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Business Integration in the Western Balkans and Perspectives on Membership of the European Union

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Summary

- Drawing on the Regional Cooperation Council (RCC) Business Opinion Survey and other relevant sources, this report shows that businesses in the Western Balkans have mixed perceptions of economic integration in the context of European Union (EU) accession aspirations.
- While free trade agreements have been negotiated, non-tariff barriers, weak infrastructure and political tensions limit economic integration. Most firms find trade with the EU easier than with neighbouring Western Balkan states.
- Satisfaction with the business climate varies across the region. Firms in Montenegro and North Macedonia report the highest levels of dissatisfaction, while firms in Bosnia and Herzegovina, Albania and Kosovo are more optimistic.
- Domestic firms tend to perceive their economies as the most open in the region but the proportion of businesses from neighbouring economies that agree with this view is significantly lower.
- Overall, business support for EU membership mirrors trends in public opinion. Businesses in Albania and Kosovo are overwhelmingly pro-EU, as are their citizens, whereas those in Serbia are much more sceptical, reflecting broader public scepticism in that country.
- There is a distinct difference in perception regarding EU membership between exporting and non-exporting firms. Exporting firms, especially those which trade with the EU, are significantly more optimistic about membership. This perception gap is particularly pronounced in Serbia.

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Introduction

In recent decades, the Western Balkans (WB) – a region that comprises Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia – has experienced a drastic economic and political transformation. Until the early 1990s, the region – excluding Albania – was integrated into the same political system, known as Yugoslavia. In contrast to other communist countries, Yugoslavia operated an economic system that permitted the existence of small private sector firms. Industrial production, supply chains and common trade policies were controlled in a co-ordinated economic system.

The wars of the 1990s led to the break-up of Yugoslavia and severely disrupted industrial and policy coordination. All the newly independent states faced a similar transition to capitalism. Most firms had to rebuild their trade networks under drastically different political and economic conditions. Despite the persistence of historical business connections, by the new millennium, many export- and import-oriented companies had established links with the EU market.

Since the early 2000s, efforts have intensified to foster regional economic integration in the WB. The EU has played a key role in encouraging market integration in the region through the Central European Free Trade Agreement (CEFTA) and trade with the EU through the Stabilization and Association Agreement (SAA). Both agreements promote free trade by lifting tariffs and incentivizing firms to trade. In other words, the EU has supported the integration of WB countries among themselves to prepare them for eventual EU accession. Nonetheless, business integration within the WB remains modest, and most WB states are more economically integrated with the EU than with their regional peers. The EU is the largest trade partner of the WB countries, accounting for two-thirds of the volume of their trade.[1]

While intra-regional trade is significant, it is hampered by non-tariff barriers, political tensions, inefficient customs procedures and limited infrastructure connectivity.[2] The EU has supported WB countries to improve their institutions and cooperation but trade and cooperation barriers persist, leaving some firms better positioned to take advantage of the European market than the regional market.

The question of EU enlargement looms over these integration efforts. All WB economies are either official candidates or aspirants for EU membership, committed to adopting the EU's *acquis communautaire* (body of law) across 35 chapters. Chapter 1 on the Free Movement of Goods is particularly important for businesses, as they will be required to eliminate trade barriers and harmonize product standards with the EU.[3] However,

[1] European Commission. (2024). EU trade relations with Western Balkans. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/western-balkans_en
[2] OECD. (2024). Western Balkans Competitiveness Outlook 2024: Regional Profile. https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/western-balkans-competitiveness-outlook-2024-regional-profile_359dd5b9/170b0e53-en.pdf
[3] European Commission. *Chapters of the acquis*. https://enlargement.ec.europa.eu/enlargement-

the pace of enlargement has been uneven, contributing to "enlargement fatigue" in the region, which has registered a 7% drop in business support for EU membership.[4] The European Commission's revised enlargement methodology (2020) and initiatives such as the 2023 Growth Plan for the Western Balkans aim to re-energize the process by accelerating integration into the EU single market.[5]

Much of the research on the Western Balkans and EU integration has focused on public opinion, which is characterized by political and often nationalistic rhetoric. While these perspectives are valuable, they do not necessarily represent the views of businesses, which are more directly affected by economic policy and market access. Well-integrated firms, particularly those that already trade with the EU, might have a more pragmatic and positive view of EU accession, especially in Serbia where support for the EU among the general public is the lowest in the region. However, studies on business perceptions have been relatively limited, creating an important gap in understanding of how companies in the region view EU economic integration.

This report analyses business perspectives on both regional and EU integration. Despite the challenges of fragmented markets, regulatory obstacles and political uncertainty, businesses that are more integrated – whether in the Western Balkans or with the EU – tend to view integration more positively. Drawing on the Regional Cooperation Council (RCC) Business Barometer Survey and its corresponding Public Opinion Survey, as well as additional key sources, this report highlights the main features of the WB business landscape; and shows how trade linkages, investment flows and regulatory alignment shape business opinion. This report aims to inspire future research on the benefits and costs of business integration in the region. Section 2 describes the data. Section 3 provides an overview of the business landscape in the Western Balkans and section 4 explores business satisfaction, openness and key challenges Section 5 discusses business perceptions of the EU and section 6 presents the conclusions.

Data and the analytical approach

This report is based on firm-level survey data collected annually by the RCC. The Business Opinion Survey, which is also known as the Balkan Business Barometer, has been conducted annually since 2016. It covers the six Western Balkan countries: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia. Each year, approximately 1,200 firms are interviewed across all the countries, or approximately 200 firms in each country. The respondents are business owners, managers or executives. The survey gathers a wide range of information on business perceptions related

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[4]Regional Cooperation Council (RCC). *Balkan Barometer 2024: Key Findings*. https://www.rcc.int/balkanbarometer/key_findings_2024/1/

[5] European Commission. *The Growth Plan for the Western Balkans*. https://enlargement.ec.europa.eu/enlargement-policy/growth-plan-western-balkans_en

to regional and EU integration, sales, international trade, sectors, obstacles and the characteristics of firms. Data collection is carried out through face-to-face interviews using the Computer-Assisted Personal Interviewing (CAPI) method. The survey sample is designed to capture a cross-section of firms by size and sector, although the region's private sector is dominated by small enterprises.

The RCC dataset has been used in articles published in peer-reviewed academic journals; for example, to identify the factors influencing firms' adoption of circular economy practices (Rexhepi Mahmutaj et al., 2025); to examine how negative governance perceptions among firms are associated with higher levels of informal employment (Williams and Gashi, 2022); and to explore how firms' foreign networks influence their export propensity and intensity (Gashi and Krasniqi, 2025).

In addition to the survey data, the report incorporates secondary data from the World Bank and other institutional sources to provide context on trade and investment, as well as macroeconomic factors such as trade volumes, foreign direct investment (FDI) and gross domestic product (GDP) per capita (see table 1). These quantitative indicators complement the perceptions captured by the surveys. While this report is primarily limited to descriptive analysis, it aims to provoke readers and particularly researchers to investigate WB economic integration further.

Overview of the Western Balkans Business Landscape

Small firms – those with fewer than 50 workers – dominate the private sector of the WB economy. These businesses, which represent more than 99% of all firms,[6] rely heavily on domestic demand. Only a small number have managed to establish trading or exporting relationships with neighbouring countries or EU partners. Women are underrepresented in the region's business community – only about 27.5% of business owners are female and just 14.2% of companies' senior managers are women.[7]

Despite the progress made with improving regulations and the overall business climate, many firms still struggle to export to regional and EU markets.[8] In contrast, importing firms operate more easily, given the high dependence of WB economies on EU goods and services.

Trade imbalances are a persistent challenge in the region. All the WB economies experience trade deficits in goods, albeit of different magnitudes. Energy imports, a lack of export diversification and relatively low levels of industrial production are the main explanations for the trade deficit.

[6] European Investment Fund. (2015). *Building the Future of SMEs in the Western Balkans*. https://www.eif.org/eib.org/attachments/thematic/wb-edif-building-the-future-of-smes-in-the-western-balkans.pdf

[7] Western Balkans Info Hub. (n.d.). *Focus article: Overview of the gender dimension in the Western Balkans*. https://westernbalkans-infohub.eu/documents/focus-article-overview-of-the-gender-dimension-in-the-western-balkans/

[8] European Bank for Reconstruction and Development. (2018). *Firm performance and obstacles to doing business in the Western Balkans: Evidence from the BEEPS*. https://www.ebrd.com/documents/oce/firm-performance-and-obstacles-to-doing-business-in-the-western-balkans-evidence-from-the-beeps.pdf

All six economies export to the EU single market, albeit in limited volumes. Serbia has the highest volume of exports to the EU, primarily of machinery, agricultural products and manufactured goods.[9] Albania and Montenegro focus on raw materials and energy exports, while Kosovo and Bosnia and Herzegovina export a mix of processed metals, textiles and agricultural products.[10]

Serbia stands out as having the smallest overall trade deficit (see table 1).[11] This is as a result of its stronger industrial base and export capacity, which are based on historically more developed industries. Kosovo, on the other hand, had the largest trade deficit in the region in 2023, which is explained by its weak domestic industrial production. Despite its high share of imports, North Macedonia maintains a stable deficit, which implies that its industry is relatively developed, and that its government has a more active industrial policy. Montenegro is the country with the highest GDP per capita in the WB. It depends primarily on tourism rather than trade competitiveness. Similarly, Albania is a tourist-driven economy, but it has developed its agriculture and manufacturing sectors in recent years, which is reflected in its relatively moderate balance of payments.

FDI inflows vary across the region. Kosovo and Montenegro attract the highest levels but the long-term benefits remain uncertain. Most of Kosovo's FDI relies on its diaspora, which mainly invests in property and the construction sector.[12] Bosnia and Herzegovina has the lowest FDI inflows, which might be explained by greater political polarization and instability. According to the World Bank, the region's fundamental challenge is not just balancing trade but fostering productivity and competitiveness, which continue to grow at a slow rate.[13]

The European Union remains the leading source of FDI in the Western Balkans, accounting for over half of total FDI stock. Italy, Austria and Germany are key investors. Türkiye has invested significantly in Albania, Kosovo and North Macedonia, while the Gulf countries contribute notably to Bosnia and Herzegovina. The US is a major investor in Kosovo. China has expanded its presence in Serbia, although the EU remains the dominant investor there.[14]

[9] European Commission. (2023). *European Union, Trade in goods with Serbia*. Directorate-General for Trade. Available at: https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_serbia_en.pdf (Accessed: 03 February 2025).

[10] World Bank. (2024). *Western Balkans Regular Economic Report: Invigorating Growth (Spring 2024)*. World Bank Group, Europe and Central Asia Region. Available at: https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report

[11] It is important to clarify, especially given the rise in trade uncertainties, that a trade deficit does not necessarily reflect a negative economic situation or weak production capacity per se. Instead, in the WB context, it might signal structural transformation, growing domestic demand or a reliance on FDI and remittances to finance imports and support development.

[12] European Commission. (2024). *Kosovo Report 2024*. European Commission, Directorate-General for Neighbourhood and Enlargement Negotiations. Available at: https://neighbourhood-enlargement.ec.europa.eu/document/download/c790738e-4cf6-4a43-a8a9-43c1b6f01e10_en

[13] World Bank. (2023). *Western Balkans Regular Economic Report No. 23, Spring 2023: Testing Resilience*. Washington, DC: World Bank. Available at: https://openknowledge.worldbank.org/handle/10986/39890

[14] Oesterreichische Nationalbank. *Foreign investors in the Western Balkans: Have China*

The WB region primarily exports travel services, particularly tourism, which is a significant contributor to the economies of Albania and Montenegro.[15] Serbia has diversified its services exports into information and communications technology (ICT), financial services and business services, demonstrating a tendency to expand beyond traditional industrial sectors. Similarly, Kosovo's ICT exports have doubled in recent years, showing a positive diversification trend.

Table 1 Trade indicators and GDP per head in the Western Balkans

	Percentage of GDP				$ US, current
Country	Total imports	Total exports	External balance	FDI inflows	GDP per capita
Albania	43.8	38.7	-5.2	6.9	8,575
Bosnia and Herzegovina	55.8	44.1	-11.8	3.8	8,638
Kosovo	70.3	39.6	-30.7	8.7	5,960
Montenegro	68.6	50.0	-13.0	7.0	12,221
North Macedonia	80.9	67.8	-18.6	4.1	8,624
Serbia	59.4	55.1	-4.3	6.0	12,282

Source: World Bank, 2023

Business Satisfaction with the Economic Climate in their Region

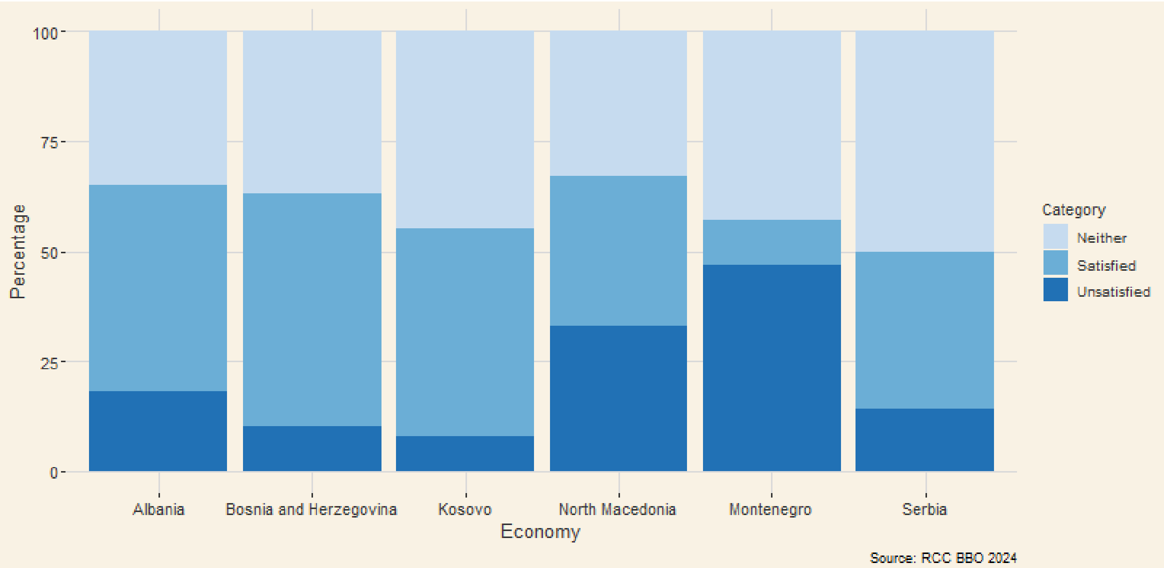
Firms' perceptions of the business climate in the WB are mixed. The RCC Business Opinion Survey shows that while firms acknowledge improvements in digitalization, trade facilitation and regulatory alignment with EU standards, they remain concerned about corruption, bureaucracy and weak institutional support. Many firms continue to face significant barriers to growth due to a lack of effective support and of governance reforms.

The RCC survey shows that Montenegro stands out with the highest share of dissatisfied businesses in 2023, followed by North Macedonia. Firms in Bosnia and Herzegovina, Albania and Kosovo, in contrast, have a more optimistic view of the business climate in the region. However, Figure 1 shows that a significant proportion of businesses are undecided in all countries except Montenegro. Hence, while economies are making progress in creating a more promising business climate, most firms face severe obstacles, which dictates their satisfaction. Addressing issues such as bureaucracy, market access and investment incentives will be important for creating a more competitive business environment across the region.

and Russia overtaken the EU? OeNB Blog. https://www.oenb.at/Presse/oenb-blog/2025/2025-02-18-foreign-investors-in-the-western-balkans.html

[15] International Monetary Fund (IMF). (2019). *Lifting Growth in the Western Balkans*. IMF Discussion Paper. Washington, DC: International Monetary Fund. Available at: https://www.imf.org/-/media/Files/Publications/DP/2019/English/LGWBEA.ashx

Figure 1: Business satisfaction with the current business climate



Note: The figure illustrates the percentage of businesses in each WB economy reporting satisfaction, neutrality or dissatisfaction with the business climate. Economies are ordered by the percentage of dissatisfied firms, from highest to lowest

Openness Perceptions Among WB Economies

Economic openness is a crucial determinant of Foreign Direct Investment (FDI). The WB economies differ in their effectiveness at attracting FDI, as a result of factors such as policy reform, potential for economic growth and institutional measures to ensure investor rights and protection.[16] Serbia, for instance, has attracted FDI in sectors such as vehicle manufacturing by convincing EU investors with their economic reforms, relatively cheap labour and good infrastructure. Kosovo and Bosnia and Herzegovina face greater structural challenges due to their weaker institutional frameworks and political uncertainties, which reduce investor confidence. In addition, the degree of economic openness influences growth trajectories, as more open economies tend to experience faster integration into EU markets.

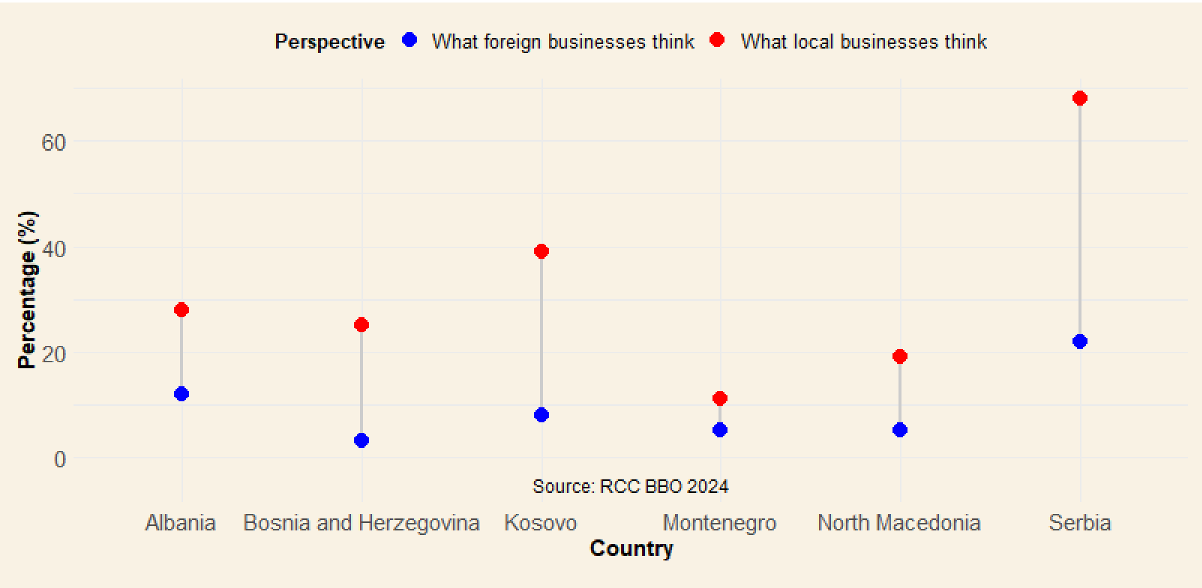
Perceptions of market openness differ sharply in the WB among local (national) and regional businesses (companies from other WB countries). What local businesses think about economic openness differs substantially from what other regional businesses think. In every country, local businesses are more likely to rate their economy as the most open in the WB, while

[16] Center for European Studies (CES), Harvard University. (2021). *Investing in FDI: How and Why Do the Western Balkans Differ?* Cambridge, MA: Harvard University. Available at: https://ces.fas.harvard.edu/news/2021/02/investing-in-fdi-how-and-why-do-the-western-balkans-differ

foreign businesses remain more sceptical. This gap is particularly striking in Serbia. Although both local and regional firms see Serbia as the most open economy in the region, the difference between the two groups is large.

A similarly positive perception by local firms is found in Bosnia and Herzegovina and Kosovo, where local perceptions surpass external. In contrast, Montenegro and North Macedonia display a narrower gap, indicating that the views of local businesses more closely align with those of regional businesses on their country's openness. The disparity underscores the need for greater cooperation. Since most of the local firms face high competition from foreign products, and foreign products dominate their markets, this might lead them to rate their country as the most open economy.

Figure 2: Perceived degree of market openness: share of local vs foreign businesses ranking the economy as the most open in the region



Business Obstacles and Regulatory Challenges

Firms face various structural and operational obstacles that restrict their growth and competitiveness. The IMF report highlights inadequate infrastructure, an insufficiently skilled labour force and trade policies that fail to ensure investor protection or harmonize regulations as preventing the region from deeper engagement with global value chains.[17] It argues that removing these obstacles would allow the region to experience faster economic development.

[17] International Monetary Fund (IMF). (2019). *Lifting Growth in the Western Balkans*. IMF Discussion Paper. Washington, DC: International Monetary Fund. Available at: https://www.imf.org/-/media/Files/Publications/DP/2019/English/LGWBEA.ashx

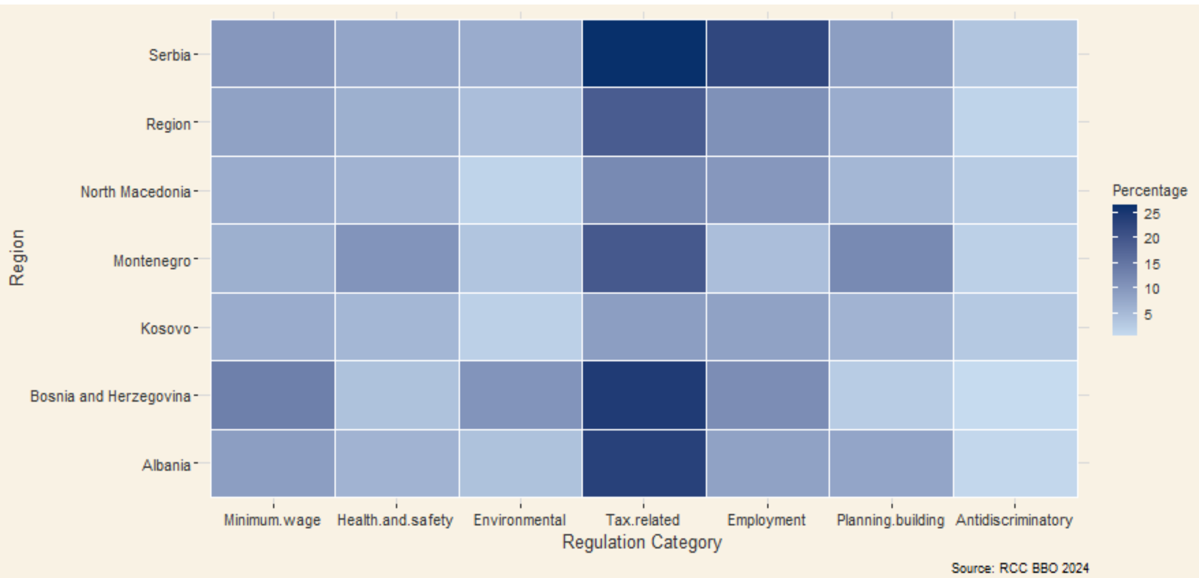
Corruption, lack of access to finance, inefficient infrastructure and persistent political instability are also important obstacles to business growth and integration. Small and medium-sized enterprises (SMEs) often struggle to secure financing, which reduces their capacity to access foreign markets. Corruption and weak enforcement of contracts exacerbate the problem, discouraging both local entrepreneurship and foreign investment. Migration trends have had implications for labour markets in the region in recent years, since businesses frequently encounter skills shortages and many firms are unable to find adequately trained workers – or any workers at all – to meet industry demand.

Regulatory policies are a significant obstacle to doing business in the region. Inconsistent regulatory frameworks increase investment uncertainty – especially for foreign investment, which harms business prospects. Bureaucratic inefficiencies, including lengthy business registration processes, inconsistent tax policies and the lack of digitalization hamper the business environment. These regulatory obstacles create an uneven playing field that disproportionately affects smaller firms, which lack the resources to navigate bureaucratic complexities effectively.

Even though WB economies typically have lower tax rates, the RCC survey suggests that tax-related regulations are emerging as the most pressing concern, particularly in Serbia and Bosnia and Herzegovina. One possible explanation for this is that formal businesses face unfair competition from the informal sector, which is significant in most countries.

Figure 3 shows that the complexity and burden of taxation remain key, potentially discouraging investment and expansion. Employment and health & safety regulations are also important obstacles identified across

Figure 3: Business regulations identified as major obstacles to growth (% of businesses)



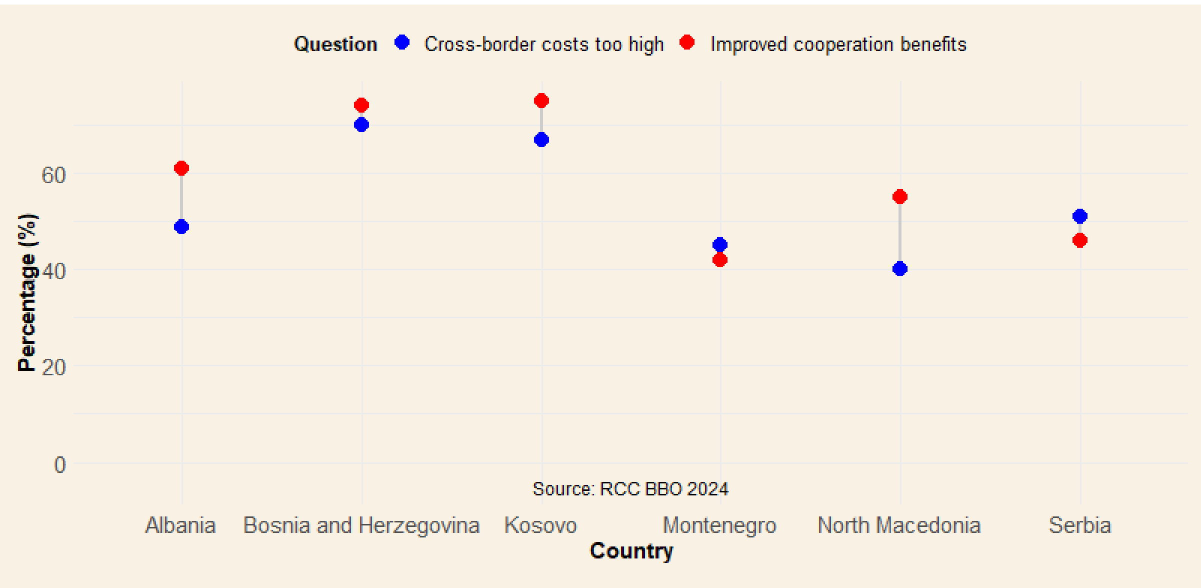
Environmental and planning regulations do not appear to be significant concerns for firms, which is probably to be expected given that law enforcement in these areas is far below EU standards. Kosovo and North Macedonia show comparatively lower levels of concern across most regulatory categories, which could imply either more streamlined frameworks or lower levels of enforcement.

These results highlight the need for stronger institutional support for regulatory-compliant firms, particularly in addressing tax-related obstacles, as tax-paying businesses are disadvantaged compared to those operating in the informal sector. Unless these obstacles are addressed, firms could struggle to compete and expand in an advanced and competitive market like the EU.

Cross-border costs remain one of the most significant concerns and a major obstacle to regional market integration. These costs are affected largely by customs delays, transportation costs and lengthy border procedures. These issues create inefficiencies that disproportionately affect small firms, which often lack the resources to absorb the additional costs of delays or regulatory compliance.

Limited infrastructure across the region exacerbates the situation. Although most countries have seen improvements in recent years, poor road and rail connections between countries increase overall transportation costs, limiting the efficiency of supply chains. To sum up, businesses persistently report border-related costs and a lack of effective coordination to reduce them as key impediments to deeper economic integration and improved competitiveness.

Figure 4: Businesses that see high cross-border costs as a barrier and cooperation as a solution



Another major issue linked to cross-border costs is the lack of harmonization in the regulatory frameworks of the Western Balkan countries. Diverging national standards and certification requirements mean that businesses often have to comply with multiple sets of regulations, leading to increased administrative burdens and higher operational costs. In addition, corruption at border crossings and bureaucratic inefficiencies could be discouraging firms from expanding their operations beyond the domestic market.

Improved political cooperation among the WB countries is widely seen as a crucial solution to these challenges. The proportion of firms in Kosovo and Bosnia and Herzegovina that perceive cross-border costs as too high is the highest in the region. Both countries face political tensions with Serbia, and this burden falls heavily on the business sector. However, Kosovan and Bosnian firms also express the strongest belief in the benefits of enhanced regional cooperation. In other words, businesses see integration as a viable path to reducing costs and improving market access. On the other hand, firms in Montenegro and Serbia are less optimistic about the impact on their performance of enhanced regional cooperation. While barriers persist, there is a need for policy efforts to facilitate smoother trade, reduce transaction costs and enhance competitiveness and economic integration.

Business Perceptions of the Benefits of EU Integration

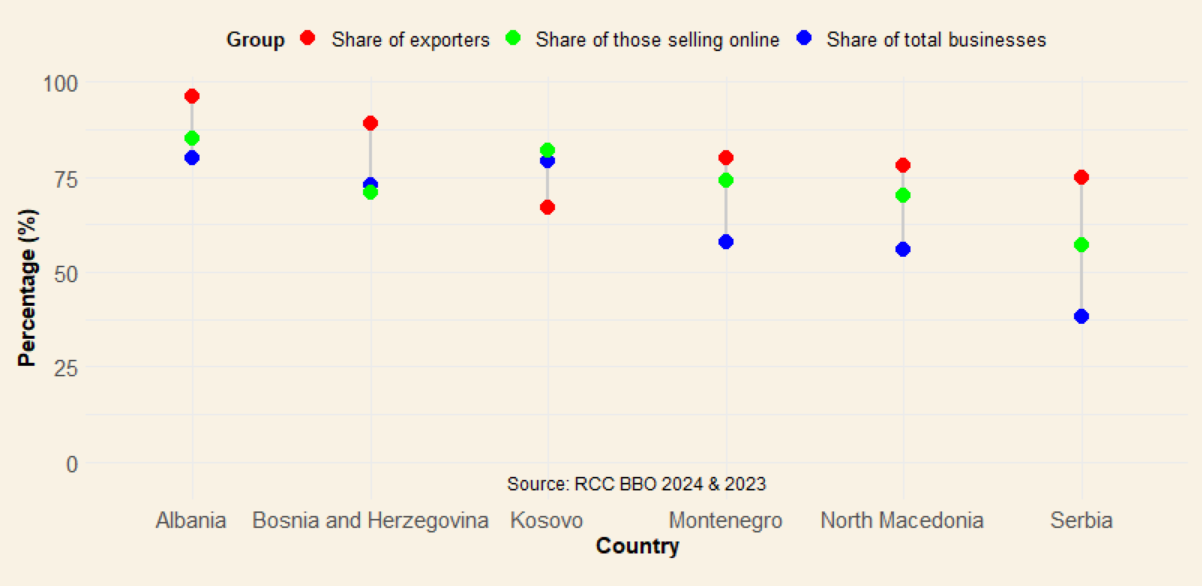
The Western Balkan countries aspire to join the European Union. Such integration would give firms access to a larger market and increased investment opportunities. It is believed that EU integration would also facilitate regional economic integration by reducing trade barriers, aligning regulatory standards and improving business conditions. Joining the EU would provide a framework for more predictable policy, enhanced rule of law and stronger institutions, making these economies more attractive to investors.

Public opinion on EU membership in the WB exhibits both strong support and notable scepticism. According to the Balkan Barometer 2024 Public Opinion report, 54% of people in the region believe that EU membership would be good for the economy, but 10% say it is bad for their country's prospects of joining the EU – and the rest see no clear positive or negative impact. Albania and Kosovo demonstrate the highest support for EU membership, with 77% and 74% support respectively. Serbia and Montenegro have the highest levels of scepticism in the region regarding the prospects for EU membership.

Business survey data closely mirrors public sentiment. The RCC's 2024 Business Opinion Survey recorded that 64% of Western Balkan business leaders believe EU membership would be good for their business, a figure that – despite a 7% drop from the previous year – remains 10 percentage points higher than the level of public support. Thus, business leaders are on average slightly more optimistic about EU integration than the general populace.

The perception of exporting firms differs slightly from that of businesses as a whole in all the WB economies. Firms engaged in

Figure 5: Firms that export to the EU express greater optimism about the benefits of EU membership



Note: Share of firms that believe EU membership would be good for their business, comparison of all firms vs. exporting firms and vs. firms engaged in online selling (by economy).

exporting activities, particularly to the EU, consistently demonstrate greater optimism about EU membership. Albanian and Bosnian firms lead in EU optimism. Interestingly, the gap in EU membership perception between exporters and non-exporters is the widest in Serbia. While less than half of all businesses in Serbia view EU integration as a positive development, favourable opinion among Serbian exporting firms reaches about 75%, aligned with the levels in the other WB countries. This suggests a strong correlation: firms already integrated into EU markets tend to be much more positive about joining the EU, probably because they stand to gain directly from reduced trade barriers and a more stable, EU-regulated business environment.

Similarly, firms engaged in e-commerce activities have optimistic views, suggesting that digital trade is emerging as another key driver of economic integration. Serbia and North Macedonia exhibit a relatively balanced distribution, although with a notable gap between exporters and all businesses, indicating that many firms – particularly those not yet participating in cross-border trade, whether traditional or digital – remain disconnected from external markets and thus less convinced of the benefits of EU membership.

Conclusions

This report discusses business integration in the Western Balkans and business perceptions of EU membership. Despite EU initiatives to enhance trade and investment linkages in the region, firms remain more integrated with the EU than with their immediate neighbours. The reasons for the slow pace of regional integration are both political and economic.

Small businesses dominate the WB private sector, and they typically rely on domestic markets. Very few have access to foreign markets. While the region's economies have seen regulatory improvements over the past decade, significant challenges persist. Non-tariff barriers, underdeveloped infrastructure – especially the rail network– and political uncertainties limit intra-regional trade. As a result, many of the region's firms find EU trade partners to be a more reliable option. At the same time, perceptions of market openness vary widely. Local firms often view their own economies as more open than outsiders do, indicating a trust gap that must be bridged through better policy and communication.

Business sentiment on EU integration is mixed but correlates with public opinion. However, exporting firms – especially those already engaged in EU trade – are more optimistic about EU membership than non-exporting firms. This divide is particularly striking in Serbia, where the level of support for EU accession is the lowest in the region. Firms in Albania and Bosnia and Herzegovina, by contrast, have stronger pro-EU sentiments. These findings suggest that firms with established trading relationships with the EU are more likely to view accession as beneficial, whereas those which face barriers to market entry are more sceptical.

Addressing regulatory inefficiencies, reducing trade barriers and improving infrastructure are essential policy actions to advance business integration – both within the region and with the EU. Policies that enhance investor confidence in the market, reduce cross-border costs, promote economic openness and align regulatory frameworks with EU standards will be crucial in assisting firms to grow and become competitive. By addressing these challenges, WB economies can enhance their competitiveness, attract investment and create an environment that is more conducive to long-term growth, which will better prepare them for eventual EU integration.

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