points to Tirana's airport (in Albania) as being Europe's fastest-growing airport, EU companies rushing to open shop in Serbia and Bosnia and Herzegovina, Kosovo's economic reforms (which the IMF says are generating economic benefits), notable investments in infrastructure in North Macedonia, and Montenegro's credit rating being upgraded in the wake of instituting sound policies. "When all

these reforms will be completed, each partner will receive roughly as much aid per person as the Western Balkans would under the EU's cohesion policy," stated Commission President von der Leyen.¹⁰⁰

Numerous questions remain on whether the benefits of economic reforms will also provide returns on rule of law reforms (i.e., "fundamentals," or reform benchmarks). That's when the credibility of EU membership and the coherence of the enlargement process have proven to be fundamental to motivating candidate countries to undertake painful domestic reforms.¹⁰¹ Yet there is no room for ambivalence in the current geopolitical landscape of contestation and heightened economic competition.

In recognition of the hurdles lying ahead, the EU has been considering institutional formats and tools which could boost the EU integration of candidate and applicant countries while also promoting economic development, good governance, and reform at both national and regional levels. There are several ideas floated in a nonpaper report prepared by a Franco-German working group on how to make the EU "enlargement ready."102 Among them is "associate membership," which is envisioned (for now) for members of the European Economic Area (EEA) such as Switzerland and perhaps the United Kingdom. Such partial membership would involve access to the single market along with input into the deliberations at the European Council without the right to vote. 103 Association is meant to be an alternative to full inclusion because the countries in question have chosen to stay out of the EU. But it could also serve as a stepping stone to accession, making it relevant to the Western Balkan grouping.

^{98.} European Commissioner Oliver Várhelyi said this in response to a parliamentary question in the European Parliament, P-000400/2024(ASW), April 25,2024, https://www.europarl.europa.eu/doceo/document/P-9-2024-000400-ASW_EN.html. Note: According to European Union law, "a trilogue is an informal interinstitutional negotiation bringing together representatives of the European Parliament, the Council of the European Union and the European Commission. The aim of a trilogue is to reach a provisional agreement on a legislative proposal that is acceptable to both the Parliament and the Council, the co-legislators. This provisional agreement must then be adopted by each of those institutions' formal procedures." See EUR-Lex, European Union, htts://eur-lex.europa.eu/EN/legal-content/glossary/trilogue.html.p

^{99.} Bojana Bošković, "Growth Plan for the Western Balkans: An Important Instrument for Implementation of the Key Reforms on the European Path and Accelerating Economic Growth," August 12, 2024, https://www.eu.me/en/growth-plan-for-the-western-balkans-an-important-instrument-for-implementation-of-the-key-reforms-on-the-european-path-and-accelerating-economic-growth/. Bošković is state secretary in the Ministry of Finance of Montenegro and negotiator for the Cluster III: Competitiveness and Inclusive Growth.

^{100. &}quot;Keynote Speech by President von der Leyen," European Commission.

^{101.} See, for example, Ioannis Armakolas et al., "EU Enlargement to the Western Balkans: Where There Is a Will, There Is a Way," IWM, July 4, 2024, https://www.iwm.at/europes-futures/publication/eu-enlargement-to-the-western-balkans-where-there-is-a-will-there-is-a.

^{102.} Fit for the Future? Franco-German Group Presents Ideas on EU Reforms, German Federal Foreign Office, September 18, 2023, https://www.auswaertiges-amt.de/en/aussenpolitik/europe/cooperation-in-europe/-/2617320.

^{103.} Oliver Costa et al., Sailing on High Seas: Reforming and Enlarging the EU for the 21st Century," Report of the Franco-German Working Group on EU Institutional Reform, via Politico Europe, September 18, 2023, https://www.politico.eu/wp-content/uploads/2023/09/19/Paper-EU-reform.pdf.

Even if there is no formal legal arrangement on associate membership, the region is already de facto part of the EU sphere. It enjoys preferential trading terms with the EU thanks to the SAAs. Citizens of the six Western Balkan nations enjoy visa-free travel to the EU. The countries in question have committed to implementing the EU acquis in critical areas such as energy policy—thanks to the so-called Energy Community, which involves the twenty-seven EU members, the six Western Balkan countries, Ukraine, Moldova, and Georgia. Even prior to the launch of membership talks with the candidate countries in the Western Balkans they have aligned their national legislation with parts of the EU's rules.

Even if the membership negotiations of the Western Balkan countries stall in the years to come, the growth plan will maintain some momentum toward integration. These countries will be enjoying many of the economic benefits of accession, including seamless trade access and the receipt of considerable financial assistance. Deepened trade and investment ties should contribute to the expansion of the combined GDP of the six Western Balkan countries in question by an estimated 10 percent. In addition, the growth plan supports integration at the regional level through the so-called CRM initiative. And after 2028, it could well be renewed for another period, again as a mirror version of the NGEU. That implies that even as nonmembers, the Western Balkans will be deeply integrated into the EU economy and infrastructure space, given the ambitious priorities set in the context of integrating the region into the single market.

From a more strategic perspective, the growth plan aims to anchor the region more deeply into the EU. It could work

under both an accelerated accession scenario and one where associate membership turns from an interim stage to a viable short- and medium-term alternative. In that sense, it is an insurance policy because internal factors in the EU—from national vetoes to volatile domestic politics empowering populists and Eurosceptics opposed to enlargement. In case the door to EU membership hopefuls is unceremoniously shut by far-right influenced or dominated EU governments, including more powerful states like France or Germany, cooperation and integration with the Western Balkans will continue.

As such, it is not difficult to imagine a Western Balkan region that is more deeply immersed in the EU by the early 2030s. Perhaps Albania and Montenegro will be full EU members by then. The other candidates would still be negotiating—and trying to navigate through setbacks. Financial transfers from the EU, underpinned by conditionality, will aim to sustain the process and build institutional capacity and economic resilience parallel to the fraught negotiations in question.

The seriousness of the EU regarding the geopolitical necessity of enlargement will be seen in 2025, when negotiations for the next MFF 2028-2034 will commence and allocation of the necessary funding will be crucial not only for enlargement but also in areas such as energy and decarbonization, defense and security, digital advances and research, and industrial policy—all issues that will heighten pressure on EU funding. The latest Draghi report on European competitiveness calls for an additional €800 billion a year in those specific areas to increase the EU's global competitiveness.¹⁰⁴

^{104.} Giovanna Faggionato, "Draghi Demands €800b Cash Boost to Stem Europe's Rapid Decline," *Politico*, September 9, 2024, https://www.politico.eu/article/mario-draghi-report-says-eu-must-spend-twice-as-much-after-wwii/.

The future of EU enlargement: Conclusions and recommendations

The new growth plan is a critical tool in fostering EU enlargement. It provides an extra set of incentives to Western Balkan governments to carry out the economic and institutional reforms needed for the countries in question to integrate into the single market. In front-runners such as Montenegro, the reform plans linked to the new funding might generate additional momentum to meeting the benchmarks for closing negotiation chapters and moving to the finish line. In other countries, the growth plan will support efforts to close the gap but also to demonstrate to ever-more-skeptical audiences that EU-driven reforms deliver tangible benefits.

The plan gives rise to both opportunities and risks.

- The Western Balkans could increasingly become a scene of geopolitical and geoeconomic competition. With Chinese investment in Serbia on a par with the EU's investment, that becomes a tangible possibility. The EU should leverage the plan as a tool among others—including diplomacy, security provision, soft power, etc. The additional financial incentives should consolidate the EU's position as the primary external anchor for the region.
- A potential risk is that the plan might not deliver on strengthening the rule of law, an expectation that Brussels harbors, though such bolstering is central to the design of the instrument. Governments and political elites could pursue projects that are compatible and add to deeply ingrained clientelist practices. The EU could have done more to constrain such phenomena by leveraging the funding from WBIF in previous years. The European Commission therefore must enforce strictly the conditionality principles fundamental to the EU's financial assistance to third parties, but which also are increasingly applied to member states too.
- Regardless of the uncertainties of whether the plan will be effective in spurring rule of law reforms, the potential of socialization for the Western Balkans is real. This is a clear novelty of the plan. Some experts criticize the fact that progress toward meeting the commitments in the reform agendas does not translate into gradual access to the EU

institutions, thus missing the opportunity to be an effective socialization tool. ¹⁰⁵ Nevertheless, the opportunity of Western Balkan officials to participate in EU meetings, directly design the reform plan of their own country, and be responsible for the reforms they have put forward is the biggest promise for understanding the EU and keeping to promised reforms—while being accountable for them.

- The money allocated to the Reform and Growth Facility could be used as an instrument to reward genuine efforts on the part of candidate and applicant states and their elites to push for EU-compatible reforms. The MFF negotiations that will be launched next summer will be key here. Questions are open as to whether the facility could be merged into the next IPA or if the funding should instead be topped up, especially if the initial stage shows positive results and countries register growth thanks to the EU allocations, improved business climate, and influx of FDI. The EU should focus on the "more for more" principle to reward front-runners and consider a third option of making the growth plan and facility a permanent instrument with the new MFF. Option one—that of folding the facility into the IPA would be a strong political statement, as it would integrate an instrument that is only about convergence into the main EU instrument for accession.
- Greater involvement of the civil society in the Western Balkans in the formulation and monitoring of the implementation of the growth plan would ensure accountability and the effectiveness of allocated EU funds and their impact.
- The EU can really change the game on the economic side. It could kick-start a period of much higher growth in the Western Balkans. The region is small, with about 1 percent of EU GDP, has less than 40 percent of the wealth level, and is geographically surrounded by the EU. The potential upside is enormous, especially if the German private sector gets seriously interested, as it was in Poland, Czechia, and other countries that have joined the EU.

^{105.} Djordje Dimitrov, "The New Growth Plan: Assessing the Value of the Proposed Early Integration Incentives," European Policy Centre, June 2024, https://cep.org.rs/en/publications/the-new-growth-plan/.

- The EU's enlargement policy in the Western Balkans should be connected to the Draghi report on competitiveness. Investment into connectivity and the green and digital transition of EU member states ought to be coordinated with projects implemented as part of the growth plan in nearby Western Balkan countries, supporting the gradual sectoral integration of the region in the single market, which would increase the socialization and absorptive capacities of the region.
- Including the Western Balkans in the single market should be seen as a way to strengthen the EU's strategic autonomy and support its derisking objectives by investing in the region for the production of critical goods and the acquisition of critical raw materials. Specifically, European industrial clusters in the Western Balkans would enhance the EU's competitive edge in sectors such as green and solar technologies, biotechnology, and electric vehicles manufacturing, in line with Draghi's recommendations on EU competitiveness.
- The growth plan and the Berlin Process should be closely coordinated as both initiatives share common goals and prioritize economic development, regional cooperation, and EU integration. By connecting these two initiatives more closely and enhancing synergies between them, the EU can achieve a better coordinated and effective reform agenda to ensure consistency, avoid duplication of efforts, and leverage the established networks of the Berlin Process to enhance the impact of the growth plan. A specific example can be leveraging the work that has been done to increase parliamentary engagement in regional cooperation to support the implementation, transparency, and accountability of the growth plan.

- EU funding in the region should increase: It currently makes up less than 0.6 percent (1 percent if including Turkey) of the MFF 2021-2024 to support the economic convergence of the region with Western Europe and the EU integration efforts. On the other hand, the plan funds (which mirror NGEU funds) may serve as an example of how to reform EU MFF budgets by moving away from the debatable Common Agricultural Policy (CAP) and cohesion policy funds¹⁰⁶ (that make up 62 percent of the EU's long-term budget for 2021-2027) and toward budget allocations on the basis of excellence criteria that would indeed reform the EU's competitiveness.¹⁰⁷
- One of the limitations of the facility is the lack of ex post control checks. There are benchmarks for monitoring and then evaluating progress on the steps of reforms included in the agreed reform agenda for each Western Balkan country, but it is unclear how the European Commission can ensure that the reforms (or individual steps of reforms) are sustainable and that individual recipient countries do not move back to the status que ante. Questions remain about how this control could be followed up—if at all—in the context of the EU enlargement process.

Over the decades, the EU's enlargement approach concerning the Western Balkans has lost much of its credibility. Public opinion in the Western Balkan countries, especially among political elites, puts less and less stock in the prospect of joining the EU. Reforms are being delayed or frozen because of perceptions in the candidate and applicant countries that the EU is in no position to reciprocate. The growth plan aims to break the vicious cycle and revitalize the economies and institutions in the region. It is in the EU's interest to make it a success and perhaps renew it after the current period expires in 2028. If implemented properly, the plan could provide the basis for robust growth and development, anchoring the region even more firmly to its European neighbors.

^{106.} Balazs Széchy, "The Future of EU Cohesion Policy: The Emerging Debate," European Parliamentary Research Service, October 2023, https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/753948/EPRS_BRI(2023)753948_EN.pdf.

^{107.} European Union, *The EU's 2021-2027 Long-Term Budget and NextGenerationEU*: Facts and Figures (Luxembourg: Publications Office of the European Union, 2021), https://www.portugal2020.pt/wp-content/uploads/enn.en_.pdf.

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*The content of this article is the sole responsibility of the author, and any opinions expressed herein should not be taken to represent an official position of the European Parliament.



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