

“Regional Optimism Looking Towards the Future of the Western Balkans”

Global and Regional Challenges and Prospects of Recovery and Growth Panel

Remarks of Secretary General Dr. Majlinda Bregu

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Talking Points

I would like to start by congratulating you on your upcoming important independence anniversary.

- Before coming here, I had quite an interesting meeting with youth organisations from Skopje. If I can put their messages in a nutshell: **there is an enormous activism and high interest of youngsters to stay, study and work in the region, although youth unemployment was 35.1% in WB6 economies in 2020 compared to 16.8% in the EU, while in North Macedonia it stood at 35.7%.** In the last days I heard that the total unemployment in North Macedonia has decreased, and I believe and hope this is reflected in youth unemployment as well as.

- They are our greatest asset. They are the engine driving regional cooperation and EU accession because they see the opportunities and they don't carry the historic baggage of conflict from previous generations.
- Unfortunately, they miss information on potentials that we can provide to them.
- On the other hand, I felt optimistic and enthusiastic because of what we have achieved DURING the pandemic.
 - We had unprecedented levels of cooperation
 - We learned that we CAN cooperate – in fact, really well
 - Pragmatism of Politics rather than cultural and historical differences took precedence
 - There were no goods or medicine shortages because we worked together, regionally, to keep the Green Lanes open
- **I don't want to overburden you with statistics that we might hear from Linda or other experts on the economic forecast of the region.**
- The economic challenges persist, that is a fact and a well-known one. The REAL question is: *“how can we tap into the potential of the regional economic integration and cooperation?”*
- **I will spell out two potential initiatives**
- Common Regional Market is One of the OPPORTUNITIES. It goes without saying that 6 is bigger than 3, but it is imperative for six to succeed and not block each other.
- We need to develop the Western Balkans as ONE larger competitive market. We should be ONE MARKET trading with the EU, our largest trading partner.

- **69% of businesses see the quality of regional cooperation as important for their business.**
- We know regional cooperation will prevail on the strength of its ideas and ideals, not on age-old disputes, words, definitions, and documents.

The second opportunity: Weak enlargement but strong economic bonds with the EU

- While regional cooperation should certainly continue, it would make sense to focus efforts on the maximum level of economic integration possible with the EU.
- Last year WB committed to establish Common Regional Market that has a two-fold approach:
 - 1. It enhances the bond/ties among the WB;
 - 2. It introduces instruments for the integration of the WB into the EU single market through Green Lanes, aligning digital agenda (5G, roaming like home), mutual recognition of licensing, etc.
- Regional economic integration in the WB is not *a self-standing process* but rather instrumental vehicle to increase convergence with the EU Single Market principles and will help WB to participate in the EU value chains, internationalise SMEs, etc.

- **The Western Balkans constitutes less than 1 percent of the EU's GDP;** even a moderate increase in economic integration and access to financing could have a significant positive economic ripple effect to our Region.

- **While the enlargement process has been stalled for quite a long time, the EU should make full use of the existing instrument to maintain its leverage in the region. Let me be more concrete on that and give you two examples:**
 1. Last year, at the outbreak of the pandemic, the region established Green Lanes for ensuring uninterrupted trade and no shortage of essential goods and medicines in the most precarious context. Last year 80% of all trucks used those corridors.

We now need to **extend the Green Lanes concept to the borders between the EU and Western Balkans.**

(WB has most of its borders with EU -18 out of 32 in total).

2. Starting the preparation for Roam Like at Home between EU and WB. Four years ago, at the 1st Digital Summit, EU committed to helping reduce roaming charges within the WB. How could we have regional cooperation if there are roaming and long distance charges between all of our economies? This 1st July, after 2 years of intense negotiations, WB introduced RRA. Unfortunately, the EU has fulfilled only some of their commitments in this regard.

- Roaming users from WB paid on average between ***2 and 14 times more for making*** calls while roaming in the 6 EU states surrounding the WB,

compared to making calls while roaming in WB. Data roaming in EEA – extremely high prices. In one economy (Montenegro) roaming users paid on average **877 times more** while roaming in EEA compared to roaming in WB.

- Without EU institutions' commitments we cannot advance this agenda introduced few years ago. Integration takes both parties.

Naturally, the EU remains the main partner and influencer in WB, but diplomacy and politics counts.

Coming back to the impressive meeting I had with smart and bright young people here in Skopje.

First, I would like to compliment North Macedonia for being a pioneer in implementation of the EU Youth Guarantee Scheme.

Second, there is a dread need to deploy regional instruments that bring the youth together and ensure their mobility. We at the RCC will launch the **REGIONAL COALITION on JOBS and SKILLS**. It will ensure that companies develop and retain the talent pool of the region. That is one of the concrete examples to make a breakthrough in the regional mobility.

Financial markets

- Diversifying and deepening financial markets sector to respond to the needs of enterprises, entrepreneurs and society, including the new needs arising from the COVID-19 crises is crucial.
- **One of the means of achieving this is through modernisation of the payments systems in order to cut the costs of cross-border payments by making them cost-efficient and interoperable within the WB.**
- An ultimate goal of the work we are spearheading is to join the Single Euro Payment Area (SEPA) which would contribute to more efficient exchanges and reduced transaction fees within the EEA, leading to formalised and connected economies and market integration.
- While Instant Payment may appear to be a recent phenomenon, currently over 60 countries across the globe have an Instant Payment Solution in place, and several others have announced their plans to go live before 2023. It is encouraging to see that the domestic instant payment system is already in place in Serbia, and soon to follow in Montenegro.

Investments

- Working together with the EU and World Bank Group, the activities within the Investment pillar of CRM help restructure the economy and emerge into global value chains, including through nearshoring, on-shoring and integration between the region and EU value chains.
- It needs to be stressed though that **low labour costs and low taxes no longer play the decisive role for foreign investors above all need a well-qualified workforce and infrastructure. Human capital**

development remains the key.

- **Annual average of attracting FDI during 2010-2019 for Western Balkans was 6.1% of GDP** - considerably higher than for other countries in Central, East and South-East Europe (their average during the same period was 2.6%¹).
- **As direct impact of actions within CRM Investment area, an estimated \$48 million is to be invested and 831 jobs created solely in 2021**, whereas \$100 million in potential investments is in the pipeline.²
- **Building Common Regional Market necessitates not only investments in crucial sectors but also undertaking critical reforms to help unlock the full potential of green and inclusive development. Green growth, along with innovation and digital transformation in the region, will be a long-term driver of economic growth.**

Global value chains

- Global value chains account for nearly 80% of global trade and can help small economies such as WB to accelerate export and income growth.
- On the one hand, GVCs in Europe are predominantly regional, located around a few hub countries and concentrated in a few sectors, such as automotive, electrical equipment, machinery, chemicals, and metals³.
- **On the other hand, industry contribution to GDP in the WB6 stands at 23.9%** – the highest contribution coming from the manufacturing and

¹ The Vienna Institute for International Economic Studies (2021), *Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans*

² World Bank Group (2021), *Western Balkans Regional Investment Policy and Promotion Project*

³ IMF (2019), *Lifting growth in the Western Balkans: the role of global value chains and services exports*

construction sectors⁴.

- In this context and through regional initiatives planned under CRM, the region is set to support sustainable regional supply chains and their integration into European and global networks but also work to reduce barriers to trade.

Our region must stay competitive in attracting investment in prospective industries as our economies strive to recover from the crisis, and disrupted supply chains need to be re-established. The faster and smarter way to do so is through regional cooperation.

- **After ALL of this, my sense of optimism is very strong, and the prospects for regional recovery and growth are very, very strong.**
- **Thank you.**

⁴ OECD (2021), Competitiveness in SEE: a Policy Outlook 2021