

Opportunities and Challenges for the Economic Development of the Western Balkans: From a Geopolitical Perspective

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Abstract. The Western Balkans has attracted the attention of political entities such as the EU and China due to its geopolitical importance. In recent years, China's Belt and Road Initiative has continued to deepen in the Western Balkans, and meanwhile the EU has gradually introduced new policies for the Western Balkans, which has brought the region's economic development into a new stage. While there are unprecedented opportunities in policies and cooperation, the stagnation of Western Balkan nations' EU admission process and internal and external geopolitical conflicts still pose challenges to the economic development of this region. Therefore, studying the opportunities and challenges of the Western Balkans' economic progress against the background of rapid changes in the geopolitical situation is of great significance to ensure the steady regional economic development of the Western Balkans. Based on the geopolitical importance and current state of economic growth in the Western Balkans, this study intends to analyze the opportunities and challenges of economic development in the Western Balkans mainly from the perspective of China's implementation of Belt and Road Initiative and relevant policies of the EU, and finally puts forward reasonable suggestions for all parties, advocating that the Western Balkans, China and the EU jointly develop multilateral cooperation mechanisms to achieve win-win results.

Keywords: The Western Balkans, the EU, China's Belt and Road Initiative, Geopolitics, Economic development.

1. Introduction

The Western Balkans, which include Serbia, Albania, Montenegro, Bosnia and Herzegovina, North Macedonia, and other countries, are located in southeastern Europe, connecting Europe and Asia. With its strategic geographical location, it has always been valued by major international forces. With the disintegration of Yugoslavia in 1992, the short-lived stability and balance in this region was broken, and the complex ethnic conflicts left over from history broke out again, specifically manifested in the Bosnian War from 1992 to 1995 and the Kosovo War in 1999, which fully demonstrated the complexity of the geopolitics of the Western Balkans.

The Western Balkans' economy is highly externally dependent. Nearly 4.9 billion US dollars were invested in Serbia in 2023, while the second-highest amount in the area, 1.62 billion US

dollars, was invested in Albania. In terms of administration, simplicity in conducting business, and competitiveness, the Western Balkans continues to lag behind its western European counterparts [1]. As IMF data have demonstrated, the average GDP per capita in nominal current prices of the Western Balkan countries in 2024 was only \$9,700, which accounted for about 20% of the EU's \$44,612 average GDP per capita in nominal prices. At the same time, the region's trade level, infrastructure construction such as energy and transportation, and innovation level are all lower than those of the EU. However, the region has drawn the attention of several global economic powers, notably China, owing to its low labor costs, competitive tax rates, particularly favorable tax laws for major investors, and enormous investment potential in a variety of industries and fields [1].

Through cooperation and investment under the Belt and Road Initiative, China, a growing partner in the Western Balkans, has offered diversified opportunities for the region's economic development. The total number of infrastructure projects under construction in the Western Balkans in cooperation with China through the Belt and Road Initiative exceeds 130, of which Serbia has more than 60 projects under construction, Bosnia and Herzegovina ranks second with 29 projects, followed by North Macedonia, Montenegro and Albania with 15, 9 and 8 projects respectively [2]. These data fully demonstrate that the Belt and Road Initiative is gradually becoming a good opportunity for economic development in the Western Balkans, and the two sides are expected to deepen economic and trade cooperation in more areas in the future.

With regard to the Western Balkan nations, joining the EU and obtaining preferential policies such as trade tariffs and investment from EU member states is undoubtedly a great opportunity to improve the current economic development situation. At the start of the 1990s, the EU established a significant engagement with the post-communist Central and Eastern European Countries (CEECs), particularly those in the Western Balkans, and actively backed their marketization, stabilization, and democracy [3].

The EU established a special policy for the Western Balkan nations in June 1999 called the "Stabilization and Association Process" (SAP). By signing Stabilization and Association Agreements (SAA) with these nations, the EU secured their commitment to human rights, trade, economic, and political reforms. Meanwhile, the Western Balkan countries obtained partial or full tariff-free access to the EU market as well as financial or technical assistance [4]. All the Western Balkans countries were recognized as potential candidates for EU membership by the Feira European Council, held in northern Portugal on 19-20 June 2000 [3]. In February 2020, the European Commission announced a stricter and reversible EU candidate accession procedure, claiming that it was intended to make the accession process more credible, predictable and with stronger political guidance, but in practice making the accession process more difficult for candidate countries [4]. So far, except Croatia in 2013, no Western Balkan country has successfully joined the EU.

This study primarily uses text analysis and case analysis to examine how China's Belt and Road Initiative, the EU's most recent Western Balkan strategy, and shifts in the internal and external environment have affected the region's economic growth, and finally puts forward reasonable suggestions. The study will first cover the potentials for the economic growth of the Western Balkans, then discuss the various challenges that its economic development may face, and finally analyze what countermeasures and mechanisms the Western Balkans, China, and the EU should adopt to seek further development in the future and maximize the vision of win-win cooperation.

2. Opportunities for development of the Western Balkans economy under the background of geopolitics

2.1. Opportunities brought about by China's Belt and Road Initiative

Since the execution of China's Belt and Road Initiative in the Western Balkans, it has focused on investing in transportation infrastructure, energy development, and health care, while actively strengthening trade cooperation, meeting the needs of the Western Balkans' economic development from multiple aspects, such as improving facilities, facilitating trade, and financing.

The Belt and Road Initiative's in-depth collaboration in infrastructure development has greatly aided the Western Balkans in strengthening its geographical advantages, fundamentally improved the local national economy, and released the potential for industrial optimization and upgrading. On July 13, 2022, Montenegro's National Day, as a flagship project of the China-Montenegro Belt and Road cooperation, Montenegro's first expressway, the North-South Highway, was partially opened to traffic after several years of construction, greatly improving the traffic conditions in Montenegro [2]. After China Hebei Iron and Steel Group acquired the Smederevo Steel Plant in Serbia which had been in a state of bankruptcy, it not only revitalized the old plant, but also solved the employment of nearly 5,000 people and turned the company's operations from loss to profit [5]. The Belgrade-Novı Sad high-speed rail project in Serbia, undertaken by China, not only improved local traffic conditions, but also promoted the development of industries such as steel and building materials through industrial chain linkage.

The Belt and Road Initiative is also conducive to the development of a positive trade and investment environment in the Western Balkans. In 2023, China is Serbia's largest source of investment and second largest trading partner, with bilateral trade reaching \$4.35 billion [2]. At the same time, China is already the largest investor in Montenegro and the third largest source of imports for Montenegro and Albania. In the future, with the continued improvement of transportation infrastructure construction, economic and trade cooperation between China and Western Balkan countries is expected to deepen further.

In the context of global digital transformation, China's Belt and Road Initiative has also actively strengthened digital economy cooperation with the Western Balkans. On September 14, 2020, the unveiling ceremony of Huawei's Digital Transformation Innovation Center and 5G Test Laboratory was held in Belgrade. The center has five core positionings, namely talent incubation, ecological development, smart solutions, localization and agile innovation. In the future, it will also cooperate with Huawei in many fields such as artificial intelligence and smart cities [6]. At the same time, China and the Balkan countries have continuously strengthened policy communication in the fields of e-commerce and digital trade. In June 2021, the E-commerce Cooperation Dialogue Mechanism between China and Central and Eastern European countries was formally introduced [6]. Although the digital economy cooperation between the two sides is still in its early stages and many differences in technical standards and supervision need to be overcome, this economic cooperation model guided by China's Belt and Road Initiative that caters to the development needs of the times has injected new impetus into the Western Balkans' economic progress.

2.2. Opportunities brought about by the changes in EU Western Balkan policies

For the Western Balkans, the EU is the most powerful geopolitical force, and its eastward expansion has greatly boosted the region's economic growth prospects. In terms of both imports and exports, the EU acts as the Western Balkan countries' biggest trading partner, accounting for 82.9% of their

exports and 61.8% of their imports, respectively, On the one hand, the EU has spent 9 billion euros in the investment in the Western Balkans through the “Western Balkan Investment Plan” between 2021 and 2027 to support infrastructure construction and industrial upgrading, which will directly drive regional economic growth. On the other hand, in order to accelerate the process of joining the EU, countries have actively promoted market-oriented reforms and taken measures such as judicial transparency and reducing trade barriers to create institutional conditions for attracting foreign investment [7].

In addition, the EU has enhanced its influence on regional countries with specific and feasible policies in different fields and phases. In 2018 and 2020, the EU launched the “Western Balkans Digital Agenda” and the “Western Balkans Green Agenda” respectively, coordinating the Western Balkan countries to align with the EU’s policy priorities of green and digital transformation, while ensuring that the integration process of the Western Balkans is effectively promoted, and promoting the better integration of regional countries into the EU single market in the future [8].

The EU has also given the Western Balkans more strategic focus as a result of the Ukrainian Crisis’ intensification. At the EU summit during June 23-24, 2022, EU leaders issued a series of calls: to accelerate EU membership process for Western Balkan nations and promote the gradual integration of the EU and the region [4]. From the evidence that Bosnia and Herzegovina obtained EU candidate status in just half a year in 2022, and Croatia successfully joined the eurozone, it can be seen that Central and Eastern European countries have accelerated their integration into the EU due to security anxiety, indirectly promoting the EU to release policy flexibility to the Western Balkans. In the meantime, the EU has strengthened energy cooperation in the Western Balkans, promised to provide a package of energy support plans (about 1 billion euros in subsidies) to Western Balkan countries, and supported renewable energy projects in Albania and Montenegro, which has injected new impetus into the regional economy [4].

3. Challenges of economic development in the Western Balkans with regard to geopolitics

3.1. The dilemma of EU enlargement and its influence on the economy of the Western Balkans

The EU’s eastward expansion is a strategic move to incorporate the former socialist nations of Central and Eastern Europe into the post-Cold War European integration framework, which started in 1993 when the Copenhagen Conference established the EU’s accession criteria. 10 nations from Central and Eastern Europe were admitted in 2004, marking the largest expansion. the EU has suffered from “enlargement fatigue” following several phases of eastward expansion. The EU’s enlargement strategy has become less popular among the European countries. The EU’s expansion in the Western Balkans has slowed down as a result of Brexit and certain European decision-makers’ disapproval of the region’s chances of joining the EU, which has damaged Western Balkan citizens’ confidence in doing so [9].

Albania became a candidate nation in 2014 after submitting an application to join the EU in 2009. However, the EU still recommends that Albania promote reforms in the following areas: public administration and justice, police and public order, customs services, infrastructure, education system, democracy and human rights, and emphasizes that it cannot join the EU without completing these reforms. Although North Macedonia has been ready to start accession negotiations since 2009, the progress of the negotiations has been stalled because of its disagreement with neighboring Greece over about its national name and the veto of France and other countries. Serbia was asked to recognize the independence of its Province of Kosovo and Metohija as a full member of the UN,

while Serbian President Aleksandar Vučić has issued a statement saying that Serbia will never recognize Kosovo's independence [10].

According to the data from the 2018 Balkan Barometer, 26% of citizens in the Western Balkans believe their country will never join the EU, with 39% in Bosnia and Herzegovina, and 32% in Serbia [11]. The Western Balkans are discouraged of waiting so long to join the EU and at the same time troubled by high unemployment and social discontent within their countries.

Although EU member states recognize the necessity of EU eastward expansion, their positions on the expansion process vary. For example, Germany has a more optimistic stance towards the Western Balkan countries' EU accession because of its close economic and trade relations with them. When the accession process stalled, Germany maintained its ties with the Western Balkan countries through the Berlin Process [8]. However, France believes that the expansion process should not be blindly promoted before the EU and the countries of the Western Balkans have carried out corresponding reforms, with France's use of the reform and expansion process as a condition to block North Macedonia and Albania from starting accession negotiations as one typical example [8]. This has added another obstacle to the development of the EU accession process for Western Balkan countries and has also made it challenging for Western Balkan nations to quickly access the market and institutional benefits that come with European integration.

3.2. The constraints of geopolitical conflicts on the Western Balkans' economic development

Currently, the Western Balkan nations exhibit a poor rate of growth in economy, high rates of unemployment, a thriving unofficial economy, a trade imbalance, and a delayed pace of market liberalization [11]. Internal problems in the Western Balkans - widespread government corruption and bureaucratic politicization - have become an important obstacle of the EU accession process, thereby hindering regional economic development. In May 2023, during the Albanian local elections, the Greek mayoral candidate in the southern Albanian city of Himare was arrested on suspicion of vote-buying, which once again triggered strong protests in Greece, who stated that Albania's continued behavior would affect it joining the EU [8].

Meanwhile, ethnic consciousness is deeply rooted, resulting in some intractable ethnic conflicts, hindering the Western Balkans' growing economic and trade integration. Since the Ukrainian crisis, Ethnic tensions in Bosnia and Herzegovina have escalated. Conflicts between Croats and Bosniaks also arose in the Federation of Bosnia and Herzegovina over the modification of the entity constitution and electoral legislation following the Republika Srpska's threat to leave the country's official institutions by the end of 2021 [8]. The negotiation situation between Serbia and Kosovo remains deadlocked. Kosovo demands that Serbia recognize its independence, while Serbia demands that Kosovo establish a "Serb Municipal Union" in the northern Serb-populated cities. Both sides regard their respective demands as preconditions and are unwilling to make concessions.

The increasingly fierce competition among external powers has also made the Western Balkans a geopolitical "chess piece". The competition among many economic forces in this region is not conducive to the development of regional economic integration. The global energy market has been disrupted by the continued escalation of the Ukrainian crisis, and the energy crisis in the Western Balkans has been made worse by the EU's sanctions on Russia's gas and oil. In response, the EU has gradually freed Bosnia and Herzegovina, Serbia, and North Macedonia, which have traditionally relied heavily on Russian energy, from Russian energy supply by building new oil and gas pipelines, thereby enhancing the EU's dominance in the energy field [8]. However, Serbia signed a three-year gas supply contract with Gazprom in May 2022, three months after Russia invaded Ukraine, at what Vučić called "the most favorable price in Europe [12]." In this case, the confrontational game among

various international forces may lead to internal consumption of resources in the Western Balkans, which runs counter to the vision of overall positive development of the regional economy.

4. Future outlook of the economic development of the Western Balkans and feasible suggestions for the Western Balkans, China, and the EU

Economic cooperation between the Western Balkans and China is expected to deepen further in the future. Meanwhile, although the procedure for joining the EU has been slow, Western Balkan countries cannot develop independently without the economic and trade support of the EU and the vast European integrated market. This paper suggests that the Western Balkans, China, and the EU should deepen multilateral cooperation mechanisms in order to establish a win-win scenario for future development.

The Western Balkan countries should make full use of EU policy towards them to promote the fight against crime and government corruption in their own countries, and actively rectify their national governance systems. At the same time, they should use multiple media to publicize foreign direct investment and cooperation on national key projects to the public, so that the public can regain confidence in the development of the national economy.

Despite the fact that some academics think the Belt and Road Initiative advocated by China in the Western Balkans is hostile and conflicting with EU strategy in the region, judging from the current state of China-EU cooperation, there are no geopolitical contradictions or major conflicts of interest between China and the EU in terms of security. The two sides should replace confrontation with cooperation and replace differences with consultation on Western Balkan issues [2]. China's investment projects in the Western Balkans should avoid "one-sided dominance", encourage more third-party cooperation with Western European companies, and widely seek foreign companies that are complementary to China in terms of technology, capital and experience to cooperate and achieve mutual benefit and win-win results [5].

The EU should further refine its policy toward the Western Balkans from the perspective of its own reforms and the advancement of its eastward expansion. It must adopt a credible strategy with the Western Balkan nations and most importantly, provide the governments of those countries with assurances of future EU accession based on precise standards [11]. It should balance the differing positions of member states on the expansion process while also objectively addressing the economic activities of major powers like Russia and China in the region from the perspective of promoting growth of the Western Balkans' economy.

5. Conclusion

The Belt and Road Initiative and the EU's Western Balkans policy after the Ukraine crisis have provided certain opportunities for the Western Balkans to improve the current situation of slow economic growth. Western Balkan countries can improve regional integration mechanisms by attracting foreign investment, strengthening cooperation in infrastructure construction projects, and taking advantage of EU policy dividends, so as to catch up with the EU's market liberalization and trade development level.

However, due to their own governance, internal and external turbulence, as well as the disagreement among other member states during the EU eastward expansion, the Western Balkan countries' EU accession process, which are still candidate countries, has stagnated. This has not only objectively hindered the positive development of the region's economy, but in the long run has also led to the people of the Western Balkans gradually becoming negative about the development

prospects of their own countries, and the overall development momentum of the regional economy is lacking.

To help the Western Balkans cope with the challenges they may face in economic development, this article argues that the Western Balkan countries, China, and the EU should all adopt multilateral cooperation mechanisms in economic cooperation, actively negotiate, avoid geopolitical conflicts and unnecessary great power games that lead to conflicts of interest, and achieve win-win development while improving the Western Balkans regional economic integrations and promoting its integration into the EU.

This study still has certain limitations. First, from a geopolitical perspective, the international forces influencing the economic development in the Western Balkans are not limited to China and the European Union. However, this study focuses on these two political entities when analyzing the opportunities and challenges of economic development in the region, which may have neglected the analysis of other important influencing forces such as Russia, the United States, and Turkey. In addition, this study mainly uses case analysis to demonstrate, and needs more data support to make the viewpoint more sufficient and convincing. In the future, when studying the factors influencing economic development trends in the Western Balkans, it may be possible to include more major powers with geopolitical influence on the region, and at the same time, use relevant data to more comprehensively analyze the economic development trends of Western Balkan countries.

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