



Research Article

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Fostering Economic Cooperation for Enhanced Benefits in the Western Balkans: Needs, Practices and Values

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Abstract

The Western Balkan nations continue to face formidable challenges on their path towards integration with the European Union (EU) and the transformation of their political, economic, and social landscapes. Despite numerous regional initiatives and collective efforts, meaningful progress has remained elusive, leaving these countries among the least economically developed in Europe. This paper underscores the critical importance of implementing structural reforms to foster robust economic cooperation and enhance collaboration among institutions within the Western Balkans. By prioritizing the creation of an open labor market and advancing collaborative endeavors, the region can strengthen its integration with the EU and improve the quality of life for its citizens. Recognizing the urgency of these reforms, this study advocates for concerted action to address the persistent economic stagnation and social upheaval plaguing the Western Balkans, positioning them as vital partners in the broader European Economic Area.

Keywords: Western Balkan, regional cooperation, common market, employment

1. Introduction

The term "Western Balkans" predominantly serves as a political classification for a region encompassing Southeast European countries that have not yet attained European Union membership. Specifically, this region includes Albania and the former Yugoslav nations, excluding Slovenia and Croatia. The countries commonly referred to as the Western Balkans are Bosnia and Herzegovina, Montenegro, North Macedonia, Kosovo, Albania, and Serbia. While there is a geographical reference to the western part of the Balkan Mountains along the Bulgaria-Serbia border, it is imperative to acknowledge the fluidity and lack of strict definition surrounding this term.

In the context of the European Union, the "Western Balkans" denotes Balkan countries outside the EU. These countries all aspire to future EU membership, aiming to embrace democratic values and governance standards. Until this goal is achieved, they remain actively engaged in preparatory

programs under the auspices of the EU. Among these six countries, often referred to as the Western Balkans 6 (WB6), four are candidate countries for EU membership: Montenegro, Albania, Serbia, and North Macedonia. Bosnia and Herzegovina have applied for candidacy, and Kosovo, having submitted its application on December 14, 2022, is regarded by the EU as a potential candidate.

Despite some progress, the Western Balkan nations continue to rank among the poorest in Europe, with their efforts towards convergence with EU living standards trailing behind more prosperous neighboring countries. As highlighted by Skayannis P. and Skyrgiannis H. (2002), the Balkans are caught in a challenging cycle that necessitates substantial external assistance, not through warfare, but through investment in infrastructure to initiate progress. Development theories suggest that significant investment in infrastructure is essential to create the foundational conditions for production, transportation, and a robust economy. According to Kyrkilis and Nikolaidis (2003), regional cooperation and integration may serve as a pivotal mechanism for amalgamating distinct markets within the region. Furthermore, the establishment of regional cooperation, encompassing neighboring Southeast European nations, has been identified as a fundamental precondition for the European Union accession process of Western Balkan countries (Grupe and Kusic, 2006). In summary, Western Balkan countries must adopt a comprehensive approach to expedite their convergence with EU living standards. This strategy entails the simultaneous implementation of prudent macroeconomic policies, ambitious structural reforms, and measures to foster economic integration. Fundamental prerequisites include maintaining macroeconomic and fiscal stability alongside decisive structural adjustments to establish a foundation for sustainable and robust growth. This growth model should rely on private sector development, increased investments, and enhanced export activities. These structural reforms are pivotal for unlocking the benefits of regional integration, leading to heightened productivity, greater investment inflows, and job creation—essential components in the pursuit of EU-level living standards. Economic integration, inextricably linked with productivity, is critical for realizing economies of scale. The pace and depth of reforms aimed at narrowing income disparities will be central in shaping the trajectory of economic integration (Temjanovski, 2021).

The European Union has faced challenges in creating a unified Balkan market, where higher degrees of liberalization and integration among countries could thrive. Weak cooperation among Western Balkan countries is evident in both the economic and political contexts of these nations. This region has long been regarded as one of the least developed in Europe, resulting in significant emigration of the population and labor force to more developed EU countries. To overcome these challenges, a concerted effort towards regional cooperation and comprehensive reforms is essential.

2. Methodology

The structure of this paper unfolds as follows: Section 1 constitutes the Introduction, while Section 2 delves into the methodology and conducts a comprehensive review of existing literature. In Section 3, we present statistical data on the economic development and competitiveness of the Western Balkan nations. Section 4 focuses specifically on the trade dynamics between the Western Balkans and the European Union, as well as other significant trading partners, utilizing the findings derived from our empirical analysis. Lastly, Section 5 encapsulates the summary and conclusion. The methodology adopted in this study encompasses both quantitative and qualitative approaches, as well as historical analysis methods commonly employed by various developed, developing, and emerging economies. These approaches align with the fundamental principles underpinning the functioning of regional communities, exemplified by entities like the European Coal and Steel Community and the Visegrad Group (also known as the Visegrad Four or V-4). An illustrative positive case is the V-4, comprising the Czech Republic, Hungary, Poland, and Slovakia. The V-4's mission has been to foster deeper interconnections and enhance multi-sectoral cooperation among member countries, spanning economic, political, cultural, military, energy realms, and other areas of joint endeavors. Primary data stems from the empirical methodology and projection methods utilized to enhance the business

climate within the country, aimed at bolstering economic collaboration, particularly through the creation of more favorable conditions to attract foreign direct investment. This initiative is designed to strengthen the infrastructural, economic, political, and cultural ties of Western Balkan countries, ultimately leading to an elevated standard of living, economic development, and the prosperity of its citizens. Such cooperative models have already proven their effectiveness in achieving higher-quality, more cost-effective collaborations with trading partners. These efforts are poised to serve as a motivating factor for countries striving to meet the essential criteria for European Economic Community membership. To strengthen this study, we employ a multi-faceted research methodology that includes:

- a. Quantitative Data Analysis: Utilizing statistical tools to analyze economic indicators, trade flows, and competitiveness metrics of the Western Balkan nations.
- b. Case Studies: Examining successful regional initiatives such as the European Coal and Steel Community and the Visegrad Group to draw parallels and lessons applicable to the Western Balkans.
- c. Comparative Analysis: Comparing different regional cooperation models to evaluate their impact on economic development and integration, providing insights into best practices and potential strategies for the Western Balkans.

This paper seeks to illuminate the pivotal role of economic cooperation among Western Balkan countries, reinforcing the economic and political infrastructure to facilitate bilateral and multilateral trade flows. We employ an EU regional model to achieve this, aiming to enable the free movement of people, goods, services, capital, and information, adhering to the fundamental principles observed during the creation of the single market in the EEA and later in the EU. The integrative model we propose for the Western Balkans should act as a catalyst for the further integration of the six nations into the EU, creating a unified market of approximately 17.6 million individuals characterized by economic growth, fiscal discipline, and low unemployment rates (OECD, 2023).

3. Economic Development and Competitiveness in the Western Balkan Countries

Analysis of GDP per capita in the Western Balkans, factoring in purchasing power parity, reveals a substantial disparity compared to EU countries. The region's economic output is approximately half that of Eastern European EU nations, a third of Southern EU member states, and only a quarter of the wealthiest EU members in Western Europe. This stark contrast highlights a significant developmental gap between the Western Balkans and their more prosperous counterparts (Eurostat, 2023). Furthermore, the Global Competitiveness Index from the World Economic Forum underscores this divide, indicating that the Western Balkans significantly trail behind their EU neighbors, including Central and Eastern European (CEE) countries within the same regional context (World Economic Forum, 2023). Addressing these disparities in economic development and competitiveness is essential for fostering sustainable growth and elevating living standards in the Western Balkan countries. Strategic policies, substantial investments, and collaborative efforts are necessary to bridge this gap and pave the way for a more prosperous future (European Union, 2023).

Table 1. Exports and Imports as Percentage of GDP in Western Balkan Countries (2022)

		2018	2019	2020	2121	2022
<i>Albania</i>	Annual Percentage Change in Real Gross Domestic Product	4.0	2.1	-3.3	8.9	4.8
<i>(ALB)</i>	Unemployment	12.8	12.0	12.2	12.1	11.3
	Inflation	2.0	1.4	1.6	2.0	6.7
	Direct investment (FDI, net)	8.0	7.5	6.7	6.5	6.7
	Trade in good balance (% of GDP)	-22.4	-22.9	-22.5	-24.8	-23.8
<i>Bosnia and Herzegovina</i>	Annual Percentage Change in Real Gross Domestic Product	4.6	2.3	-3.3	7.1	4.0
<i>(BIH)</i>	Unemployment	18.4	15.7	15.9	17.4	15.4
	Inflation	1.4	0.6	-1.1	2.0	14.0
	Direct investment (FDI, net)	2.9	2.1	1.8	2.3	2.5
	Trade in good balance (% of GDP)	-22.5	-22.3	-18.0	-18.3	-22.1

		2018	2019	2020	2021	2022
Republic of North Macedonia (MKD)	Annual Percentage Change in Real Gross Domestic Product	2.8	3.9	-4.7	3.9	2.1
	Unemployment	21.0	17.5	16.6	15.8	14.5
	Inflation	1.5	0.8	1.2	3.2	14.1
	GDP Direct investment (FDI, net - % of)	5.6	3.2	1.4	3.3	5.2
	Trade in good balance (% of GDP)	-16.2	-17.3	-16.6	-20.3	-26.8
Kosovo (KOS)	Annual Percentage Change in Real Gross Domestic Product	3.4	4.8	-5.3	10.7	3.5
	Unemployment	29.6	25.7	25.9	20.7	/
	Inflation	1.1	2.7	0.2	3.3	11.6
	Direct investment (FDI, net)	3.4	2.7	4.2	4.0	6.7
	Trade in good balance (% of GDP)	-44.7	-44.1	-41.7	-49.0	-52.7
Montenegro (MNE)	Annual Percentage Change in Real Gross Domestic Product	5.1	4.1	-15.3	13.0	6.1
	Unemployment	15.5	15.4	18.4	16.9	15.1
	Inflation	2.9	0.5	-0.8	2.5	11.9
	Direct investment (FDI, net)	6.9	6.2	11.2	11.7	13.5
	Trade in good balance (% of GDP)	-43.9	-41.7	-39.2	-38.7	-46.2
Serbia (SRB)	Gross domestic product (in real terms, annual % change)	4.5	4.3	-0.9	7.5	2.3
	Unemployment	13.7	11.2	9.7	11.0	9.4
	Inflation	2.0	1.8	1.6	4.1	12.0
	Direct investment (FDI, net)	7.4	7.7	6.3	6.9	7.1
	Trade in good balance (% of GDP)	-11.9	-12.2	-11.1	-11.3	-15.5
EU	Gross domestic product (in real terms, annual % change)	2.1	1.8	-5.6	5.4	3.5
	Unemployment	7.4	6.8	7.2	7.1	6.2
	Inflation	1.8	1.4	0.7	2.9	9.2
	Direct investment (FDI, net)	4.8	4.4	4.7	0.6	1.6
	Trade balance (% of GDP)	4.9	4.3	4.2	-3.7	-0.6

Source: (European Union 2023)

Regional and subregional initiatives play a crucial role in addressing divisions and promoting neighborly relations, contributing to peace, stability, and enhanced regional competitiveness. These collaborative endeavors align with the European Neighbourhood Policy, emphasizing the mutual benefits of assisting neighboring countries (Ferrero-Waldner, 2005).

Despite challenges, recent years have seen relative macroeconomic stability in the Western Balkans, with notable achievements in health, education, and information and communications technology. The region exhibits significant potential across various sectors, including trade, transport, energy, and tourism.

The European Bank for Reconstruction and Development (EBRD) actively supports the region's integration efforts, recognizing that approximation to the European Union represents more than just economic reforms—it embodies a vision of lasting peace and prosperity (EBRD, 2023).

Acknowledging the imperative of expanding regional cooperation, particularly in economic realms such as cross-border trade and infrastructure connectivity, is crucial for stimulating GDP growth, employment rates, and reducing unemployment (Eurostat, 2023).

Delving into economic data provided by Eurostat and national statistical institutions, along with insights from Table 2, offers a comprehensive understanding of the region's economic landscape (Eurostat, 2023).

For instance, North Macedonia exhibited the highest ratios of both exports and imports to GDP among Western Balkan nations in 2022 (Eurostat, 2023). Serbia, Bosnia and Herzegovina, Albania, Montenegro, and Kosovo also demonstrated varying degrees of export and import dynamics, each contributing to the region's economic landscape (Eurostat, 2023).

In summary, addressing economic disparities and enhancing competitiveness in the Western Balkans require concerted efforts, guided by strategic policies and robust regional cooperation, to propel the region towards sustainable growth and integration into the broader European framework.

4. The Western Balkans' Trade Relations with the EU and Other Key Partners

Trade serves as a linchpin in the European Union's multifaceted efforts to bolster peace, stability, freedom, and economic prosperity within the Western Balkans region (see Table 2). The countries of

the Western Balkans all share a European integration perspective, a recognition that first came to light during the Feira European Council in 2000. This perspective was reaffirmed and reinforced by subsequent landmark events such as the Thessaloniki European Council in 2003 and the Sofia European Council in 2018. This overarching European perspective is intricately woven into the fabric of the Stabilization and Association Process, a cornerstone of the EU's policy in dealing with the Western Balkan nations. Within this process, it is acknowledged that all Western Balkan countries hold a collective destiny as future EU Member States. This cohesive vision underscores the commitment to alignment with European principles, values, and standards, with the aspiration of achieving full integration into the European Union (European Union, 2023).

Table 2. Western Balkan Countries export and import shares with main partners

	Export shares		Import shares
European Union - 27 countries (from 2020)	69.2	European Union - 27 countries (from 2020)	54.1
Other Western Balkan Countries	14.9	Other Western Balkan Countries	8.9
Russia	2.9	China	10.5
Turkey	2.0	Turkey	5.9
China	1.8	Russia	3.9
Other	9.1	Other	16.7
World	100.0	World	100.0

Source: <https://ec.europa.eu/eurostat/statistics> (European Union 2023)

In examining Table 2, which elucidates primary trading partners, the European Union emerges as the dominant force, accounting for 69.2% of exports and 54.1% of imports (Eurostat, 2023). While regional trade within the Western Balkans holds significance, with 15% of exports and 8.9% of imports, the EU's economic influence is undeniable. This aligns with the findings of Nenadović and Mijović (2018), who emphasize the pivotal role of the EU in driving economic integration and stability in the Western Balkans.

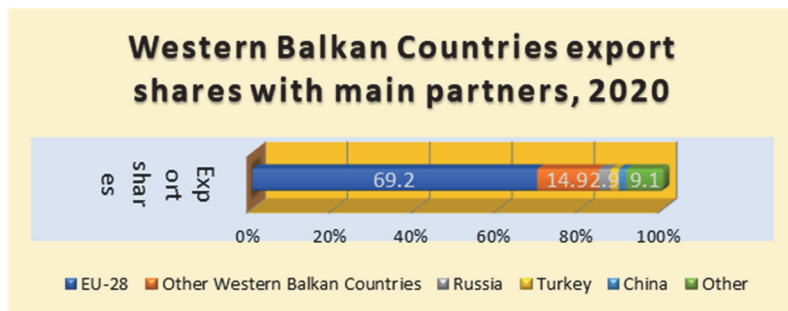


Figure 1. Export Shares in Western Balkan Countries

Source: Prepared by the authors on the basis of data from the Eurostat <https://ec.europa.eu/eurostat/statistics>

Despite the EU's prominence, China's growing import share (10.5%) underscores the region's diversification efforts in trade partnerships. However, its relatively small export share (2%) suggests room for expansion in export-oriented economic strategies (Eurostat, 2023). This trend mirrors broader discussions in the literature on the increasing economic influence of China in the Balkans

(Tanner, 2020).

Figures 1 and 2 visually represent export and import shares, offering nuanced insights into intra-regional and extra-regional trade dynamics (Eurostat, 2023). These findings are consistent with research by Besimi and Hyseni (2020), highlighting the importance of visual representations in elucidating complex trade patterns and their implications for regional economic development.

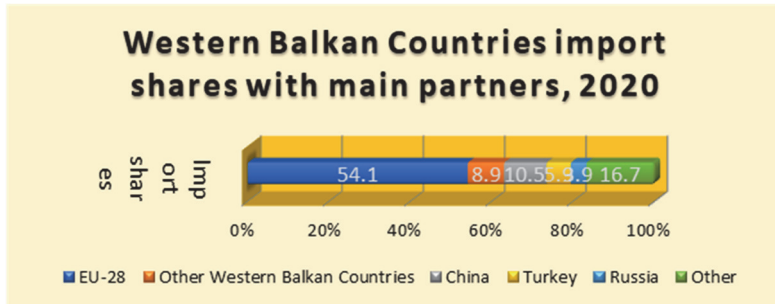


Figure 2. Import Shares in Western Balkan Countries

Source: Prepared by the authors on the basis of data from the Eurostat <https://ec.europa.eu/eurostat/statistics>

An analysis of exports and imports as a percentage of GDP reveals a positive trajectory across most Western Balkan countries, signaling increased trade openness and engagement with global markets (see Figure 3). However, the disruptive impact of the Covid-19 pandemic, particularly evident in 2020, underscores the region's vulnerability to external shocks (Eurostat, 2023; Kaitovic, 2021).

Moreover, the EU's trade surplus with the majority of Western Balkan partners in 2020 underscores the symbiotic economic relationship between the EU and the region, with the EU serving as a vital export destination. This observation is echoed in studies by Papagiannakis and Martin (2019), highlighting the significance of trade relationships in driving economic growth and stability.

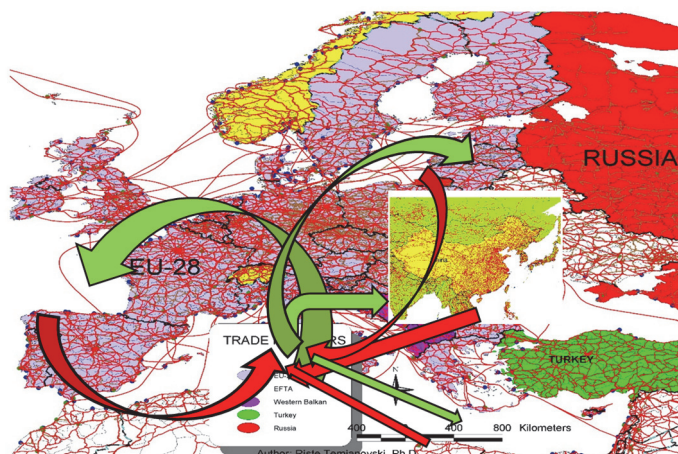


Figure 3. Map View of Export and Import Shares with Main Partners in Western Balkan Countries

Source: Prepared by the authors on the basis of data from the Eurostat 2023, <https://ec.europa.eu/eurostat/statistics> - Note: European Union 28 countries, from 2020 - 27 countries

Despite progress, challenges persist in achieving income parity with the EU, necessitating sustained reforms and macroeconomic stability (World Bank, 2020). This sentiment is echoed in the literature, with scholars like Marangos (2019) emphasizing the imperative of structural reforms and investment in human capital to spur economic convergence in the Western Balkans.

In conclusion, while the EU remains the primary trade partner for the Western Balkans, diversification efforts and challenges such as the Covid-19 pandemic underscore the region's evolving trade dynamics. Addressing these challenges requires concerted efforts, guided by insights from diverse literature, to foster sustainable economic growth and integration in the Western Balkans region.

5. Findings and Discussion

The findings emphasize the necessity of structural reforms and the creation of an open labor market. The discussion on the benefits of economic cooperation and integration with the EU is compelling. However, this analysis can be enhanced by providing specific examples of successful regional initiatives or case studies that illustrate the potential benefits of improved cooperation.

- **Structural Reforms and Open Labor Market**

The Western Balkan countries face significant structural challenges that impede their economic progress and EU integration efforts. These include high unemployment rates, weak governance, widespread corruption, and insufficient infrastructure. Comprehensive structural reforms are essential for fostering economic growth and stability. An open labor market, characterized by the free movement of people and improved labor mobility, is crucial for reducing unemployment and enhancing the region's competitiveness.

- **Benefits of Economic Cooperation and Integration with the EU**

Economic cooperation and integration with the EU offer numerous benefits for the Western Balkan countries, including access to a larger market, increased foreign direct investment (FDI), improved infrastructure, and enhanced political stability. The following examples and case studies illustrate the potential benefits of improved cooperation:

- **Stabilisation and Association Process (SAP)**

Launched in 1999, the Stabilisation and Association Process aims to stabilize the region and facilitate closer integration with the EU. It provides a framework for cooperation, including financial assistance, trade concessions, and political dialogue. The SAP has helped the Western Balkan countries make significant progress in political and economic reforms, leading to greater regional stability and economic growth.

- **Central European Free Trade Agreement (CEFTA 2006)**

Revised in 2006 to include the Western Balkan countries, CEFTA aims to expand trade and investment by eliminating tariffs and non-tariff barriers among member countries. This agreement has enhanced trade flows, improved economic relations, and increased foreign investment in the region. CEFTA serves as a model for successful regional economic cooperation.

- **Regional Cooperation Council (RCC)**

Established in 2008, the RCC promotes regional cooperation and European and Euro-Atlantic integration of the Southeast European countries. It focuses on areas such as economic and social development, energy, infrastructure, and security. The RCC has been instrumental in fostering dialogue, building trust, and coordinating regional efforts to address common challenges.

- **Berlin Process**

Initiated in 2014, the Berlin Process is an intergovernmental initiative aimed at improving cooperation among the Western Balkan countries and supporting their European integration. It focuses on connectivity, economic development, regional cooperation, and reconciliation. The Berlin Process has led to numerous infrastructure projects, increased youth cooperation, and strengthened political commitment to regional integration.

5.1 *Comprehensive Approach for EU Integration*

The findings indicate that the Western Balkan countries must adopt a comprehensive approach to expedite their convergence with EU living standards. This strategy entails the implementation of prudent macroeconomic policies, ambitious structural reforms, and measures to foster economic integration. Fundamental prerequisites include maintaining macroeconomic and fiscal stability alongside decisive structural adjustments to establish a foundation for sustainable and robust growth. This growth model should rely on private sector development, increased investments, and enhanced export activities. These structural reforms are pivotal for unlocking the benefits of regional integration, leading to heightened productivity, greater investment inflows, and job creation—essential components in the pursuit of EU-level living standards.

5.2 *Challenges and the Path Forward*

The European Union has faced challenges in creating a unified Balkan market, where higher degrees of liberalization and integration among countries could thrive. Weak cooperation among Western Balkan countries is evident in both the economic and political contexts of these nations. This region has long been regarded as one of the least developed in Europe, resulting in significant emigration of the population and labor force to more developed EU countries. To overcome these challenges, a concerted effort towards regional cooperation and comprehensive reforms is essential. Addressing these needs is crucial for shaping the overall trajectory towards EU integration and economic development in the Western Balkans.

Focusing on structural reforms and creating an open labor market will enhance competitiveness and reduce unemployment. Drawing lessons from successful regional initiatives like the Stabilisation and Association Process, the Central European Free Trade Agreement, the Regional Cooperation Council, and the Berlin Process can provide valuable insights and frameworks for fostering economic cooperation and integration. By leveraging these models, the Western Balkan countries can create a conducive environment for sustainable growth, attract foreign direct investment, and ultimately improve the living standards of their citizens. This approach will facilitate their integration into the EU and contribute to the broader stability and prosperity of the region.

6. **Conclusion**

In recent years, the Western Balkan countries have demonstrated encouraging progress across economic, political, and social dimensions. Strong growth rates, improved employment opportunities, and notable strides in poverty reduction are significant achievements. Yet, even with this progress, a World Bank prognosis suggests that, at current growth rates, it would take an additional six decades for income levels in the Western Balkans to align with those of the European Union. Nevertheless, with the right policy reforms and sustained macroeconomic stability, there's optimism that average annual growth rates reaching 5 percent could lead to parity with EU income levels in just two decades.

The realization of significantly greater prosperity and the fulfillment of expectations in the Western Balkans hinge on crucial factors: a political commitment to the well-being of the people in this region, the establishment of joint economic programs, and the facilitation of high-quality transport infrastructure. The quality and success of economic development, and more broadly, the lives of Balkan citizens, depend on the implementation of numerous structural changes. Achieving higher economic growth demands stronger economic integration within the region, coupled with ongoing enhancements in the business climate to stimulate private sector investments and job creation.

Western Balkan leaders must collaborate to propel economic cooperation across borders, particularly in transport, trade, and connectivity, as these measures will act as catalysts for business

growth. Drawing lessons from successful regional initiatives like the Stabilisation and Association Process, the Central European Free Trade Agreement, the Regional Cooperation Council, and the Berlin Process can provide valuable insights and frameworks for fostering economic cooperation and integration.

The Western Balkan countries have collectively demonstrated a shared interest in business and a mutual need for common economic prosperity. This history of common interests underscores the potential for a unified Balkan market, which holds the key to a prosperous future for the region. The road ahead for the Western Balkans is intertwined with fostering political will, pursuing joint economic initiatives, bolstering vital infrastructure, and driving necessary structural changes. Key challenges include entrenched political corruption, resistance to change from vested interests, and socio-economic disparities. Addressing these challenges requires a multi-faceted approach, including enhancing governance, building institutional capacity, engaging in inclusive policy-making, and promoting economic diversification.

Exploring the roles of various stakeholders-governments, the private sector, and civil society-provides valuable insights. Governments are responsible for creating a legal and regulatory framework, negotiating trade agreements, and ensuring political stability. The private sector drives economic growth through investment and innovation and can collaborate in public-private partnerships. Civil society promotes transparency, accountability, and social inclusion, acting as watchdogs and mobilizing public support for reforms.

Through collaborative efforts and leveraging these insights, a united market can be realized, paving the way for lasting prosperity and achieving the aspirations of the people in this dynamic and diverse region.

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