

Political Analysis

*European (Re)Connection of the Balkans
The Search for new Modalities of Cooperation*

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Abstract

- Considering that the integration of the Western Balkans in the European Union is not only in the interest of the WB6, but also the EU, the EU supports the European path of the WB6 countries through different initiatives that can contribute to the improved socioeconomic development and stability in the region, while regional connectivity represents one of the key aspects. For BiH, CEFTA and good practices that are inherited from the Agreement have shown to be an important initiator of regional cooperation that has resulted in the growth of trade volume and removal of many trade barriers. Continued implementation of CEFTA and especially the concept of Regional Economic Area are an additional step towards boosting the attractiveness of the regional market for the new investments, new jobs, higher mobility and more sustainable economic growth.
- The new EU strategy for the Western Balkans has a goal of maintaining credible enlargement perspective for the WB6 countries. Such enlargement perspective and engagement from the EU opens up the possibilities for the future, but also requires credible response and significant efforts from the political actors in Bosnia and Herzegovina, and further progress continues to be merit based and focused on the results of the reforms in the key areas.
- Although Bosnia and Herzegovina is waiting for the Opinion on the readiness to fulfill the membership criteria from the European Commission, as in the past years, no major improvements can be observed. Same issues related to the readiness for compromise and taking responsibility have been present for years and are slowing the pace of key reforms. Whether BiH will use the opportunity and catch up with Serbia and Montenegro, the frontrunners in the process, depends entirely on the readiness of the governments to implement adequate reforms and obtain progress in the areas such as rule of law, socioeconomic development, transport and energy, digital agenda, security and migrations.
- New initiatives and incentives from the EU are the new opportunities for structural socioeconomic reforms to be in the focus for BiH again, as well as for the fulfillment of what was negotiated and contained in the Multiannual Action Plan for the Regional Economic Area in the areas of trade, investment, mobility and digital integrations. On the other hand, it must not be allowed that the new initiatives are overshadowed by the electoral rhetoric and daily politics.

TABLE OF CONTENTS

INTRODUCTION.....	7
REGIONAL TRADE AND INTEGRATION	8
From CEFTA to CEFTA 2006	8
Bosnia and Herzegovina in CEFTA 2006	10
THE PERSPECTIVE OF REGIONAL INTEGRATION	14
Background overview	14
Berlin Process	15
Regional Economic Area.....	17
The new EU Strategy for the Western Balkans	21
CONCLUSIONS	23
BIBLIOGRAPHY	26
References.....	26

LIST OF ABBREVIATIONS

BAM	Bosnia and Herzegovina Convertible Mark
BiH	Bosnia and Herzegovina
CEFTA	Central European Free Trade Agreement
EC	European Commission
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
MAP	Multiannual Action Plan
REA	Regional Economic Area
RYCO	Regional Youth Cooperation Office
SAA	Stabilization and Association Agreement
WB	World Bank
WB6	Western Balkans six countries
WTO	World Trade Organization

INTRODUCTION

Regional integration, as a core concept, deeply embedded in the European Union, has demonstrated that through management of shared resources and assets, barriers that divide countries can be jointly overcome. The formation of European Union itself throughout the years, as an economic and political union, that counts 28 countries today, evidences of how different forms of cooperation and integration can contribute to the political stability, economic prosperity and overall improvement of the welfare for the citizens.

For Bosnia and Herzegovina and other countries of the Western Balkans (WB6), integration in the European Union is seen as key strategic political and economic priority. Yet, since 2003 and Thessaloniki Summit, Croatia is the only country which was a member of CEFTA 2006 to join the European Union. Many internal and external factors can be seen as contributing for such slow pace of the EU integration process, but the reality is that the progress in the region was uneven and that generally speaking, WB6 countries are still far from the EU standards in terms of economy, environment, judiciary and other important aspects. Furthermore, and especially in economic terms, the pace of alignment with the EU standards has been even slower in past years. As an example, the Regional Cooperation Council notes that *“while the previous decade had brought the region’s per capita GDP almost 8.5% closer to the EU average, this convergence has since halted to a standstill, narrowing the gap by only 1% in the first half of this decade”* (RCC, 2017).

Integration of the Western Balkans into the European Union is not only in the interest of the WB6 countries, but also the EU itself. As such, the Berlin Process, a diplomatic initiative to keep the pace of the EU ‘integration’ for WB6 countries without a formal accession perspective over a medium term has been an important platform for cooperation and development in the past years. Although, the new EU strategy for the Western Balkans foresees the possibility for enlargement in 2025, it seems that the Berlin Process will remain present, while the connectivity within the Western Balkans imposes as one of the key aspects for the EU integration process of the WB6 countries. This stronger focus on regional integration does not come as a surprise, as the EU integration process has always had an important aspect concerning regional integration. From the Stabilization and Association Agreements (SAAs) and Central European Trade Agreement (CEFTA), up to harmonization with the *acquis*, the countries integrate simultaneously within the region, as well as – gradually – into the EU. Following the meetings in Sarajevo and the request of the WB6 Prime Ministers regarding a joint approach which would further deepen the economic integration in the region, at the Trieste Summit held in June 2017, a new project was presented in the form of Regional Economic Area (REA). The new, envisioned Regional Economic Area has a goal of removing all of the remaining non-tariff barriers, attracting more investments into the region, improving mobility, as well as stimulating innovations in order to fully use the potential of the private sector in the joint market of around 20 million people. As such, this new project holds a big potential for Bosnia and Herzegovina, a country which is still waiting for a candidate status, not only in terms of faster alignment with the EU standards, but also in the improvement of the overall welfare of BiH citizens.

The goal of the analysis is to draw attention of key stakeholders and the public on the importance of regional cooperation for the WB6 countries and Bosnia and Herzegovina in particular; what has been achieved so far and what challenges and obstacles might lie ahead in the EU integration process. An overview of Central European Free Trade Agreement as a platform for regional trade integration and from the perspective of Bosnia and Herzegovina is presented, together with the overview of the Berlin Process, followed by the presentation of the new Regional Economic Area and the Multi-annual Action Plan (MAP) for the REA.

REGIONAL TRADE AND INTEGRATION

From CEFTA to CEFTA 2006

Central European Free Trade Agreement (CEFTA) represents one of the most important multilateral agreements among the EU candidate and potential EU candidate countries. The agreement was originally negotiated and signed in 1992, among the countries of the Visegrad Group.¹ The original goal of the agreement was *“to mobilize efforts to integrate economies into the western European institutions, and eventually join European political, economic, security, and legal systems. The eventual goal was to consolidate democracy and free-market economics”* (ITD, 2010). CEFTA entered into force in 1993 and was later on joined by Slovenia, Romania, Bulgaria, Croatia and FYR Macedonia² (CEFTA, 2017). The original agreement proved as an adequate framework and a good tool for the facilitation of the intraregional trade, economic integration and cooperation among the signatory countries. It can be observed that although the agreement was in place and enforced, the signatory parties of CEFTA would see a more significant rise in the trade among themselves only after 2000. The period after the agreement entered into force up to 2000, was marked by intensive trade with EU member states, and only after the GDP and production capacities of the CEFTA members grew enough, the countries started trading more among themselves (Paczynski et al., 2007).

In a way, CEFTA served as a preparatory stage for the member countries in the European integration process. Therefore and consequently, after each of these member countries joined the European Union, it withdrew from the CEFTA agreement. Following the EU accession of Slovenia, Poland, Slovakia, Czech Republic and Hungary in 2004 and the fact that Bulgaria and Romania would join in the beginning of 2007, the focus of CEFTA was to shift towards countries of the Western Balkans, non-member states of the EU. Prior to CEFTA 2006, all of the “new” countries that were to join new CEFTA have already had bilateral free trade agreements in place among each other by the end of 2006 – a total of 32 free trade agreements.

1 Hungary, Poland and at that time Czechoslovakia.

2 Slovenia in 1996; Romania in 1997; Bulgaria in 1999; Croatia in 2003; FYR Macedonia in 2006.

Therefore, it is not a surprise that the original document was remarkably amended and new CEFTA was renegotiated³. Due to this fact, CEFTA 2006 has an aim of deeper regional integration than its predecessor and it is built on an already existing network of free trade agreements⁴ (CEFTA, 2016). Concretely, some of the aims of CEFTA 2006 are to achieve improvements of trade conditions such as removal of non-tariff barriers, improved transparency, better conditions for potential investors and introduction of better dialogue among the signature parties. Unlike the original CEFTA, in this "new" free trade agreement, trade in agriculture products would also be covered. The requirements of the old agreement have been changed, so Bosnia and Herzegovina approached negotiations as non-member of World Trade Organization (WTO) and without having signed the SAA with the EU. Initial foreign trade policy activities began in 1998 for BiH, following the adoption of three major laws concerning foreign trade, customs tariffs and policies. Therefore, since 1998, Bosnia and Herzegovina has a unified customs territory and tariffs.

Still, in the report of BiH Ministry of Foreign Trade and Economic Relations (MoFTER) it is stated that *"Custom tariffs have been adopted as a result of political compromise and did not reflect the needs of the economy of BiH nor the rationale settings have been applied in the procedure. Consequences of this approach to the customs tariff settings have posed a significant problem in all future negotiations on free trade agreements"*⁵.

Furthermore, the fact that the new agreement is not excluding agricultural tariffs proved as a complication in negotiations for BiH. Namely, BiH requested to retain the right of imposing trade barriers for certain agricultural products imported from Serbia and Croatia. Negotiations almost resulted in Bosnia and Herzegovina not signing CEFTA 2006, but in the end the compromise was reached. BiH agreed to accept the agreement under the condition that special safeguard measures would be included which would allow protective measures in the *"event of any significant market disturbance caused by excessive imports from another party"* (CASE, 2007).

3 Also known as CEFTA 2006.

4 For Bosnia and Herzegovina:

FTA with Macedonia, signed in 2002

FTA with Croatia, signed in 2000

FTA with FR Yugoslavia, signed in 2002

FTA with Moldova, signed in 2002

FTA with Albania, signed in 2003

Temporary FTA with the UN Interim Administration Mission in Kosovo*, in the name of Kosovo*, in accordance to the Resolution 1244 of UNSC, signed in 2006

5 p.7. Report: "Bosnia and Herzegovina. 10 Years of Implementation of CEFTA 2006" (MFTER, 2016)

Bosnia and Herzegovina in CEFTA 2006

Having in mind that the EU accession is the primary strategic goal for Bosnia and Herzegovina, it is important to state that in the Stabilization and Association Agreement between European Union and Bosnia and Herzegovina - in the Article 14 - Bosnia and Herzegovina has committed to the full implementation of the CEFTA⁶.

The table below contains summary of the annual trade balance between Bosnia and Herzegovina and CEFTA member states since the agreement entered into force up until the 2013, when Croatia became a member of the European Union.

Year	2007	2008	2009	2010	2011	2012	2013
Export	2,125.89	2,491.83	2,104.50	2,546.59	2,873.87	2,483.07	1,988.58
Import	2,491.33	4,712.38	3,316.16	3,683.37	3,881.64	3,841.51	2,633.12
Volume	4,617.22	7,204.21	5,420.66	6,229.96	6,755.51	6,324.58	4,621.70
Deficit/Surplus	-365.44	-2,220.55	-1,211.66	-1,136.78	-1,007.77	-1,358.44	-644.54
Coverage	85.33%	52.88%	63.46%	69.14%	74.04%	64.64%	75.52%

Table 1: Review of trade balance between BiH and CEFTA member states (in million BAM)⁷

As can be seen, the period after the signing of the agreement was marked by the initial growth in the trade volume between BiH and other CEFTA countries, especially in terms of import, consequently leading to high trade deficit in 2008 of around 2.2 billion BAM. The decrease in the volume of trade has occurred in the year 2009, primarily due to the global economic crisis. As previously mentioned, on 1.7.2013, Croatia joined EU, withdrew from CEFTA, leading to the significant decrease in trade volume, which can be seen in Table 2.

Year	2014	2015	2016	2017
Export	1,358.24	1,334.27	1,393.60	1,790.30
Import	1,863.08	1,957.16	2,057.30	2,319.10
Volume	3,221.32	3,291.43	3,450.90	4,109.40
Deficit/Surplus	-504.84	-622.89	-663.70	-528.80
Coverage	72.90%	68.17%	67.74%	77.20%

Table 2: Review of trade balance between BiH and CEFTA member states (in million BAM)

6 SAA between EU and BiH. Act III (Regional Cooperation).

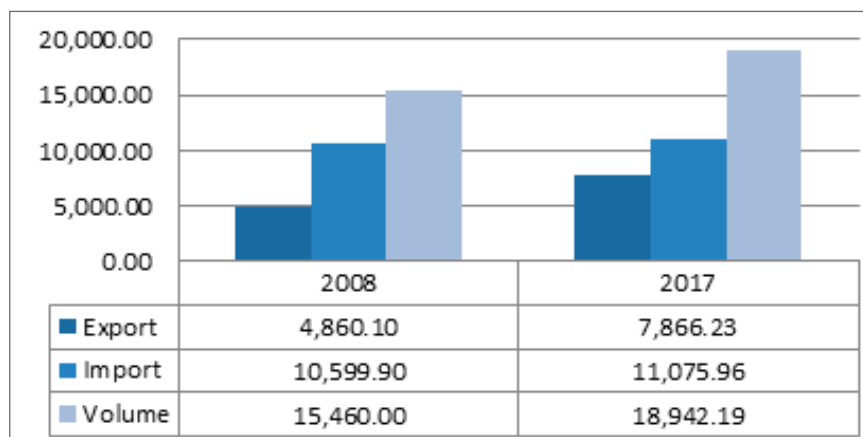
7 Source of data: Indirect taxation Authority of BiH, Ministry of Foreign Trade and Economic Relations of BiH and Agency for Statistics of BiH. Data for 2017 from Agency for Statistics of BiH release (22.01.2018) – *BiH Foreign Trade in goods statistics, January-December 2017*. Available at: http://www.bhas.ba/saopstenja/2018/ETR_01_2017_12_0_HR.pdf

From 2014 onwards, the value of trade and imports has not significantly changed for BiH in CEFTA. Regarding inter-CEFTA trade, Serbia remains the main trading partner for Bosnia and Herzegovina, with a total share of around 61% and 87% in BiH's export and import, respectively.

Description	EXPORT		IMPORT		TOTAL		Deficit / surplus
	2017	Share	2017	Share	2017	Share	
Serbia	1,093.69	61.09%	2,029.96	87.53%	3,123.64	76.01%	-936.27
Other Countries	696.64	38.91%	289.23	12.47%	985.87	23.99%	407.40
CEFTA	1,790.32	16.20%	2,319.19	12.79%	4,109.51	14.08%	-528.87

Tabela 3: Pregled trgovinske bilance između BiH i Srbije (izraženo u milijunima KM)

In the time period since CEFTA entered into force, up until today, BiH's exports towards the EU market expanded. Furthermore, from the total value of goods exported in 2017 (11,05 billion BAM) 71,16% was towards the EU market, while 16,20% of the exports were towards the CEFTA market. Imports from EU contribute to 61,08%, while imports from CEFTA are around 12,79% of the total value of imported goods in 2017.



Graph 1: Review of trade balance between BiH and the EU (in million BAM)⁸

Out of the ten biggest exporting partners of Bosnia and Herzegovina in 2017, nine are EU and CEFTA members and the remaining one is Turkey with which BiH has a bilateral FTA. Regarding imports, the situation is somewhat different, where the value of goods imported from Russia and China makes up to about 11% of total imports. In summary, the markets of EU and CEFTA account for around 87% of total BiH exports and 74% of total BiH imports (ASBiH, 2018).

Certain non-tariff barriers remain in the CEFTA region and currently represent the biggest issue in the implementation of the agreement. Besides measures to protect domestic production, some of these barriers are consequence of the faster pace of the EU integration process and adoption of the EU acquis for some countries compared to the others. Other non-tariff barriers are related to the need for improved efficiency, harmonization and simplification of customs procedures in the CEFTA countries. In general, they refer to complicated customs procedures,

8 EU26 + Croatia (2008)

incompatibility of customs and inspection offices, corruption, smuggling, lack of accredited laboratories, non-recognition of quality certificates etc. As an example, according to data from 2017, Bosnia and Herzegovina has had five unsolved cases submitted to the CEFTA Secretariat regarding non-customs barriers, while there are three cases submitted against Bosnia and Herzegovina (MoFTER, 2017). Further work on removal of non-customs barriers inside the CEFTA region would cut the costs of WTO members willing to trade in the region as well as the cost of intra-CEFTA trading.

Also, it is important to state that further liberalization of trade in services could contribute to more sustainable growth of the Western Balkan countries (World Bank, 2011). Although the original CEFTA 2006 agreement does not contain sectoral measures for trade liberalization in services, and it refers to general gradual liberalization under the Article 27, the Article 29 opened the possibility for negotiations with the goal of deeper liberalization of trade in services (CEFTA, 2011). On the basis of the Article 29, further liberalization is planned to come in the form of Additional Protocol 6, which can be seen as an “upgrade” to the original agreement.

The CEFTA 2006 regime was very useful for Bosnia and Herzegovina. There was a significant rise in the intra-region trade just after the agreement entered into force, throughout the years BiH better harmonized its market with the other WB6 markets and increased convergence to the EU markets and CEFTA 2006 did contribute to the improved political stability in the region. Yet the implementation of additional CEFTA protocols can in the largest part improve the potential for growth of intra-CEFTA trade, but still, for the actual rise to occur and for the improvement of the import to export ratio for BiH to happen, structural reforms that would boost the production capacities and improve the competitiveness of domestic companies are required.

This is of essential importance for BiH, where according to the *The Global Competitiveness Report 2017–2018* from the World Economic Forum, the country is ranked as 103rd out of 137 countries in terms of global competitiveness. This ranking is not only below WB6 countries from the list, but BiH has the lowest global competitiveness index in Europe. The areas in which Bosnia and Herzegovina was ranked among the weakest countries, significantly far from indexes of EU countries are: institutions, infrastructure, goods and labour markets efficiency and business sophistication and innovation practices. Components such as capacity for innovation, capacity to retain and attract talent, effects of taxation on incentives to invest and time to start a business are assessed as bottom 10 out of 137 countries on the list. Such low evaluations illustrate the seriousness of the problem and the need for prompt and adequate socio-economic structural reforms in the country. The Foreign Direct Investment (FDI) levels continue to be remarkably low, reflecting complicated and unfavourable business environment.

As an example, the United Nations Conference on Trade and Development reported in 2017 that the limitations in market access, skills, infrastructure and regulatory weaknesses are still the biggest obstacles for private sector development and FDI inflow not only for BiH but also the other WB6 countries.

According to the OECD's Competitiveness in South East Europe policy outlook (2016)⁹, designing and implementing policies based on productive investments and exports should be a primary growth driver for the WB6 countries which will ensure sustainability in the long run. It is stated that high technology exports as the percentage of total manufactured exports for the WB6 countries, and especially for BiH are below the EU average. In particular for the WB6 countries, the same report notes that BiH has the lowest rank in terms of research, development and innovation policy governance, E business and E commerce policies, information and communication standards in education, transport infrastructure and sustainability policies, natural resource management policies, transparency of rules, government accountability, financial readiness and social economy. Therefore, the evaluation of EU Commission from 2016 that *"Bosnia and Herzegovina is still at an early stage in developing a functioning market economy"* can hardly come as a surprise.

As can be seen, Bosnia and Herzegovina remains far behind in terms of production capacities and competitiveness levels from those that the member states which have recently joined EU had at the time of joining. As mentioned previously, for the former CEFTA members significant increase in intra-regional trade would occur just prior the entry into the EU, where the negotiations were in the late stages and all of the countries were members of WTO. For BiH, the exports are still at low levels and for an upper-middle income country in transition they should make of around 50-60% of the GDP. The private sector is weak, overshadowed by huge public sector and in the largest part - the exports are low, because the production is low. Transport infrastructure is inadequate and perhaps the most worrisome - in terms of business innovations and technology, with each year, BiH is lagging more and not only behind the EU countries but also other WB6 countries. Bosnia and Herzegovina needs to keep the focus on EU integration, obtain the candidate status, start opening the acquis chapters and become a WTO member. There is still work to be done in terms of CEFTA and especially in terms of removal of non-tariff barriers and further liberalization of trade in services, which would further help in creation of better growth potential for the country and the region as whole, but this growth potential will be fully achieved only under the condition that it is coupled with the macroeconomic stability and structural reforms within the country.

THE PERSPECTIVE OF REGIONAL INTEGRATION

Background overview

For the WB6 countries in general, including Bosnia and Herzegovina, it is worth noting that the slower progress has been made in the last decade, but also that there is an additional space for improvement in the pace of the EU integration process through the strengthening of regional integration¹⁰. The new report of the World Bank¹¹, focusing on economic issues of WB6 region presents that the overall pace of development of the WB6 countries was well below the one of European small economies. Furthermore, in the aftermath of the global financial crisis, the already slow development was further weakening. The report states that most of the non-EU members in 1995 had the same income levels; yet in 2015, the situation was different, with WB6 countries substantially lagging behind. It is noted that "today, the average "transition score" for the Western Balkans is similar to the one that other small transition economies had in 1996". Finally, and probably the most defeating statement is the estimate that if this pace continues, countries of WB6 would need at least 50 years to fully converge to the average EU standards of living. These conclusions go hand in hand with the International Monetary Fund (IMF), which reports that, on the average, the current share of exports as a percentage of GDP for the WB6 countries is less than half of the share of the new member states of the EU¹². Finally, a useful indication can be seen in the table comparing GDP (in Purchasing Power Standards (PPS) per capita) of WB6 relative to the EU average for 2016.

	GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100%)
Albania	30%
Bosnia and Herzegovina	29%
FYR Macedonia	37%
Kosovo*	n/a
Montenegro	41%
Serbia	36%

Table 4: GDP in PPS per capita of WB6 in % of the EU Average (EC, 2016)

Slow economic development, structural problems, political crisis and unsolved disputes among the countries in the Western Balkans have all contributed to the overall slow pace for the European integration process for the countries in the region. Since 2003 and Thessaloniki Summit, Croatia was the only country from CEFTA 2006 to join the EU. Slow developmental pace coupled with the recent internal problems in the EU and, in general, low perspective of EU membership for WB6 countries in the near future, have all resulted in growing influences on WB6, both political and economic, of other rising powers. Weakening of EU influence in WB6 can be seen both through stronger voices opposing the EU integration process and increased appeals for the EU to strengthen its leadership in the region.

10 For detailed breakdown of indicators see RCC annual report on the implementation of SEE2020 strategy: <http://www.rcc.int/pages/119/annual-report-on-implementation-of-the-see-2020-strategy>

11 World Bank report from 2017 titled WESTERN BALKANS: Regional Economic Integration Issues Notes.

12 From IMF report titled: The Western Balkans. 15 Years of Economic Transition (pp.24) (2015)

Following the five-year halt on the EU enlargement announced by the President of the European Commission in 2014, the Berlin Process was initiated. It represents the EU's diplomatic initiative with a goal of keeping the dynamics of the EU accession process for the WB6 countries (EP, 2015). The Process consists of numerous initiatives including intergovernmental high-level meetings aimed at improving economic and political stability and cooperation in the region. In the heart of the process is the focus on connectivity in various areas of interest relating to development and EU accession both between EU and WB6 countries and among WB6 countries (KAS, 2017).

Berlin Process

At the first conference in Berlin, the EU integration process of WB6 countries has been reaffirmed both by the EU representatives as well as the WB6 countries themselves. It is important to state that the intensification of regional cooperation has been recognized as an "essential basis" for political stability and economic development of the region. Furthermore, the strengthening of good governance and increasing prosperity through sustainable economic growth have been recognized as future challenges as well as opportunities crucial on the EU integration process of the countries (EC, 2014).

At the second summit in 2015, it was evaluated that the Berlin Process has provided a positive momentum for regional cooperation in the Western Balkans in terms of connectivity as the key principle. It was assessed that more efforts were needed in solving bilateral issues among the countries and in the acceleration of domestic reforms in the countries. The establishment of regional cooperation structures as well as the progress in transport connectivity have been noted as successful so far. The countries recognized the need for further work in number of areas regarding structural reforms, energy connectivity plans, trade facilitation, enhancement of mobility and especially youth mobility in the region, etc. At the Vienna Summit agreements were reached on specific regional transport and energy projects as well as number of soft measures (EP, 2017). It is important to note that the countries recognized the importance of civil society and its contributions on the topics discussed at the Summit. The proposal was made - and was welcomed by the participating countries - that civil society will be included in Berlin Process as an important additional element of the process itself (EC, 2015). Besides mentioned, at this summit the declaration has been signed and foundations set for the establishment of the Regional Youth Cooperation Office (RYCO).

In 2016, the third Western Balkans Summit was held in Paris which resulted in number of conclusions aimed at *"ensuring increased coherence with the different regional initiatives promoting regional cooperation in light of the region's European perspective, especially the Brdo-Brijuni process"*.¹³ The declaration signed in Vienna regarding RYCO was negotiated into an agreement which was signed in Paris (EP, 2017).

13 From the Final Declaration by the Chair of the Paris WB Summit.

Finally, at the end of the Summit, it was recognized that there is a strong need for the *“intensification of cross-border and multi-country initiatives together with creation of joint ventures in the region, as a crucial instrument to reducing fragmentation, enhancing trust and incentivizing economic growth”* (KAS, 2017).

Still, despite numerous joint projects and initiatives in the region and especially in the area of connectivity, since the Paris Summit, the need for closer integration in economic terms has been highlighted. It is seen that the infrastructural developments and funding during past two years alone will not be enough for faster convergence of WB6 countries with EU member states (RCC, 2017).

This point was recognized on a political level as well. New, concrete idea for deepening of regional economic integrations and cooperation was presented in February 2017, in the form of the proposal of a customs union for WB6 countries. The proposal that all WB6 countries negotiate and apply common import quotas was received with different level of enthusiasm among experts and officials. While most believed that this idea would benefit the WB6 countries in theory, a number of concerns had been raised, primarily political, about how realistic the prospect for the formation of such union is. Negotiations would be extremely tough and long, having in mind that some countries already have free trade agreements with third party countries¹⁴. Some countries felt that such a union would give most benefits to Serbia, and that efforts and institutionalization of such a union would slow the EU accession process and be a replacement for the EU (personal communication, 2017). Finally, customs union would be a CEFTA replacement and the question that arises is whether CEFTA has outlived its usefulness and whether all of the potential benefits of CEFTA for WB6 countries have been already achieved (The Economist, 2017).

Whether realistic or not, this proposal was successful in the fact that the topic of strengthening of regional economic cooperation in the EU integration process was discussed amongst political leaders of the WB6 countries and EU officials more intensively. Despite having differences on the idea for the customs union, it seemed that all stakeholders were at least interested to further discuss the potential of regional integration through new forms of cooperation.

The confirmation came with the Western Balkans Six Prime Ministers meeting in Sarajevo in March of 2017. Few important points should be stressed from the joint statement following the WB6 Ministerial meeting:

“In follow-up to the Paris Western Balkans Summit of 4 July 2016 we, the six Prime Ministers of Western Balkans, met today to reaffirm our commitments (...) The 2016 Paris Summit provided an important road map to further strengthen regional cooperation, increase coherence and deepen integration driven by a clear EU accession perspective (...) We remain fully committed to our EU accession perspective, which is where our common free and prosperous future lies (...) As we individually progress towards our European perspective, we recognise the necessity to bundle our strengths as a region.”¹⁵

14 i.e. Serbia with Russia, BiH with Turkey.

15 Joint Statement - Western Balkans Six Prime Ministers meeting.

Moving from Berlin in 2014 to Trieste in 2017, it seems that the Berlin Process has strongly matured and evolved. Coming of as a diplomatic initiative to keep the region's momentum of the EU integration process, it has become a useful, concrete platform for the EU integration with all stakeholders included in the process. Looking at the final declaration from Sarajevo, it became quite foreseeable what the focus of the Trieste Summit would be.

Primarily in the area of connectivity, the key stakeholders negotiated seven new projects of a total value of 500 million EUR. New initiative *"Central and South Eastern Europe Gas Connectivity"* was agreed, with a goal of connecting EU energy market with the ones of WB6 countries. Perhaps the most sounding, tangible outcome of the Summit in this aspect was the signing of the *"Transport Community Treaty"*. Specifically, this treaty aims to increase regional cooperation in the field of transport through harmonising national legislations of the Western Balkan countries with the EU acquis, as regards transport and relevant social policies, something similar to the Energy Community Treaty (EC, 2017). With regards to small and medium enterprises (SMEs) and private sector development, the Secretariat of the Chambers of Commerce of the Western Balkans has been inaugurated and became operational at the Summit. New, additional funding from the European Commission has been approved with the goal of boosting private sector opportunities in the region. Additionally, a number of platforms regarding financing and opportunities concerning SME's have been discussed in Trieste (EC, 2017).

Regional Economic Area

Following the request by WB6 Prime Ministers from May 2017, the Multiannual Action plan (MAP) for Regional Economic Area in the WB6 countries has been created and presented at the Trieste Summit. The consolidated multiannual plan was endorsed at the Summit by the leaders of WB6 countries where the commitment for the implementation of MAP has been expressed (RCC, 2017).

Beforehand, it is important to stress again that this further deepening of economic integration is not in any form a substitution for the EU integration process, but can be seen as a complementary plan which would further contribute to better convergence with the EU standards.

What is Regional Economic Area (REA), and how will it fit in the EU integration process? It should be recalled that the regional cooperation is the core value deeply embedded in the European Union itself. Further evidence to this are the Stabilization and Association Agreements between EU and WB6 countries.

Under the Title III of SAA with the EU, Bosnia and Herzegovina has committed that it will promote regional cooperation. In more detail, this means that the country will cooperate with other parties that have signed the SAA with the EU through political dialogue, work on the establishment of FTAs, matters of mobility and other areas such as Justice and Home Affairs. Although Title III in the SAA primarily concerns bilateral conventions with other SAA countries, it can be seen that the concept of regional cooperation is deeply embedded in the contractual relations

between the EU and BiH, where it is noted that the readiness to conclude conventions related to regional cooperation will influence the pace of the EU integration process¹⁶.

Based on different sources, it is evident that the REA concept can only benefit the countries in pursuit of EU membership. EU Commissioner Hahn stressed that Regional Economic Area (REA) is based on the already made commitments of the countries themselves and that EU is responding to the calls of the region itself (EWB, 2017). In the final declaration of the Trieste Summit it was stated that REA is based on the CEFTA and EU principles which are reflected in SAAs and that *"This work is neither an alternative nor a parallel process to the European integration: it will reinforce the capacity of Western Balkans economies to meet the EU accession economic criteria, and to implement EU acquis on a regional scale before joining the EU"*. The European Commission noted that the approach of the Regional Cooperation Council, which is based on rules and principles of the EU will secure deepening of the regional and EU integrations and that it represents an important milestone for both. Finally, Mr. Goran Svilanović, Secretary General of the RCC stated that during the drafting of the MAP for REA three conditions were carefully taken into the account. These are: that everything contained in the MAP contributes to the fulfilment of what the countries pledged to do in their respective ERPs, that everything negotiated is part of the EU integration process (that it contributes to faster pace for the EU integration process) and that this way the processes or the strategies of EU integration are not in any way substituted.¹⁷ Finally, for the realization of REA, no new institutions will be required, but it will be built on the network of already established regional mechanisms, agreements and bodies.

Besides assisting the countries to advance in the EU integration process, the Regional Economic Area should contribute to political stability as well as to bring different economic benefits. In times when most WB6 countries face challenges and problems such as unemployment, emigration of young people, low levels of FDI, etc. further regional economic integration would help ease and speed up the transition from current to a more sustainable economic growth model. It would reduce the costs of trade, help in good practice and knowledge transfer, development of regional financial products and contribute to better interconnectedness of labour markets, where mobility would help in the better allocation of the workforce. Further on, it could attract new investments to the region of 20 million people and therefore help in creation of new jobs. But it is important to state that deepening of regional economic integrations through formation of REA is aimed at improving the growth potential of the region (World Bank, 2017). So, REA alone will not solve the issues that the WB6 countries are facing, but the value of closer economic integration is in that the *"Growth strategies have more chance of success if they are embedded in a consolidated system of regional cooperation in all relevant areas"* (RCC, 2017). Generally speaking, what is required for the success in convergence to EU standards is macroeconomic stability but coupled with structural reforms and economic integration. In order to reap all benefits that REA could bring, it is essential for the countries to continue the pursuit of internal structural reforms and macroeconomic policies which will ensure stability and further liberalization of markets. As it will be seen, in the form of MAP, the Regional Economic Area holds a big potential for the WB6 countries. But as the WB6 leaders themselves requested the MAP for

16 From the SAA between BiH and EU: Title III, Chapters 13 and 14.

17 From the interview in Serbian daily newspaper *Blic*. Article available at: <http://www.blic.rs/vesti/politika/svilanovic-jedinstveno-ekonomsko-trziste-zapadnog-balkana-deo-puta-ka-eu/w5mw7tl>

REA, most of the work and the success of the REA in enhancing the potential of the region will depend on the WB6 countries themselves: through the integrated approach in implementation of the three mentioned mutually reinforcing factors. The same applies for the timeframe for the establishment of the REA. The pace will largely depend on the willingness and cooperation of the countries in this joint effort.

The Multi-Annual Action Plan (MAP) sets the objectives in four main areas of interest for the WB6 countries regarding the regional economic integration. The four areas which are covered include trade, investments, mobility and digital integration. Perhaps the best outlook can be given through the graphic outline of the MAP taken from the plan itself:

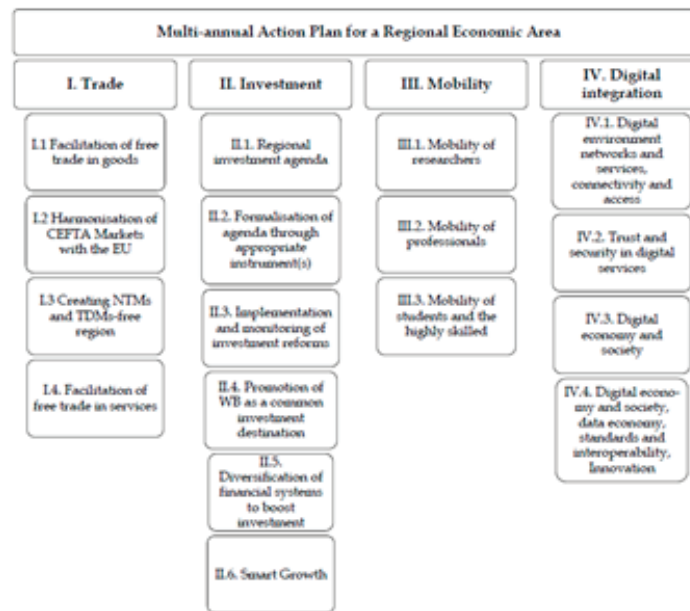


Figure 1: Multi-Annual Action Plan for REA (RCC, 2017)

The main areas consist of 17 objectives, which have 107 activities. The time span planned for the activities stretches from 2017 up until 2023. Most of the activities have clearly set deadlines.

The activities within the first area relate to the matters of CEFTA agreements. As such, the coordination of the activities is divided among the signatory parties of the CEFTA, CEFTA Joint Committee, CEFTA Subcommittee on Trade in Services, other CEFTA committees and RCC. Some of the activities relate to adoption and implementation of Additional Protocols 5 and 6 of CEFTA, new protocol on dispute settlement and other measures and sub measures which would contribute to the further trade liberalization and regional cooperation under the CEFTA agreements and harmonization of the CEFTA markets with the EU acquis. In this sense the implementation of CEFTA remains pivotal for the liberalization of trade in the WB6 countries.

Additional Protocol 5 is directly derived from the WTO agreement on trade facilitation which was negotiated as a part of the "Bali Package". As such, it aims for the simplification, modernization and harmonization of different export and import processes (WTO, 2017). With that in mind, an

adequate implementation of the additional protocol will directly target some of the remaining non-tariff barriers that currently exist. More concretely, regarding inspections - the procedures and formalities will be substantially eased. The exchange of data among the customs authorities of WB6 countries will be enhanced through one joint electronic, modernized system for data exchange. Such system will decrease the cost and time in clearance procedures where the goods will be processed prior to the arrival on the border. The process of unification of documents should significantly contribute in reduction, simplification and harmonization of data. The risk management procedures will help in avoiding delays at crossing and improve efficiency and allocation of resources for customs controls (personal communication, 2017). Such endeavour will require linkage and harmonization of related horizontal policies and their centralized coordination.

Another important aspect targeted by the Additional Protocol 6 will be further liberalization of trade in services. Generally, in some CEFTA countries, temporary entry privileges for foreign workers in the execution of short term services contracts are not given and the movement of foreign workers or professionals is still limited. A number of sectors providing services such as construction, IT and transport are still subjected to the barriers in forms of (non)acceptance of foreign licences, limitations on cross border supply and too heavy or too light domestic regulations (Handjinski and Šestović, 2011). Among the CEFTA members existing domestic regulations and barriers vary, which is why assessment, harmonization and a joint approach are needed. The implementation of AP 6 will help in overcoming these barriers, contribute to the economic growth, attract investments and promote trade for the WB6 countries.

It should be noted that after two and a half years, technical conclusion of Additional Protocol 6 has been reached. Also, in May 2017, at the CEFTA Special Joint Committee Additional Protocol 5 of CEFTA has been adopted (CEFTA, 2017).

The coordination of activities relating to investment will be divided among various domestic and regional stakeholders. The new regional investment agenda will be developed, established and formalized jointly by the RCC SEE Investment Committee and the WB6 Authorities in charge of the Investment Agenda. Each country will adopt individual action plans for the implementation and it will be up to the countries themselves to decide on the format, scope and regional instruments in the implementation of the agenda. Part of this regional activity will be to promote WB6 as a common destination for the investments. Apart from the Investment Agenda, it is envisaged that the WB6 countries will establish Capital Market Development Task Force for the region, regional dialogue and knowledge exchange for the smart growth. The Action Plan indicates that the WB6 countries will - through analysis and information exchange - identify investment policies which can be harmonized in order to attract new investors into the region.

With regards to the mobility of resources, a number of activities are planned to enable the removal of obstacles for the researches, recognition of professional and academic qualifications and faster and more efficient exchange of information related to the matter. This includes removal of legal barriers, mutual recognition agreements on professional qualifications in the negotiated areas, fast track recognition of higher education qualifications etc. In brief, as a result of the activities in this area, the countries of WB6 will conclude mutual recognition agreements

on the agreed qualifications, which would enable better mobility of the researchers, professional, students and highly skilled workers, which is also an important aspect of Additional Protocol 6 of CEFTA.

Finally, in terms of digital integration, a broad set of activities are planned with regards to the transposition of EU directives in the subject matter, alignment of standards and policies and exchange of knowledge, all under the umbrella of different networks, bodies and organizations such as GÉANT, BEREC, WRC, EU RLAH etc. The area covers cyber security and data protection, roaming and broadband deployment, while focusing on the development and strengthening of the digital infrastructure and regional connectivity and supply of digital skills.

The new EU Strategy for the Western Balkans

Following the state of the Union address in September of 2017 and the announcements of the President of the European Commission, Mr. Jean-Claude Juncker, that the Union needs to maintain credible enlargement perspective for the countries of Western Balkans, in early February of 2018, the EU Strategy for the Western Balkans was presented. While the strategy titled "A Credible Enlargement Perspective for and Enhanced EU Engagement with the Western Balkans" opens up possibilities for the EU enlargement in 2025, such perspective is described as *extremely ambitious*. Although the five year halt for the enlargement of the EU will be officially over, the merit-based process for accession remains, meaning that the same hard work will be in front of the countries in the years to come, as it was the case before. Furthermore, *extremely ambitious* perspective of 2025 relates to the, as EU defined, *frontrunner countries*: Serbia and Montenegro. Therefore, relating to the enlargement, one could conclude that the strategy does not bring anything unexpected. The WB6 countries will enter the EU, when all of the required criteria are met. Consequently, the only concrete projections for Bosnia and Herzegovina are that with sustained effort and engagement, the country could become a candidate for accession. Such view is far from promising, meaning that Bosnia and Herzegovina will, by all accounts, not become an EU member in near future. Yet, for anyone even remotely familiar with the political and socio-economic situation in the country, this comes as no surprise, again confirming the stagnation and political deadlock in which the country has been for the past years. However, despite the debatable presence of the EU enlargement perspective for BiH, procedural steps or the praises and the critiques coming from the EU, it is the perspective of socioeconomic development and the real need for positive movements that the citizens of BiH will feel in the near future, that matter far more. It is for these reasons that more detailed look into the initiatives might provide the roadmap for the development of BiH in future.

That being said, the strategy does not offer any significant turnovers in the EU approach towards the Western Balkans, but it builds up on the already existing mechanisms such as initiatives, sectoral platforms etc. Six initiatives are foreseen that will target six important areas of interest for both the EU and the countries of WB6, which should result in a better convergence of WB6 countries to the EU standards. In that context, Berlin Process, connectivity, Regional Economic

Area, as well as the whole concept of the regional integration of the WB6 countries remain an important pillar and a strong tool for cooperation and development of the WB6 countries. Even more so, the EU plans to increase the funding for the activities related to the fields of transport, energy, digital sector and other important developmental areas (EC, 2018). Despite an uneven progress in the region, in general, the same issues are persistent for all of the WB6 countries. Relating to the socioeconomic development, the region's economies still face many structural weaknesses and that their critical parts are uncompetitive results in inability to *cope with the competitive pressure and market forces in the Union*. Therefore, in the Strategy, EU recognizes that initiatives such as REA can help in overcoming such obstacles, with the assessment that its full implementation would further strengthen trade, investment and mobility both within the WB6 region as well as the region and the EU. As such it is noted that the REA *"is an essential step for furthering economic integration between the EU and the Western Balkans and boosting the attractiveness of the regional market"*. All of the elements found in the MAP for REA can be found in the new Strategy and in particular related to the: investments, facilitation of the trade, digitalization of the markets in region, CEFTA implementation and the mobility of the workforce. In other words, from the Strategy it is evident that intraregional efforts required for the formation REA are equally important in the EU accession and will complement and speed up the integration of the region within the EU. Therefore, EU not only vocally supports the formation of REA, but the Strategy foresees that the EU provides technical expertise during the implementation. Likewise, the enhancement of connectivity, both within the region, as well as with the EU remains one of the priorities in the new EU strategy for WB6 countries. Primarily, this means the continuation of the Berlin Process, in the sense that the increase in energy and transport connections through the implementation of the two respective treaties and improved infrastructure should boost the economic growth, competitiveness and contribute to the overall development and integration of the region.

As the whole strategy is addressed primarily towards the region rather than countries individually, it is evident that regional approach not only remains, but seems to be an important aspect for the future EU integration process. While the countries will need to individually fulfil their obligations and meet all of the criteria from Article 49 of TEU as well as the Copenhagen criteria, many of the efforts will continue to rely on intraregional integration while simultaneously integrating into the EU.

CONCLUSIONS

For Bosnia and Herzegovina, as for any other Western Balkan country, there are many opportunities and challenges in the EU integration process. As the EU accession process is multidimensional, so are the opportunities and challenges for the countries involved in this process. The concept of regional integration definitely represents one of such opportunities from which WB6 countries should benefit. As an approach, regional integration alone will not solve all the challenges the countries are facing, but it aims to strengthen the stability of the region, improve cooperation and create potential which no country alone could achieve. One should not look far to observe that the most successful example of the regional integration is the European Union itself.

European Union recognizes this notion, and it seems that in the past years the new, stronger focus on the regional integration and connectivity among WB6 countries has given some positive momentum. The basis of this new approach from the European Commission can be found in the projects and initiatives regarding the connectivity in terms of transport and energy systems. Yet, as it was seen by the leaders of WB6 countries, further economic integration would also provide better growth potential and faster convergence with the EU standards for the region. As such, further deepening of economic integration with the technical, economic and political support from the EC and its partners has resulted in the initiative for the creation of Regional Economic Area. It is important to state that REA does not account for the creation of new institutions, but it will operate on the basis of old, already established structures. The multiannual plan for REA was presented at the Summit in Trieste and endorsed by all of the political leaders of WB6 countries, including Bosnia and Herzegovina.

From the MAP it is evident that the establishment of REA is closely related to the EU acquis, WTO rules and procedures, it is in line with SAA, under the CEFTA and SEE 2020 strategy. But it is important to state that as REA is the request of the countries themselves, it is not a condition in the EU accession process and the time needed for the creation of REA will depend on the WB6 countries alone. Implementation of such a project would be an important milestone for the EU integration process and would serve as a good preparatory phase from which the countries in the region can strongly benefit, but it will not be an easy task.

For such reasons it is important to emphasize certain recommendations for the key stakeholders in the country.

- 1. The holders of political functions need to take over the responsibility and demonstrate serious political will through the realization of regional activities and improvement of regional relations.*

While REA represents a positive movement from the region and especially considering the fact that the initiative has come from the countries themselves, it seems that daily politics often have power of cyclically creating tensions and slowing regional integration. Regional structures, as well as different WB6 ministries and bodies have often cooperated smoothly, but it is the

interference of tensions arising from daily politics that present a high risk for the success and operation of regional incentives. For these reasons political leaders should not only vocally state support for such incentives, but contribute to their fulfilment through dialogue and work on better neighbourly relations. Furthermore, and more specifically, for BiH to truly fulfil what was envisioned for REA, serious approach and political will be strongly needed, both terms, often scarce in BiH throughout the past years. Considering that 2018 will be an election year in BiH, it carries significant risks not only for the work on initiatives like REA, but also for the functionality of the country in general. Past experiences have demonstrated the strength of influence which overall political ambient has on BiH economy, which in turn makes the responsibility of the governments and political elites even bigger.

2. Socioeconomic reforms in BiH must be a priority and the major focus of all levels of governments in BiH.

As mentioned throughout the analysis, one of the values of REA will be in that the economic growth potential will improve and that it will contribute in the transition to more sustainable growth models for the countries in the region. This means that in order to benefit from the REA and use the potential that it will create, the countries will need to continue with the structural reforms. This is valid for BiH as for any other WB6 country and it means that BiH still needs to keep the focus on the reforms in the areas listed in the Reform Agenda as an initial document. Various reports cited in the analysis evidence that BiH is far less competitive than the countries that joined EU most recently. Private sector in the country is weak, production is low, development should be more export oriented, and in general, Bosnia and Herzegovina has a low export, because there are not enough products and services to be exported. Especially worrying is that, according to most of the competitiveness reports, BiH significantly lacks behind EU in terms of innovation, spending on research and development and the capacity to retain and attract talent. Also, if the trend of political instability in BiH continues, which already reflected on the FDI in the past years, Regional Investment Agendas or any other agenda will not be of much help - the investors will turn to other WB6 countries and avoid Bosnia and Herzegovina. Only when macroeconomic and political stability is coupled with proper structural reforms and political willingness, BiH will be truly part of and benefit from the regional integration.

3. Ensure full commitment and coordinated approach among the domestic institutions in order to facilitate the implementation and improve the efficiency of the regional policies.

As the creation of REA will require full commitment from WB6 authorities, ministries and institutions and close coordination and cooperation with existing structures in the region related to the REA - institutional capacities of key stakeholders will play an essential role in the realization of REA. The policies regarding REA represent a serious endeavour, which will be especially challenging for Bosnia and Herzegovina as it is still facing difficulties regarding matters which are essential to the EU integration process. For BiH, CEFTA and good practices arising from the Agreement have proved to be an important initiator of regional cooperation, which resulted in the increase of the exported goods and removal of trade barriers and especially in the trade with Serbia. It is very important that the country continues in this direction with the tasks from MAP for REA, especially CEFTA AP 5 and AP 6 and becomes a member of WTO in the near future.

A harmonized and well-coordinated approach among the relevant institutions in BiH, together with long term planning will ensure proper implementation, unleashing the full potential of regional economic integration.

4. *Involvement of civil society*

In this sense, it is also important to stress that like with many other complex activities, policies and plans such as this one, a multi-stakeholder approach is needed. Besides the private sector which might play a pivotal role, involvement of civil society will come as equally important. CSOs can not only monitor the performance, implementation and alignment with national plans, but they can also mobilize the private sector and wider public. In raising awareness regarding the functionality and importance regional integration, civil society can contribute to improved quality, transparency and understanding of the Regional Economic Area for WB6. Furthermore, all parties should be included in the stages of monitoring and coordination of the plan, to ensure proper smoother communication of all stakeholders. Therefore, the civil society can and should play an important role in the efforts for the establishment of REA, through different forms of cooperation with the WB6 authorities and regional structures and organizations, which will give the citizens of BiH more involvement in the processes contributing to the sustainable and EU oriented development of BiH and the WB6 region.

New EU strategy for Western Balkans opens up the possibility for EU enlargement in 2025. Following the five year halt, this represents an important signal from the Brussels that the "door to the EU" is still open for the WB6 countries. As such, it should serve as an impetus not only for Serbia and Montenegro as the frontrunners, but for the other WB6 countries as well. The Opinion of the EU Commission on BiH membership application will in detail analyse legislative and constitutional framework with EU acquis, where BiH will know what and how much work lies ahead in the future. Also, it will be a clear assessment on where BiH currently is with the reforms which should bring the country closer to the EU. One thing is certain, the perspective of the EU integration is first and foremost in the hands of BiH and there is no doubt that the initiatives, such as Regional Economic Area, which reflect the process of the EU accession in every sense, except the formal, will contribute to the better EU perspective of the WB6 countries.

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