

**POLITICAL INSTABILITY, ECONOMIC AND FINANCIAL
CHALLENGES IN THE WESTERN BALKANS IN THE
POST-PANDEMIC WORLD**

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ABSTRACT

In the ever challenging post-pandemic world with emerging threats of revisionist global order and growing regional challenges, the Western Balkans region cannot be immune. From threats of destabilization of Bosnia-Herzegovina, the volatile situation in northern Kosovo, and the ongoing Serbia-Kosovo talks to the internal and external threats vis-à-vis Montenegro, the region is facing unprecedented challenges. The freezing of the European Union integration process, the new ideas of “Associate Members” and the new “clusters” methodology have led to enlargement fatigue not only from Brussels but also from regional capitals as well. On the other hand, the growing threats of Russia’s geopolitical ruptures and China’s economic penetration through “debt trap” diplomacy and other mechanisms are making governments and observers in the region increasingly skeptical. This paper tends to explore some of the insights and the economic effects both fiscal and monetary impact they have.

Keywords: Political instability, Economic and financial challenges, Western Balkans, European Union.

INTRODUCTION

The COVID-19 pandemic proved to be one of the existential challenges of the 21st Century. Its impact was felt worldwide and it addicted the economies, finances, and politics while sending geopolitics waves across the world. Western Balkans, which has for long been described as the European Union's soft underbelly could not have been the exception to this challenge, which came together with a more lasting one, the economic and financial crises that is looming on the horizon. From growing inflation throughout the world to ongoing wars and conflicts such as the Russian invasion in Ukraine, the world today is not immune from challenges that do not have a simple answer from politicians and policy-makers across the globe. The European Union itself is suffering from an energy crisis, which in turn has inflated the prices of everything, leading to imported inflation with no end in sight.

The Western Balkans is currently between the Scylla of domestic problems such as high poverty, organized crime, and corruption as well as political instability on one hand and the Charybdis of lack of progress toward EU integration on the other. On top of these, are the growing challenges from Russia's disrupting interference in the region and other geopolitical challenges such as China's growing economic penetration. As the result, we are facing growing threats of destabilization in the case of Bosnia-Herzegovina through the separatist tendencies of *Republika Serbska*, the volatile situation in northern Kosovo, while the ongoing Serbia-Kosovo have been going nowhere as well as the internal and external threats vis-à-vis Montenegro.

On the other hand, these geopolitical threats are exacerbated by economic and financial challenges such as growing inflation, a looming economic crisis, and the lack of substantive foreign direct investments in the region. The symptoms of these, as this paper will discuss, are high levels of unemployment among the youth who are emigrating in flocks toward the European Union countries and the UK, rising poverty levels, and political instability. However, the EU nexus is crucial and essential for continued resistance amidst the multiple crises among the Western Balkan countries and the promise to thrive in the near future, especially if all of them become part of the EU eventually.

ECONOMIC AND FINANCIAL CHALLENGES IN THE WESTERN BALKANS AND ITS RELATIONS TO EU

On one hand, the annual growth rates have returned and even surpasses the pre-COVID-19 pandemic in the region. For example, as World Bank recently reports: “[t]he economies of the Western Balkans saw a strong growth rebound in 2021 with a broad-based bounce back in economic activity. In 2021, GDP growth in the Western Balkans reached 7.4% after a contraction of 3.2% in 2020. GDP is now expected to surpass pre-pandemic levels by 2022.” (World Bank, 2022). On the other hand, as another report points out: “most Western Balkan countries have been facing continued political instability, local political crises, corruption scandals, shrinking space for civil society, a tendency towards more authoritarian regimes, along with no progress with unresolved bilateral issues (particularly in the Belgrade-Pristina EU facilitated dialogue)” (European Parliament, 2022).

On the other hand, as has been underlined in various reports, the economies of the Western Balkans are deeply entrenched and interconnected with those of the European Union. For example, most foreign direct investment (FDI) in western Balkan countries, except Kosovo, originates from the EU (Dabrowski and Myachenkova, 2018). Also, the banking and financial sectors are strongly linked with the European Union counterparts, with some states such as Germany, Italy, and Austria having the most connections. The same goes for trade levels. As a recent Eurostat report states: “[t]he EU was the main partner of the Western Balkans, for both exports (81%) and imports (58%) in 2021. In 2021, manufactured goods made up 75% of EU exports to and 76% of EU imports from the Western Balkans” (Eurostat, 2022). Strong levels of trade have also largely impacted the general macroeconomic stability of the countries in the region, their stable public policies, and the commitment to reforms that will eventually address corruption and state capture.

Another European Commission report underlines the current trade commodities between the region and the EU. More specifically, regarding the year 2021 “the EU’s main imports from the Western Balkans were: machinery and appliances (22.7%), base metals (13.8%), mineral products (10.7%) and chemicals (10.7%). The EU’s exports to the Western Balkans were mainly: machinery and appliances (20.3%), mineral products (12.1%), chemicals (10.8%), and base metals (10.1%)” (European Commission, 2022). This in a nutshell gives a full picture of what are the comparative advantages of Western Balkans’ exports to the EU and vice-versa. As it looks *prima facie*, it seems that both sides more or less import and export the same things, but if we take a closer look, there are differences, especially in country-by-country relations to what it imports and exports from the EU.

Also is important to note that even countries like Serbia, which has signed a trade deal with Russia’s Eurasian Union (Stojanovic, 2019) and has considerable Chinese and Indian FDI invested in the country, still have the EU as the main trading partner. Even at the level of individual states, Germany with 13% leads both import and export main partners to Serbia. As regards the nature of imports and exports from Germany, for example in 2020, “Serbia had a large net trade with Germany in the exports of Machines (\$1.19B), Vegetable Products (\$234M), and Metals (\$210M)” (Observatory of Economic Complexity, 2022). We mention particularly Serbia here since it is the country in the region that has the most geopolitical and cultural influence of the Russian Federation. Irrespective of these traditional and cultural links, however, Serbia conducts most if its trade with the European Union countries and attracts most foreign direct investment from the EU and Brussels has also more influence in political developments within this country. This is also because Serbia is a candidate member country, and has opened already most of the negotiation chapters with the EU. Only Montenegro is more advanced in its pathway toward full EU accession than Serbia among the six countries of the region.

Having the European Union as the main trade partner facilitates the ongoing economic and financial challenges of the entire region that have risen chiefly because of the COVID-19 pandemic but also recently because of the Russia-Ukraine conflict and the growing prices worldwide. It does so, not only because the European Union has continuously funded the Western Balkans through its

various collaboration schemes with funds such as IPAs, and IPARD but also its connectivity agenda and various grants, especially in dire times such as when facing the COVID-19 financial and economic shocks.

Equally important are the investments in the region. For example, during the years 2021-2027, the EU has undertaken to finance the Western Balkans with “10 investment flagships and has allocated a substantial financial package of up to €9 billion in EU funds, with a potential to mobilize up to €20 billion of investments through the Western Balkan Guarantee Facility” (Western Balkans Investment Framework, 2022) through its Economic and Investment Plan. Concretely speaking, this plan “supports investments on sustainable transport, clean energy, environment and climate, digital future, competitiveness of the business sector, human capital development” (Western Balkans Investment Framework, 2022). On the other hand, as it aforementioned, “the new EU connectivity strategy, the Global Gateway, launched in September 2021, builds on the objectives and flagship investments of the Economic & Investment Plan for Western Balkans in the areas of transport, digital and energy, which contribute to strengthened connectivity within the region and with the EU (Western Balkans Investment Framework, 2022)”. Taken together, the size and impact of such investments, grants, loans, and trade level, have greatly helped the region to sustain some of its most existential economic and financial challenges to date. It is also a promise that will do so in the near future.

POLITICAL INSTABILITY IN THE WESTERN BALKANS

There are many troubling issues that concern and affect the political instability of the Western Balkans. Some of these are legacies of the past, some are present geopolitical constraints and some are emerging from the inability of political elites in these countries to strive forward. As one report of the European Parliament has noted and is important to quote in length:

Legacies of the 1990s – military conflicts, nationalistic narratives, international sanctions against the Federal Republic of Yugoslavia, the NATO bombing – have left deep scars on Western Balkan societies, political systems, and political culture. The democratization processes have been undermined by: the low level of media freedom; non-transparent policymaking; non-inclusion of the civil society organizations in the consultation process; weak rule of law due to the insufficiently reformed judiciary; inefficient public administration and resulting limited absorptive capacity of EU funds; and ambiguity in politicians’ foreign policy stances. Heavy external involvement in the making of states in Bosnia and Herzegovina as well as Kosovo together with periods of instability that have afflicted the EU during the last decade or so, including the Eurozone and the migration crises along with Brexit, have led to growing skepticism about the EU and hence diminished its attractiveness. This, in turn, has led to declining support for the EU in some Western Balkan countries and further reversals in favor of authoritarian regimes (European Parliament, 2022).

As this report clearly underlines, the past has been instrumental to determine the current transition route of these countries, which has still inroads to make toward the consolidation of democracy and rule of law. A major plague of the

past, the wars in former Yugoslavia, led by Milošević's irredentist policies have lasting impact till now. Major efforts and innovative ways are needed for the slow reconciliation process, without which is impossible to break with the past and to see forward (Savić-Bojanić and Kalemaj, 2021). The persistence of ethnic-based politics, divisive policies, and politically sponsored foreign agendas, coupled with populist rhetoric and ego-centric politicians, have created a climate of political mistrust and instability. This, in turn, has made the pace of institutional and structural reforms move very slowly ahead and for the citizens of these countries to be dissatisfied with the lack of progress. The communist legacy also has affected to a large extent the post-communist trajectory and the lack of democratic consolidation, especially in the case of Albania, which has had the most totalitarian and autarchic type of the former regime (Meka and Kalemaj, 2020).

Another challenge that these countries have to overcome is the duality between regionalization and the European integration perspective (Kalemaj, 2016). This is because recently the attempt to create and lead the 'Open Balkan' initiative, which was started by Albanian premier Rama, Serbian president Vučić, and at the time North Macedonia premier Zaev, has not been embraced by the other three countries of the Western Balkans, namely Montenegro, Bosnia-Herzegovina, and Kosovo. This is because they either consider this as a tool of Serbian expansion (Qalliu, 2022) or because it interferes or is in competition with the Berlin Process that seeks to fasten the EU integration process (Exit News, 2022). While, primarily Albanian premier Rama and Serbia's premier Vucic herald this initiative, which they claim will not only rival or block the Berlin Process, but quite, on the contrary, it will speed the integration into the EU by fostering the first regional common market and removing all economic, financial, and political barriers between the countries that are part of the initiative. It was met first with skepticism from the EU and especially Germany, while the Americans have been more supportive of it lately (Ozturk, 2022) Brussels it seems also to cozy up to the idea, which at the very least, reduces the possibility of conflict in the region. Some analysts have even slammed the initiative as a "dubious theory, naive construct, dangerous implications" (Joseph, 2022). Other analysts from the region have echoed these stances. Hamza Karcic has voiced this well when he says: "[i]nstead of Open Balkan, European leaders should press for the start of EU accession talks with Albania and North Macedonia, awarding candidate status to Bosnia and Herzegovina and the visa-liberalization and candidate status to Kosovo" (Karcic, 2022).

On the other hand, support for the EU integration membership is still high in the region, irrespective of many political difficulties and lack of progress from both local politicians as well as the freezing of the enlargement agenda of the EU. For example, "62% of the Western Balkan citizens still support EU membership, but one-third of them believe that they will not join the EU by 2030 and more and more people believe that they will never join the Union" (European Western Balkans, 2021). These are relatively good figures if we consider some of the other former Eastern European countries, which had much lower support for EU membership when they were close to accession, like the case of Croatia for example can testify.

The high support and enthusiasm of the citizens of the region for EU integration is not always supported by the EU member countries. For example, some of the

latest ideas emerging from Élysée Palace are that of the ‘clusters methodology’ and associate memberships for the countries in the region. In a nutshell, both ideas, with the notable difference that one has become the official policy, while that of associate members is only a proposal, make it difficult for the countries in the region to reach the stage of full accession. Furthermore, even at this stage, as the associate membership suggests, these countries will not have the same political rights as the other twenty-seven states that are already part of the EU. For example, they cannot veto any proposal of the EU Council of Ministers and other EU political institutions. However, this has not diminished the political will of the elites as well as the aspiration of the citizens from the Western Balkans to join the European Union as soon as possible. This in turn will provide for greater political stability, less corruption and organized crime, more democracy, and freedoms and higher economic performance from these countries.

CONCLUSION

The Western Balkans, as this tip of Southeastern Europe is often referred to, is one of the most volatile regions worldwide. It has traditionally produced more history than it consumes as Winston Churchill once said. The present-day global and European challenges, ranging from the COVID-19 pandemic to the Russian invasion of Ukraine and current economic stagnation while waiting for a looming financial crisis, are some of the headaches that have troubled the region recently.

This is coupled with growing geopolitical risks such as the Russian-Ukrainian conflict that has inflated the prices worldwide but also it threatens the region also politically because Western Balkans has been for some time considered as the ‘soft underbelly of Europe. Practices of Russian disinformation and the spread of fake news, coupled with overt military assistance to its proxies in the region, have worried most policy-makers among NATO member countries and others who see this as efforts toward destabilization. Chinese investment penetration is also growing, posing a challenge of another nature but still in contradiction with the European Union integration path that all the countries in the region have professed.

More and more we see threats of destabilization in the case of Bosnia-Herzegovina through the separatist tendencies of *Republika Srpska*, while the situation in northern Kosovo is volatile. Furthermore, the ongoing Serbia-Kosovo dialogue has been going nowhere, while the situation in Montenegro is boiling for some time. Russian Federation through its military intelligence agencies such as GRU even made a tentative for a coup d’état there in 2016 and currently, the situation is close to political destabilization, with the current government that is widely believed to be close to Belgrade.

As it was stated and tested with evidence throughout this paper, these geopolitical threats are exacerbated by economic and financial challenges such as growing inflation, looming economic crises, and the lack of substantive foreign direct investments in the region. Some of the economic and financial symptoms, coupled with geopolitical risks and political instability, are indeed some of the main challenges to be addressed by all the countries in the region. They

also are on the way to successful accession of these countries in the European Union. The progress has been very slow and the last country to fully accede the European Union from the region is Croatia in 2013.

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