

POSITION PAPER

# Cooperation with the Countries of the Western Balkans

On the status and the prospects of economic development in the Countries of the Western Balkans from the perspective of German business

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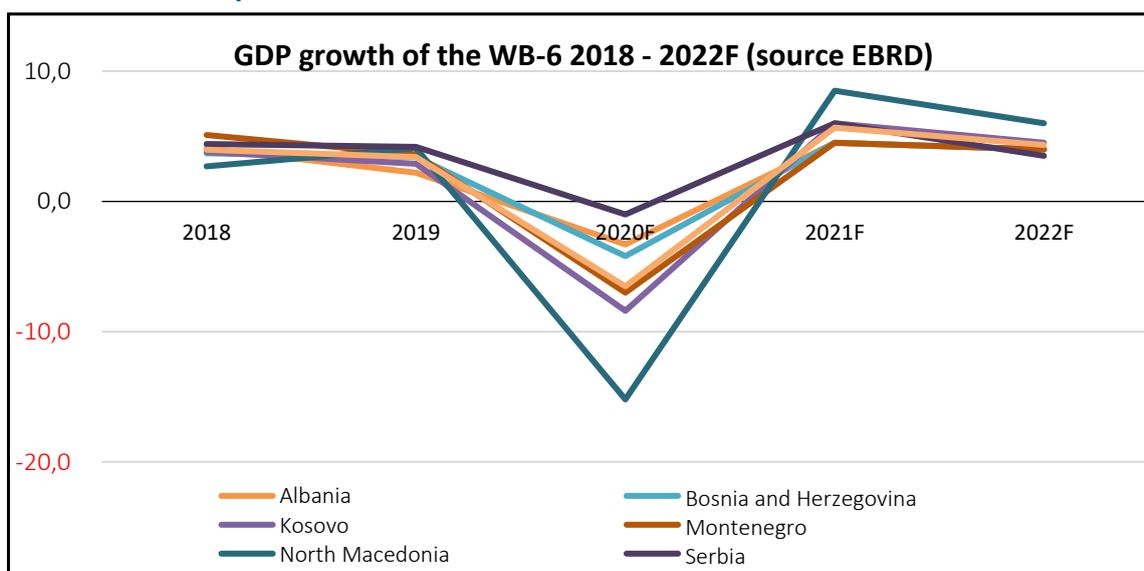
## A) Introduction

Since the first Western Balkans Summit in 2014, which took place at the initiative of German Chancellor Angela Merkel, the most important members of the governments of the six Countries of the Western Balkans (WB-6: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) have met once a year with top representatives from the EU and European government representatives. Slovenia and Croatia, as direct neighbours, were involved as observers from the very start. The aim of this so-called "Berlin Process" is to expand regional cooperation and to launch and strengthen sustainably joint projects in areas such as energy, the expansion of transport infrastructure or scientific cooperation. Further summits of this format took place in Austria (2015), France (2016), Italy (2017), the United Kingdom (2018), Poland (2019) and most recently in Sofia (2020) at the invitation of the governments of Bulgaria and North Macedonia.

The German Eastern Business Association (OA) has been actively involved in this process with its member companies from the very beginning and has organised its own events with partners from the region to promote dialogue on the needs of the business community. For example, just a few weeks after the first summit in Berlin in 2014, the German Eastern Business Association (OA), together with the Montenegrin Chamber of Commerce, organised a regional business conference in Montenegro to discuss the progress and prospects of regional cooperation with government and business representatives. Further conferences followed in Budva (2016) and Belgrade (2018), as well as numerous discussion formats in a regional or bilateral context.

In the summer of 2021, the Western Balkans Summit, hosted by German Chancellor Angela Merkel, was held in Berlin once again, accompanied by the meeting of the Ministers of Economy of the Countries of the Western Balkans, organised at the invitation of German Minister of Economics Peter Altmaier. We take this opportunity to present this paper on the current state of economic relations with the Countries of the Western Balkans.

### Economic development



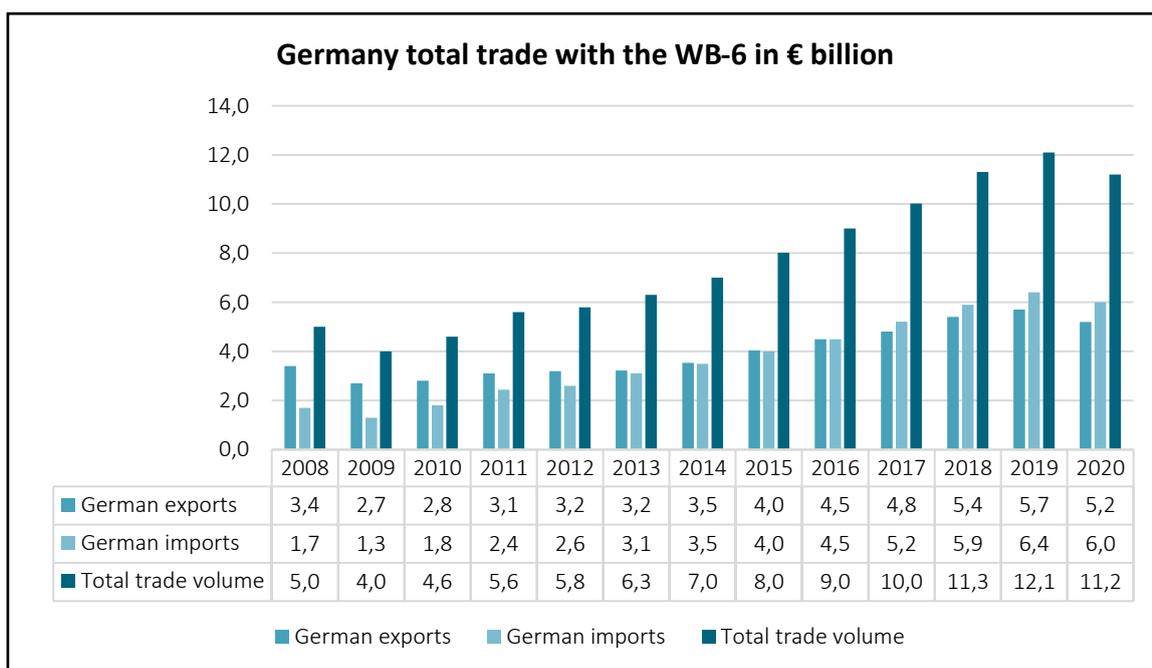
Source: EBRD, 2021

The economic development of the Countries of the Western Balkans was characterised by continuous growth until 2019. The signals for further growth were green until the outbreak of the COVID-19 pandemic in spring 2020. The pandemic then also led to slumps in economic growth and trade in the WB-6 region. Since the beginning of 2021, a rebound process has been underway. The forecasts of the European Bank for Reconstruction and Development (EBRD) from June 2021 are for an average increase in growth in the Countries of the Western Balkans of five per cent, and for 2022 of 4.3 per cent. It is important to build on the positive forecasts for the time after the pandemic.

### Commitment of German business in the Countries of the Western Balkans

Germany is and will remain an important economic partner for the region. This is reflected in the investments and even more so in the number of jobs created as a result. In Serbia alone, around 70,000 jobs are expected to be generated, with another 35,000 in Bosnia and Herzegovina, according to German business delegations, and around 20,000 in North Macedonia, as well as thousands more in Albania, Montenegro and Kosovo. This total of more than 125,000 jobs is an expression of the sustained commitment of German business in the region.

Another indicator of the intensive cooperation with the region is foreign trade. The exchange of goods with the region has tripled between 2009 and 2019.



Source: Calculations by the German Eastern Business Association (OA), Federal Statistical Office (Destatis), 2021

Due to the pandemic-related lockdown, trade in goods with the region fell by 7.4 per cent in 2020. The developments in the individual countries varied greatly in 2020. While German trade with Albania (-0.8 per cent) and Serbia (-2.2 per cent) remained comparatively stable, trade with North Macedonia declined the most by 14.5 per cent, with Montenegro by 6.4 per cent and with Bosnia and Herzegovina by 6.3 per cent.

The balance sheet for the first half of 2021, which shows a significant upturn in trade with the Countries of the Western Balkans, provides grounds for optimism. With an increase of almost 38 per cent compared to the same period last year, the value of traded goods reached almost seven billion euros. So, after the sharp slump in the COVID-19 year 2020, there is now a strong recovery. If one compares the total exchange of goods with that of the first half of 2019, there is also a robust increase in this respect. Goods worth just under six billion euros were traded during that same period.

Countries of origin and destination	Goods trade in k€			German imports in k€			German exports in k€		
	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019
Serbia	3,014,808	2,365,135	2,533,114	1,284,615	1,036,867	1,094,800	1,730,193	1,328,268	1,438,314
North Macedonia	2,561,335	1,558,467	2,253,937	1,910,944	1,115,514	1,620,992	650,391	442,953	632,945
Bosnia and Herzegovina	903,599	755,822	842,840	443,772	371,308	397,763	459,827	384,514	445,077
Albania	220,329	186,131	195,860	63,350	73,566	69,483	156,979	112,565	126,377
Kosovo	197,719	128,173	136,995	26,718	21,728	14,919	171,001	106,445	122,076
Montenegro	66,151	58,155	64,591	11,319	13,716	8,732	54,832	44,439	55,859
<b>Total WB-6 trade</b>	<b>6,963,941</b>	<b>5,051,883</b>	<b>6,027,337</b>	<b>3,740,718</b>	<b>2,632,699</b>	<b>3,206,689</b>	<b>3,223,223</b>	<b>2,419,184</b>	<b>2,820,648</b>
<b>Total German trade</b>	<b>1,249,500,000</b>	<b>1,076,400,000</b>	<b>1,222,547,251</b>	<b>576,400,000</b>	<b>499,700,000</b>	<b>5,556,174,284</b>	<b>673,100,000</b>	<b>576,700,000</b>	<b>666,372,967</b>

Source: Calculations by the German Eastern Business Association (OA), Federal Statistical Office (Destatis), 2021

## Overcoming the COVID-19 pandemic

In order to mitigate the economic consequences of the pandemic, the countries of the region put together packages of measures to support the domestic economy. The scope varied considerably in some cases and was mainly determined by fiscal capacity. Parts of these packages were aimed at supporting the domestic economy, for example, through continued payment of wages, financial injections for small and medium-sized enterprises, tax relief, the deferment of payment deadlines or the suspension of enforcement measures (e.g. North Macedonia).

The EU also pledged support to the region in addressing the COVID-19 crisis, putting together a €3.3 billion package of measures in April 2020. These funds, partly reallocations of funds from the Instrument for Pre-Accession Assistance as well as credit lines from the European Investment Bank, were intended to help meet immediate needs of the healthcare system and promote the social and economic recovery of the Countries of the Western Balkans.

The EU's financial support package of more than €3.3 billion includes <sup>1</sup>:

Funds to overcome the health crisis	
	<ul style="list-style-type: none"> <li>• 41.5 million euros in emergency aid for the healthcare sector to procure medical equipment and supplies</li> <li>• 70 million euros for access to COVID-19 vaccines and the implementation of vaccination campaigns</li> <li>• 7.4 million euros to support immunisation activities</li> <li>• 1.5 million euros for cooperation with the European Centre for Disease Prevention and Control (ECDC)</li> </ul>
Funds to accelerate the socio-economic recovery	
	<ul style="list-style-type: none"> <li>• 376.5 million euros to address the economic and social consequences</li> <li>• 750 million euros in macro-financial assistance</li> </ul>
Funds to support companies and public sector investments	
	<ul style="list-style-type: none"> <li>• 385 million euros in support for small and medium-sized enterprises (SMEs)</li> <li>• 1.7 billion euros in preferential loans from the European Investment Bank</li> </ul>

For the Countries of the Western Balkans, this results in the following distribution of funds <sup>2</sup>:

Albania	
<i>Overcoming the health crisis</i>	4 million euros
<i>Accelerated socio-economic recovery</i>	46.7 million euros to address the economic and social consequences and 180 million euros in macro-financial assistance
Bosnia and Herzegovina	
<i>Overcoming the health crisis</i>	7.7 million euros
<i>Accelerated socio-economic recovery</i>	73.5 million euros to address the economic and social consequences and 250 million euros in macro-financial assistance
Kosovo	
<i>Overcoming the health crisis</i>	5 million euros
<i>Accelerated socio-economic recovery</i>	63 million euros to address the economic and social consequences and 100 million euros in macro-financial assistance
Montenegro	
<i>Overcoming the health crisis</i>	3 million euros
<i>Accelerated socio-economic recovery</i>	40.5 million euros to address the economic and social consequences and 60 million euros in macro-financial assistance
North Macedonia	
<i>Overcoming the health crisis</i>	13.5 million euros
<i>Accelerated socio-economic recovery</i>	62 million euros to address the economic and social consequences and 160 million euros in macro-financial assistance
Serbia	
<i>Overcoming the health crisis</i>	17.7 million euros
<i>Accelerated socio-economic recovery</i>	75.7 million euros to address the economic and social consequences

As early as the EU-Western Balkans Summit in May 2020, the EU Commission also announced an Economic and Investment Plan for the Countries of the Western Balkans, which was presented in October 2020. With the Economic and Investment Plan, the WB-6

<sup>1</sup> Source: [https://www.consilium.europa.eu/de/infographics/economic-support-to-western-balkans/page\\_opened\\_on\\_15\\_June\\_2021](https://www.consilium.europa.eu/de/infographics/economic-support-to-western-balkans/page_opened_on_15_June_2021).

<sup>2</sup> Source: [https://www.consilium.europa.eu/de/infographics/economic-support-to-western-balkans/page\\_opened\\_on\\_15\\_June\\_2021](https://www.consilium.europa.eu/de/infographics/economic-support-to-western-balkans/page_opened_on_15_June_2021).

would be eligible to receive, among other things, around nine billion euros in support through another Instrument for Pre-Accession Assistance (IPA III). In addition, guarantees are to be made available, for example through the European Investment Bank, which are to pave the way for investments totalling 20 billion euros. With the Instrument for Pre-Accession Assistance (IPA), the EU supports necessary reforms in the EU candidate countries (Albania, Montenegro, Serbia, North Macedonia) and the potential candidate countries (Bosnia and Herzegovina and Kosovo) in preparation for EU accession. The IPA II instrument supports beneficiaries in adopting and implementing the political, institutional, legal, administrative, social and economic reforms with a view to future EU membership. The new IPA III instrument aims to promote the economic convergence of the WB-6 countries and the use of funds to invest in sustainable infrastructure. The aim is to employ pre-accession assistance to promote stability, security and prosperity in the beneficiary countries and to support the pre-accession process to the EU.

### **Potentials and prospects of the Countries of the Western Balkans**

The region's special potential lies in the diversity of possible entrepreneurial engagement. Energy efficiency and renewable energies, software development and IT services, development, digitisation, metal processing, tourism, agri-food sector, infrastructure development (especially transport and telecommunications). German companies are already active in all these sectors. And there are still untapped market opportunities here.

The COVID-19 pandemic has also led to a rethinking on the issue of supply chains, for example. There is talk of "near-shoring", "re-shoring" or diversification of these chains. This would offer further opportunities for the region to promote itself as a business location and partner. Analyses such as a study presented in May 2021 by the Vienna Institute for International Economic Studies (wiiw), the Chambers of Commerce of WB-6, the GTAI and the Chamber Partnership Western Balkans<sup>3</sup> confirm this. Accordingly, the trend is to focus on regions that are closer to Western European markets when diversifying supply chains. The Countries of the WB-6 are attractive because of their geographical location, competitive wage levels but also because of "soft" factors such as cultural proximity and the good reputation of their workforce. However, the region will only benefit from this potential, if crucial framework conditions are created and improved. Political stability, the rule of law and infrastructure are at least as important as labour cost advantages.

How the Countries of the Western Balkans position themselves today will determine whether their economic development can benefit from the trend described above and whether they succeed in attracting new investments and entering into cooperative ventures.

The quality of the business location is essential here. The focus should be on a qualified workforce, investment in general education and vocational training, the modernisation of the education system and infrastructure. From the OA's point of view, these are all relevant levers for improving the economic framework conditions and thus for the economic prosperity of the individual countries and the region as a whole.

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<sup>3</sup> "Getting stronger after COVID 19? Nearshoring potentials in the Western Balkans." <https://wiiw.ac.at/getting-stronger-after-covid-19-nearshoring-potential-in-the-western-balkans-p-5814.html>

## B) Levers for improving the economic framework conditions

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### Rule of law

In order to tap into the diverse potentials of the Countries of the Western Balkans, improving the legal and economic framework conditions, promoting the competitiveness of small and medium-sized local enterprises, especially with a view to the European single market but also investment security, are of utmost importance.

Behaviour that complies with the rules is an important factor for the sustainable economic success of a national economy and the willingness of German companies to invest. The transparency of decision-making processes in politics and public administration and the involvement of stakeholders from politics and society in political decision-making processes are important elements. This also includes the resolute fight against corruption and similar violations of rules as well as clear legal regulations and their enforcement as paramount tasks.

### Readiness for dialogue and regional cooperation

The intensified intraregional cooperation of the WB-6 can provide important impulses for economic prosperity in the region. Harmonisation at the legal and regulatory level must therefore be further expedited.

From the OA's point of view, it is indispensable that the governments of the WB-6 further strengthen the dialogue with both the business community and society as a whole within the framework of political decision-making processes. This is the only way to develop and implement joint approaches to solutions. In addition to a reduction of bureaucracy, more efficient approval procedures and the use of eGovernment solutions, this dialogue-oriented "multi-stakeholder approach" is an essential building block for the modernisation of public administration.

For more than 25 years, the transformation process in the WB-6 has changed the economic fabric fundamentally. Different legal and regulatory requirements and a pronounced system of customs duties and other trade barriers have influenced both international and regional trade relations significantly and led to the economic disintegration of the region. These structural disadvantages in today's economies in the region are to be countered with the help of regional cooperation approaches. The Central European Free Trade Agreement (CEFTA), to which all countries in South Eastern Europe that are not members of the European Union have now acceded, is an important step in this direction.

We welcome expressly the extension of the Preferential Trade Agreements (PTAs) on the part of the EU, which was agreed at the end of 2020. The PTAs were initiated in 2000 and have now been extended for another five years until 2025. The measures support the regional economy beyond the EU's bilateral free trade agreements with the Countries of the Western Balkans, which are part of the Stabilisation and Association Agreements signed with each country in the region. This will save almost 24 million in customs duties over the five-year period, which will benefit smaller farmers in particular. These agreements will help mitigate the negative impact of the pandemic by promoting exports, building resilience and diversifying supply chains.

Furthermore, we welcome the dialogue of the WB-6 governments, as it has also been established in the framework of the “Berlin Process” and advocate its ongoing continuation. Regional exchange, free market access and fair-trade competition lead to innovation and competitiveness and thus to investment, economic growth and sustainable development.

### **Education – securing a skilled workforce – labour market**

The basis for a long-term positive economic and thus also social development in the region is a sufficiently available and well-trained skilled workforce, especially against the background of the increasing digitisation and automation of industrial processes. Beyond the availability of skilled workers, there is also a need for education and training that is geared towards the labour market. In addition to imparting continuously developing skills in information technology and the natural sciences (MINT), the introduction of vocational training and study systems is one of the central levers with the help of which citizens are able to prepare themselves for the future challenges on the labour market and open up new perspectives for themselves. Creating employment opportunities, minimising the "brain drain" and counteracting rising youth unemployment take on important social significance. The German business community supports the implementation and adaptation of vocational systems, practice-oriented study programmes and the concept of lifelong learning. The Chambers of Commerce Abroad (AHK) are already engaged with their member companies in the field of education and training and are available to the governments for a dialogue.

We must work together to counter the demographic shift in the region, which is also being driven by the ongoing migration of young, highly qualified people and families in particular. The region is currently losing not only skilled workers but an entire generation. The implementation of a targeted new education partnership must be a priority for the region's government. This must focus on a fundamental change in thinking and a new culture of learning. Only the acquisition of practical skills, the promotion of innovative approaches as well as a culture of continuous learning and further development in companies will strengthen the retention of skilled workers and young professionals in the region. In this context, it would be desirable to open up on-the-job training and continuing education even more than before to private providers. German business is available to the region with its expertise, best practices and modern technical equipment.

From the very outset, German business has supported the vocational training segments in the partner countries, which are indispensable for a consolidated economy, the expansion of value chains and for further development of the economy from an extended workbench to a location for innovation. The already existing and well-established partnerships between companies, educational institutions and governments should be strengthened in order to increase the interest and participation of young talents in vocational training programmes and to enhance the social recognition of these programmes. Together, new incentives should be established to inspire students and young adults to engage in practice-oriented training.

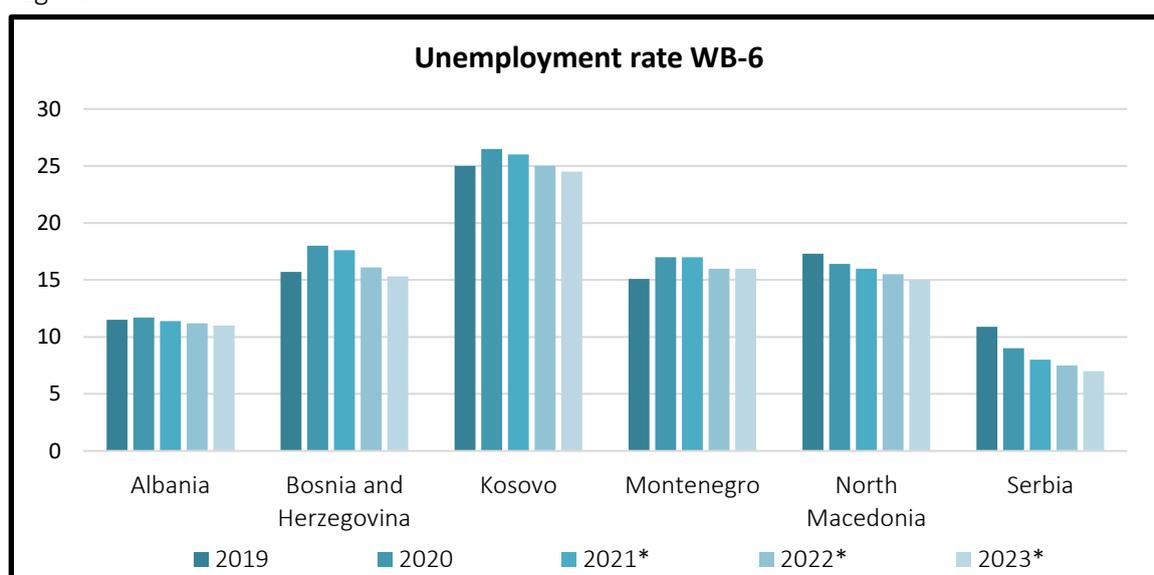
In the area of academic training, the practice-oriented components should also be strengthened against the background of the needs of the local labour markets. The closer interlinking of academic training and professional practice would enable students to gain professional experience at an early stage and thus also to review their choice of training. Companies would also have the opportunity to get to know and promote their future junior staff at an early stage. The German Eastern Business Association (OA) recommends the

mandatory inclusion of practice-oriented internships of several months in the academic curricula of all degree programmes.

The German Eastern Business Association (OA) has been building on this for almost two decades with its Zoran Djindjic Internship Programme of German Business for the Countries of the Western Balkans. In the frame of this programme, students and young graduates complete internships at German companies in Germany to strengthen their employability in the local labour markets. In addition, companies are given the opportunity to bind young professionals to their subsidiaries and partners in the region at an early stage and for the longer term. Since 2003, approximately 850 scholarship holders have completed our Internship Programme of German Business. Many of them are now employed at subsidiaries of German and other international companies as well as in leading positions in business and politics in the countries. The Internship Programme contributes to the improvement of education in the region and promotes cross-border understanding and the cultivation of continuing business relationships.

All European countries are united in their concern for securing a well-founded skilled labour force. Accordingly, they are all courting innovative and well-trained skilled workers. However, this must not lead to a shortage of skilled workers in the main economic sectors in the countries. This would entail undesirable developments in the medium and long term, inhibit companies' propensity to invest and, in the worst case, lead to a feeling of lack of prospects among the remaining population.

In the view of the German Eastern Business Association (OA), it is precisely the innovative and creative minds that are often the basis for investment decisions and at the same time the driving force behind important socio-political developments. Together, we should work to ensure that companies and employees alike see their prospects in the countries of the region. The societal and social environment, which is determined by factors such as a functioning school system, a well-equipped and high-quality healthcare system or an effective administration staffed with qualified professionals, plays an important role in this regard.



Source: GTAI, *wiiw as of 2020; April 2021*

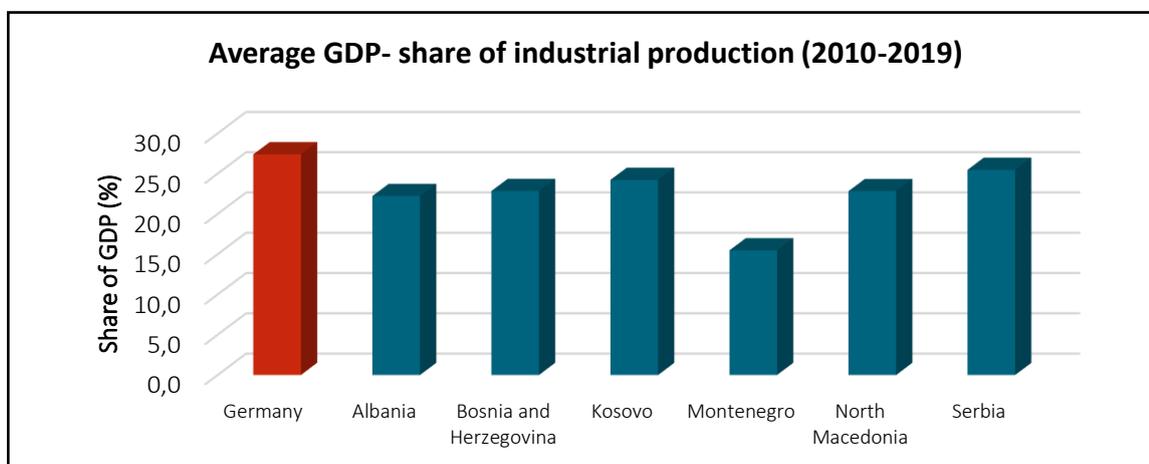
## C) Future topics for economic recovery and accelerated development

### Modernising industrial production, promoting a sustainable and competitive agricultural economy and improving digital infrastructure

Both the manufacturing sector as well as the agri-food sector represent essential pillars of the national economies of the Western Balkans and make a major contribution to regional value creation. From the OA's point of view, the Countries of the Western Balkans have considerable advantages in the global competition for attracting business settlement that go far beyond the much-cited labour cost advantages. In particular, the geographical proximity to the core and target markets in Western Europe is an important benefit.

In order to be able to utilise this unique position more effectively, however, a concerted approach in terms of economic policy and, ideally, coordination at regional level is of particular relevance in the following fields of action:

- Modernisation of the industrial base is indispensable and should be strongly supported by governments
- Innovative technologies and specific solutions
- Strengthening / promoting innovation partners of the processing industry in the region
- Diversity instead of monotony – diversification of economic sectors
- Building a circular economy and innovative energy supply



Source: World Bank, 2019

## Innovation

According to the Bloomberg Innovation Index 2021, Serbia (48) is already among the top 50 most innovative countries worldwide today. The basis for building an innovative structure in these regions is given, other countries can and must follow suit. Innovation-based economies guarantee competitiveness, employment and economic growth, positive development of local purchasing power, competitive energy and raw material prices, fair and free trade and thus sustainable and future-oriented development.

Innovations are indispensable for every business enterprise – regardless of size and industry. However, companies are not always able to pursue innovative approaches on their own. It is of elementary importance here that politics and public administration accompany the discussion in society in a positive way, provide impulses but also enable innovation through flexible framework conditions.

Cooperation leads to innovation: The cooperation between science and industry and the increased exchange among experts generates new knowledge and provides a basis for further value creation at the respective location in the future. This potential may be tapped if existing barriers to cooperation between industry and science can be broken down. For small and medium-sized enterprises in particular, it could have a great impact if research institutions succeeded in disseminating knowledge about existing companies, their R&D strategies and skills, and thus establish new collaborations.

A regular dialogue involving companies, universities, research institutions and politicians is indispensable to build these important bridges, initiate cooperation and establish a platform for exchange on necessary reforms in the fields of intellectual property or education.

## Digitization

In the Multi-Annual Plan for a Regional Economic Area (MAP REA) adopted in Trieste 2017, the topic of digitisation was assigned a very special significance and it was agreed to organise a Digital Summit in the region once a year in order to create a platform for exchange on the challenges of digital transformation. The OA and its member companies have welcomed this format explicitly because we believe that digital transformation can continue to drive the region forward, including the economic development.

Buzzwords such as Industry 4.0 or "Industrial Internet" demonstrate that the industrial mode of production in particular is facing revolutionary change. The digitisation and networking of all stages of the value chain are the declared goal of the digital transformation of companies. However, the fundamental requirement is the creation of modern, public, digital infrastructures. Similar to energy and transport infrastructures, a broadband internet connection as well as nationwide mobile and broadband internet networks are now among the basic prerequisites for the settlement and development of business enterprises. Regardless of size and industry, digital infrastructures are important to ensure future viability and competitiveness in the long term.

Various studies confirm this correlation. For example, the study "The Impact of Digital Transformation on the Western Balkans – Tackling the Challenges towards Political Stability and Economic Prosperity" from 2018 states, based on an econometric analysis, that ten per cent more investment in digital infrastructures would increase the gross domestic product

by one percentage point. This effect is brought about by follow-up investments and jobs in all sectors as well as further stimulus for innovation and productivity.

The OA has therefore supported strongly the Digital Summit series of the governments of the Countries of the Western Balkans and will continue to engage in the dialogue on digital transformation in the region in the future.

The COVID-19 pandemic has highlighted the importance of digitisation like in a magnifying glass: It was only through digital forms of commerce, education as well as healthcare that social and economic participation could be ensured. This is also underlined by a study published by the University of Graz in December 2020<sup>4</sup>. It shows that there is still a great deal of impetus to be generated in the application of digital services in public administration and trade. Even though the focus is on the Countries of the Western Balkans, the findings of this quantified empirical study can be applied to all countries in South Eastern Europe.

## Green Deal

Climate change and environmental destruction are existential threats to the entire world. It is for this reason that the European Union has agreed on the "European Green Deal", the goal of which is to reduce net emissions of greenhouse gases to zero by 2050. This goes hand in hand with an increase in energy efficiency and the share of renewable energies combined with the transition to a circular economy and sustainable transport. The measures concern the areas of financial market regulation, energy supply, transport, trade, industry, as well as agriculture and forestry.

With the Economic and Investment Plan for the Countries of the Western Balkans, the EU Commission presented a companion document for a Green Agenda for these countries in October 2020, and in November 2020 the six Heads of State of the WB-6 adopted the Sofia Declaration on the Green Agenda for the Countries of the Western Balkans.

In particular, it will be a great challenge to replace the partly obsolete coal-fired power plants with other, modern sources of energy generation. For a transitional period of time, modern, flexible gas-fired power plants will have to be employed here, which can later be operated CO<sub>2</sub>-free on the basis of hydrogen. In addition, South Eastern Europe offers great potential for the expansion of renewable energies, especially for wind and solar parks. These could not only ensure a complete supply of the domestic markets but could also be used to export energy to Central Europe. In many places, it is safe to assume that wind and solar parks are already the cheapest renewable sources of energy generation today.

The global boom in renewable energies is largely driven by private investments. Thus, the focus of politics should be on further improving the framework conditions for these investments and on accompanying and shaping the transformation process – in connection with the Green Deal – as well as on supporting competitiveness. For example, at the moment there is still a lack of comprehensive liberalisation and interconnection of the markets in order to create a transparent and thus efficient regional electricity market that integrates

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<sup>4</sup> This study was commissioned by five companies and the German Eastern Business Association and prepared by the Centre for Southeast Europe Studies at the University of Graz. *The study and policy paper may be found here: [www.digital-wb.eu](http://www.digital-wb.eu)*

with the European markets that have already been created. There is a lack of storage and transport capacities for green technologies. These need to be built up either in private initiative or in the form of public-private partnerships. The EU's reconstruction programme and the significant funds made available by the EU could be used for targeted investments. In addition to the transition to climate-neutral energy production, the implementation of effective recycling processes will also pose a challenge.

The realisation of the vision of the European Green Deal requires an environment that creates the basis for innovation with the appropriate regulatory framework. It is precisely here that the Countries of the Western Balkans have a unique opportunity to leapfrog or at least catch up with Western Europe through innovative technologies.

The implementation of the Green Deal is a joint task that can only be accomplished in a goal-oriented dialogue between politics, business and civil society and that requires the involvement of the non-EU members in the neighbourhood from the very beginning. It is important to establish a regular exchange at an early stage in which possible effects of instruments, such as the planned Carbon Border Tax Mechanism on the WB-6 or the countries of the Eastern Partnership, can be discussed.

### **Corporate Social Responsibility**

Corporate social responsibility is becoming more and more important in the face of ever closer cross-border interrelationships in the international economy. This responsibility extends increasingly also to supply chains. The more sustainable and transparent they are, the more crisis-proof the companies operating in them prove to be. This has already been demonstrated impressively by the COVID-19 crisis. That is the reason why corporate social responsibility is the order of the day.

Germany and the EU have understood the signs of the times and are already working all out on corresponding supply chain laws. Germany has taken a big step with the adoption of the Due Diligence Supply Chain Act in June 2021. However, social responsibility and sustainability in economic competition are also an issue for the Countries of the Western Balkans. This is because they offer enormous business opportunities for the companies based there – both for themselves and for their customers, as discussions have shown, for example, within the framework of the purchasing initiative for the Countries of the Western Balkans by the Federal Ministry of Economics and Technology, the Association Supply Chain Management, Procurement and Logistics (BME) and the German Chambers of Commerce and Industry (AHK) network.

In future, market participants from East and West, including political institutions, should point out this causal connection more emphatically that observing social responsibility and sustainability creates business opportunities and does justice to the cause accordingly. This is even more important because the new law in Germany imposes a direct responsibility on local companies for sustainable supplier management and threatens them with severe penalties for non-compliance.

## D) Integration into the EU single market remains the goal

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From the German Eastern Business Association's (OA) point of view, the common goal must be the European integration of the Countries of the Western Balkans, which also means integration into the EU single market.

An important intermediate step towards this is the further intensification of interregional economic cooperation between the countries, which would represent a significant contribution towards a positive economic development and could essentially also overcome the structural disadvantages of the region.

The OA continues to support the governments of the WB-6 in the modernisation process in order to pave their way towards EU membership and to contribute to prosperous economic development. The German business community stands by its investments in the region and will do its utmost to step them up, to the extent that the regulatory and legal framework conditions in the outlined areas provide incentives for further investments.

The German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft e.V.) is part of the Digital Transformation Initiative WB6+



## E) About the publisher

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The German Eastern Business Association (**Ost-Ausschuss der Deutschen Wirtschaft e.V.**), founded in 1952, is the oldest and largest regional initiative of German business. It supports the activities of German companies in 29 countries in Central, Eastern and South Eastern Europe, the South Caucasus and Central Asia. German trade with Eastern Europe accounts for around one-fifth of Germany's total foreign trade and is thus more important than trade with the USA and China combined. The German Eastern Business Association has more than 300 member companies and associations and is supported by six leading associations of German business – BDI, BGA, Bankenverband, DIHK, GDV and ZDH.

For the latest statistics, position papers and much more information on German economic relations with the 29 OA countries, please visit the website at [www.ost-ausschuss.de](http://www.ost-ausschuss.de)

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