

# Regional Cooperation Policies (Open Balkans, Berlin Process) - Competitive or Complementary

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## Abstract

The Berlin Process, launched by former German Chancellor Angela Merkel in 2014, was among the most serious initiatives for the Europeanization of the Western Balkans (WB) and the integration of the region into the European Union (EU). The Open Balkans Initiative, launched in 2019 by Serbia, Albania and North Macedonia, continued to be a parallel initiative to achieve the same goals as the Berlin Process: free movement of people, services, capital and goods. These two initiatives seem to be competing with each other, whether this represents competitiveness or complementarity. Based on the policies that are being adopted and created, a vague picture and a blurred perception of these two processes are obtained. Based on this, this analytical paper investigates and analyzes how the regional cooperation policies of the Open Balkan Initiative (OB) and the Berlin Process (BP) are presented and perceived - competitive or complementary, this paper presents an analytical review based on the creation and conduct of policies for these two processes from a legal and economic point of view, analyzed from the data of the European Union (EU), from the institutions of the Balkan countries themselves and from the reports of independent analytical centers in the region. The analyses show that the regional cooperation policies of the Open Balkan Initiative (OB) and the Berlin Process (BP) on the one hand are presented and perceived as competitive but are in essence complementary and are in the same dynamic flow.

**Keywords:** Open Balkans Initiative; Berlin Process; Regional Cooperation; Politics.

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## **1. Introduction**

It has long been known that the Berlin Process was initiated in 2014 by former German Chancellor Angela Merkel and conceived in the format of annual meetings between the Union and the Western Balkans.

The last Summit of this initiative, which aimed to strengthen cooperation between the countries of the Western Balkans and the European Union, was supposed to result in dynamizing EU reforms. The message sent from Berlin is that the region, especially after the Russian aggression against Ukraine, belongs in the Union, but also that the region must overcome its internal conflicts.

The creation of the Berlin Process was interpreted by the Balkan public as the EU's intention to slow down the dynamics of the integration of the Western Balkans into the European Union or not to have full membership of the Western Balkan countries in the Union at all. This was also the interpretation of the proposals of French President Macron for enlargement after a reformed EU and the creation of a new European body for political cooperation, i.e. the European Political Union [1].

The agreements reached in the Open Balkans have shown that the region has the capacity for cooperation, which has enabled the Berlin Process to return even stronger. Based on these findings, the dilemma posed as the issue of this analytical paper is how the regional cooperation policies of the Open Balkans Initiative (OB) and the Berlin Process (BP) are presented and perceived - competitive or complementary!?

### ***1.1. Issues and methodology of the research***

Based on the above-mentioned issue of how the regional cooperation policies of the Open Balkans Initiative (OB) and the Berlin Process (BP) are presented and perceived - competitive or complementary, this paper presents an analytical review based on the creation and conduct of policies for these two processes from a legal and economic point of view, analyzed from the data of the European Union (EU), from the institutions of the Balkan countries themselves and from the reports of independent analytical centers in the region.

#### **➤ Research question**

Accordingly, the research question is posed, are the regional cooperation policies of the Open Balkans Initiative (OB) and the Berlin Process (BP) competitive or complementary?!

#### **➤ Research hypothesis**

The regional cooperation policies of the Open Balkans Initiative (OB) and the Berlin Process (BP) are, on the one hand, presented and perceived as competitive, but in essence they are complementary and in the same dynamic flow.

## 2. Analytical review

What does Open Balkans actually represent? Within the framework of the Open Balkans (OB) initiative, the implementation of the proposed activities related to the liberalization of the market for goods, services and labor should strengthen and expand regional cooperation and increase the economic potential of the participating countries and the region as a whole.

The objectives set in relation to the facilitation of trade in goods are:

- ✓ simplifying procedures as much as possible,
- ✓ gradually removing trade barriers,
- ✓ increasing and promoting economic cooperation,
- ✓ promoting the development of economic relations and the exchange of data between customs administrations and other authorities [2].

Regarding the free movement of services, the memoranda cover three areas, culture, art and tourism, whereby when it comes to tourism, the OB member states have committed to fostering favorable investment conditions and encouraging cooperation in order to expand the tourism sector [3].

The priorities set in the area of free movement of people include: free movement with ID cards, equal treatment for residence and employment, harmonisation of social security and employment laws, recognition of professional qualifications, as well as cooperation in the field of security [3].

Cooperation in the area of free movement of capital aims to increase investments in the region, between countries and from third parties. Following the recent energy crisis, the OB initiative has expanded its scope of work to the energy sector, focusing on joint investments in renewable energy sources, as well as the integration of electricity and gas markets [4].

On the other hand, the Berlin Process has been supporting the regional integration of the Western Balkans (WB) and its European perspective since 2014. Within the framework of the Berlin Process, which promotes a common regional market, the WB leaders have adopted an action plan, which serves as a tool to increase the attractiveness and competitiveness of the region and to bring it closer to EU markets.

The plan is organized in four areas: trade, investment, digitalization, and industry and innovation, and the objectives embedded in the plan include the liberalization of markets for goods, services, labor, and capital, with cross-cutting measures aimed at harmonizing with the rules and standards of the EU single market, as well as policies that seek to attract investment and integrate industrial sectors into European and global value chains - Action Plan for a Common Regional Market - 2022.

*“The Open Balkans is an idea that we define as a vision, because there was no structure for its implementation. Unlike the Berlin Process, there were no working groups for the preparation of the agreement. It is more of an agreement of understanding between the heads of state. For example, for the three signed agreements for the*

*Berlin Process alone there were 27 preparatory meetings, while for the Open Balkans there were very few. However, as long as all areas of the Open Balkans are included in the Berlin Process, which is more detailed and with secure funding, the Western Balkans will give way to technical agreements prepared by the Regional Cooperation Council and CEFTA” [5].*

In 2020, the European Commission announced a new seven-year Economic and Investment Plan, with nine billion euros dedicated to several priority areas, including connectivity and integration within the region [6].

*„Within the OB you can reach an agreement, improve your level of cooperation between three, four, five actors from the Western Balkans. But when the Berlin Process works, then you don't need the OB. So, I would say that they are not competing initiatives, I would say that they are complementary and that each of these initiatives has its own advantages and disadvantages. But the BP definitely has a form of institutionalization through some assistance from EU countries, while the OB is more of an ad hoc initiative owned by the countries of the region, which is used as needed and whose future depends on how much the countries in the Western Balkans want to improve their regional cooperation without too many obstacles., [7].*

Clearly, market liberalization and economic integration are areas that overlap in terms of initiatives and are ways to stimulate trade, investment and economic growth, as well as prepare countries for their future participation in the EU single market. Moreover, the OB initiative's vision of market liberalization goes a step further, promising open borders and full free movement within the region. Both initiatives have similar ideas on how to address the challenges ahead, although the OB initiative struggles to ensure the participation of all WB countries.

*“The Open Balkans and the Berlin Process are not at all in contradiction with each other, but on the contrary they are two compatible processes, since countries that are part of the Berlin Process are also part of the Open Balkans, which is based on the four freedoms on which the EU is based” [8].*

The OB initiative, unlike the Berlin Process, does not have a comprehensive plan outlining the scope and expected results of the initiative. On the other hand, without a specific institution in charge of oversight, strategic development or monitoring of achievements, the Berlin Process has grown into a large initiative with too many things to deal with, relying on the voluntary engagement of the leaders of the WB countries [9].

*„It is even more valuable because in this way the position of the locomotive with the wagons is changed. So, the Berlin Process is a locomotive that pulls all the leaders of the region on a new journey. In the meantime, of course, ultimately, that locomotive only changes relations a little, but the process is moving forward and we have nothing to expect in terms of what we have already done, and with the Berlin Process it is only strengthening. I think the Berlin Process is open, but it is not lifelong, while the Open Balkans is truly lifelong. I think it will have a longer life. However, we should keep this in mind., [10].*

In addition, the OB initiative does not have a strong commitment to the connectivity and digitalization agenda, while the Berlin Process serves as a place for cooperation and rationalization of the connectivity agenda (transport), the green agenda (environment) and the digital agenda (infrastructure) [6].

In the segment of law, unlike previous enlargements of the European Union, this accession process is proceeding at a discouragingly slow pace (unlike the last months for Albania and Montenegro, which have already reached a solid momentum and are nearing the end of closing the last clusters). There has come a point when the EU has changed its approach and adopted a new enlargement methodology, so some things are expected to change. The focus on the “Foundations” – a cluster that in most cases does not contain strict law, and it is expected that respect for EU values will dictate the pace of membership negotiations – has been re-emphasized. In order to strengthen the conditionality mechanisms, the EU already grants and withdraws certain benefits. The obligation to align with the *acquis* organized in 33 negotiation chapters remains the same. Candidates are still required to meet the Copenhagen criteria (political, economic, administrative and institutional capacities for the implementation of the *acquis*). It could be said that regional cooperation and neighborly relations are the only criteria according to which the six countries of the Western Balkans (WB6) are assessed and conditioned [4]. The signed agreements, memoranda and plans are clear enough to assess where the WB fits into the EU accession process and whether it (or does not) contribute to the accession process of the countries of the region to the EU. This assessment is based on qualitative analyses of the coverage of the IOB documents, including implemented and announced activities, compared to the 2021 European Commission Progress Report on Albania, North Macedonia and Albania [3].

The IOB has a direct interface with 15 out of 33 negotiating chapters of the EU *acquis* and one of the “new” Fundamental Rights criteria. The activities are relevant for five out of six clusters according to the revised enlargement methodology. The largest number, five out of nine chapters, belong to the Internal Market cluster (free movement of goods, free movement of workers, right of establishment and freedom to provide services, free movement of capital, health and consumer protection). Four out of eight chapters in the Competitiveness and Inclusive Growth cluster are covered by activities under the OB (information society and media, taxation, enterprise and industry policies, education and culture, and customs union), while activities under the OB are somewhat relevant to two out of four chapters in the Green Agenda and sustainable connectivity (energy and environment and climate change) [4].

In the Resources, Agriculture and Cohesion cluster, as well as Fundamental Rights, the activities within the IOB are relevant only for the Food Safety, Veterinary and Phytosanitary Policies chapter. In the Fundamental Rights cluster, there are points of contact with the Public Administration Reform and the Justice, Freedom and Security chapter. These findings show that the OB has a broader scope and can be relevant for the accession process of the countries in more aspects, and not only in the four freedoms. The Intellectual Property Law, Competition Policies and Financial Services chapter of the Internal Market cluster, as well as the Science and Research chapter of the Competitiveness and Inclusive Growth cluster may be relevant for the initiative, but the OB did not introduce activities in these areas. Furthermore, the initiative does not foresee any activities in the External Relations cluster, despite its importance for the accession process [4].

Furthermore, as mentioned by Uzunov, the WB region is very specific. On the one hand, the countries are similar in terms of overall economic structure, factors of production, belonging to the group of middle-income countries, etc. On the other hand, the region is also unbalanced when it comes to the size of the economy, labor market, Foreign Direct Investment (FDI), etc. Activities related to the facilitation of trade in goods and services and the free movement of labor are expected to create conditions for improving the economic performance of businesses

(existing and potential) and the entire economy, through the use of economies of scale, export growth, cheaper imports, availability/inflow of cheaper labor with better skills, increased attractiveness for FDI and competitiveness, as well as faster implementation of sustainable structural reforms. However, these positive effects are expected, not certain, as they depend both on the current economic situation of the countries, as well as on the willingness of the authorities to complement the facilitation of trade in goods and services and the free movement of labor with reforms in closely related areas, such as education, healthcare, the social justice system, taxes, and many other areas [11].

The experience of Central and Eastern European (CEE) countries shows that regional integration is an important precursor to accession, removing barriers, harmonizing regulations, and attracting investment [12].

Unfortunately, the process of regional integration in the WB has so far been much slower than that of the CEE countries before their accession to the EU. Many non-tariff barriers, de facto, remain in force, which hinders the creation of a so-called single economic space. Removing these barriers will increase GDP and welfare, attract new investment, and accelerate productivity growth and innovation [12].

Based on some analyses and statistics of European stakeholders and some analytical entities in the Balkan countries, they show and investigate the economic benefits/losses of being/not being part of the OB initiative for the countries in the WB, individually and as a group (region) with full and partial integration, as opposed to the Berlin Process, through the prism of long-term projections of key macroeconomic indicators. And this is based on three momentums, namely [4]:

- ✓ Only three countries (Albania, North Macedonia and Serbia) are part of the OB initiative; In this case, the predictions indicate high market liberalization - Complete free movement and greater incentive for trade in goods and labor mobility.
- ✓ All six WB countries become members of the OB; And in this case, even higher market liberalization is also predicted - Complete free movement and greater incentive for trade in goods and labor mobility
- ✓ The OB initiative merged into the Berlin Process. In this case, higher capital investments and a high rate of Foreign Direct Investment (FDI) are expected - Accelerating activities in terms of transport, environment and infrastructure would lead to relatively larger FDI and projects in the region

Also, analyses show an increase in the rates of International Trade, Regional FDI and Regional Projects [4]:

International Trade	Regional FDI	Regional projects
1,3	162,5	1,5

This increase in these rates, reduced individually for the two processes, the Berlin Process and for the Open Balkans (in whole or in part), would represent as follows:

BP	1,7	2,6	2,2
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OB completely	2,2	2,1	1,7
OB partially	1,5	1,7	1,9

On the other hand, individual analyses for each Balkan country show high positive benefits from both processes. The results show that Albania would benefit from any integration process in the region, whether through the Berlin Process or through the OB initiative with full or partial integration. However, with the participation of all WB countries in the OB initiative, the effects on the Albanian economy would be greater. Positive effects are predicted in the area of investments, exports and overall economic activity, as well as in the fiscal area, given that public debt would potentially grow at a slower pace.

According to the analyses, the impact of regional integration of Bosnia and Herzegovina on the economy is positive and significant. The effects are obvious when it comes to investments, export activity and economic growth, with the impact on GDP being greater if the negative impact on wages is avoided. The impact is notable on the export side, given that the share in GDP doubles over the forecast period in the case of the OB initiative with full participation of WB countries. Such projected positive developments in the real sector would to some extent have a positive impact on the further development of public debt. Namely, the momentum of the OB initiative on the economy of Bosnia and Herzegovina seems to be stronger compared to that of the Berlin Process.

Unlike Bosnia and Herzegovina, the economy of Kosovo benefits slightly more from the Berlin Process, with positive effects on investments, exports and GDP being predicted by both initiatives. Similar to Bosnia and Herzegovina, both initiatives have a negative impact on wages, but with a greater impact in the case of Kosovo.

The case of North Macedonia, like that of Serbia, is somewhat specific, in the sense that despite the positive momentum that various forms of regional integration have on certain areas of the economy, the effect on GDP seems to be neutralized by other factors. Analyses show a positive impact on investment and export activity, but a negative impact on wage movements and public debt. Exports would benefit more from the OB initiative, which is on the other hand accompanied by slower wage growth and a more dynamic increase in public debt. The Berlin process, which also “suffers” from these trends, would encourage higher investment growth.

The results for Montenegro show that the potential long-term impact of the two regional initiatives is significant and similar in terms of GDP, resulting from the more dynamic growth of export activity and to a lesser extent wage growth. These effects are more pronounced in the OB initiative, but partially offset by the slower growth of investment, which is less noticeable in the case of the Berlin process.

Based on the analyses, the benefits for the Serbian economy from participating in regional initiatives are evident in the areas of foreign trade and the labor market, while investment and fiscal developments would be less favorable, so the predicted impact on GDP is neutral.

Obviously, the OB initiative in which all WB countries participate results in higher export and wage growth, but also a slightly stronger increase in public debt and slower investment growth. The impact on wages is more noticeable compared to other countries, with the average real gross wage doubling under the scenario of full

participation of WB countries in the OB initiative.

For the development and maintenance of neighborly relations in the Western Balkans in order to increase economic prosperity, it is necessary to remove border controls and other barriers to facilitate the flow of people, goods and services, as well as capital in the region.

The analysis of regional differences for the countries of the Western Balkans may give answers regarding the priorities for accelerated growth and internal convergence of the Open Balkan region. In this moment, the analysis is properly described to assess the challenges.

The art of the Covid-19 pandemic, the food and energy crisis, as well as the war in Ukraine emphasize the importance of internal cooperation and coordination, as well as the need for mutual understanding and solidarity between the countries of the Open Balkans. The internal coordination and cooperation, exchange of experience and solidarity that the countries of the region offer to each other are valuable for the future integration of the EU if the countries of the Open Balkans speak with one voice.

The current environment of the region, especially now due to the war in Ukraine, emphasizes even more the importance of cooperation and coordination, as well as the need for mutual understanding and solidarity.

### **3. Conclusion and recommendations**

Despite some differences, the OB initiative and the Berlin Process essentially represent a similar idea and have quite similar objectives and potential economic effects on the WB region. Hence, from an economic point of view, it is not rational for them to operate simultaneously as competing mechanisms. The WB as a region would have better economic prospects if the countries were part of some regional integration, with the effects being maximized when all countries are involved, either in the form of the Berlin Process or through the OB initiative. Analyses show that economic activity would grow more strongly, as it provides a more solid basis for export and investment growth. The Berlin Process has the same advantages, although the overall impact on the region would be somewhat less pronounced compared to the scenario of full participation in the OB initiative, with certain differences being observed by country.

Based on these findings, we conclude that the research hypothesis that the *regional cooperation policies of the Open Balkans Initiative (OB) and the Berlin Process (BP) are presented and perceived as competitive, but are in essence complementary and in the same dynamic flow*, is sustainable.

To unlock further economic growth, countries need to accelerate the pace of reforms in parallel and address key structural challenges. Therefore, reforms in the areas of education, health and social protection, the labor market, the business environment, energy and the green transition would support higher, but also more sustainable and inclusive economic growth.



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