

**The Western Balkans Two Years into the Pandemic:
Challenges and Opportunities**

A Nyugat-Balkán két éve a világjárványban:
kihívások és lehetőségek

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Abstract: As the COVID-19 pandemic continues to define political discourses in the Western Balkans, the economic consequences are becoming more visible. The race for vaccines, combined with a relatively low level of vaccinated population, and the first signs of a looming global economic crisis (i.e. high energy prices and inflation) create tremendous challenges for the entire region. In the meantime, the phenomena of nearshoring (and reshoring) can partially and potentially mitigate the negative (economic) impacts of the pandemic and create new chances for economic growth. The EU must embrace this window of opportunity to boost economic performance in the Western Balkans.

Keywords: Western Balkans, EU, COVID-19, economic development, nearshoring, reshoring.

Összefoglalás: *Ahogy a COVID-19 járvány továbbra is alapjaiban határozza meg a politikai diskurzust a Nyugat-Balkánon is, annak gazdasági következményei úgy válnak egyre láthatóbbá. A védőoltásokért folytatott verseny – a beoltott lakosság alacsony szintjével párosulva –, a közelgő gazdasági világválság első jelei (magas energiaárak és infláció), óriási kihívás elé állítja az egész térséget. Mindeközben a nearshoring (és reshoring) részben és potenciálisan mérsékelhetik a járvány (gazdasági) hatásait és új esélyt teremthetnek a gazdasági növekedéshez is. Az EU-nak meg kell ragadnia ezt a lehetőséget a Nyugat-Balkán gazdasági teljesítményének növelésére.*

Kulcsszavak: *Nyugat-Balkán, EU, COVID-19, gazdasági fejlődés, nearshoring, reshoring.*

INTRODUCTION

As the pandemic entered its second year in 2021, the Western Balkans, following most of the countries of the Western hemisphere, shifted their focus from introducing preventive and full-scale lockdowns to going back to “normality” as much as they possibly could. Everyday life and politics thus seemed to get back to business as usual: general and snap elections were held in [Kosovo](#) and [Albania](#), governmental instabilities in [North Macedonia](#) and [Montenegro](#) continued amid the public health situation, and the economies reopened, especially the tourism sector, attracting tourists mainly from the diaspora and the neighbourhood.

The first half of 2021 was characterized by the global race to get vaccines as the only guarantee that the economy could function again without major interruptions. As the global chain values and production rebounded, it soon became apparent that there might be a looming economic crisis on the horizon. The rising level of inflation, as well as increasing electricity and fuel prices have greatly impacted the

Western Balkans as well. These challenging times, however, have also provided an economic opportunity: nearshoring as an answer to strengthening the resilience of supply chains. With its geographic and cultural proximity, as well as a skilled workforce, the Western Balkans could be a possible location for nearshoring.

This analysis presents the main challenges the Western Balkans have had to face concerning the COVID-19 pandemic, including the negative impact of the global economic crisis. In addition, it highlights a possible way to reach economic growth and development by taking advantage of the nearshoring potentials of the region and its proximity to the EU markets.

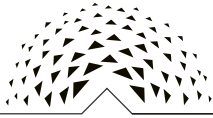
THE RACE FOR VACCINES IN THE WESTERN BALKANS

The countries of the region, similarly to the rest of the world, entered the global race to secure vaccines against the pandemic. While most of the Western Balkans relied on the COVAX and EU mechanisms and donations, Albania and Serbia entered negotiations with states and manufacturing companies to get as many jabs as possible. Owing to Serbia's multi-vectoral foreign policy, the country was the first to obtain enough vaccines to begin its mass vaccination campaign as early as January 2021. The arrival of 1 million Chinese-manufactured [Sinopharm vaccines](#) in addition to the bureaucracy-free process of getting the jab contributed significantly to early vaccinations. On the other hand, mass vaccination could only start in mid to late spring in the other Western Balkan countries. In contrast to most EU countries, the Western Balkan countries, with the exception of Kosovo,¹ were not reluctant to purchase or accept donations of Eastern vaccines, and many first relied on jabs from [Russia](#) (e.g. Montenegro with 200,000 Sputnik-V vaccines) and [China](#) (North Macedonia with 200,000 Sinopharm and 500,000 Sinovac vaccines).

Although relatively late, the Western Balkans also secured more than enough vaccines [through the COVAX and EU mechanisms](#) as well as donations to be fully prepared for mass immunisation. Hungary also played a major role in providing jabs to the region: Hungarian donations [included](#) 6,000 doses of AstraZeneca to North Macedonia and 200,000 Sinopharm vaccines each to [Montenegro](#) and [Bosnia and Herzegovina](#) (BiH), in addition to 1,000 AstraZeneca jabs to the civilian personnel at the EUFOR Althea camps.

Low vaccination rates and the spread of conspiracy theories nevertheless continue to be a challenge in achieving full immunisation. For instance, [almost one-third](#) of Montenegrins believe that vaccines cause autism. Due to distrust in immunisation and a lack of willingness to vaccinate, vaccines have also had to be destroyed due to their expiry date: at least 133,000 doses in [Kosovo](#), and 55,000

1 Kosovo does not accept vaccines manufactured in or by states that do not recognize its independence. For example, Prime Minister Albin Kurti refused the chance to get teachers from Kosovo vaccinated in Albania with the Chinese Sinovac jabs.



doses and “a [portion](#) of the 500,000 AstraZeneca vaccines donated by Austria” in [BiH](#). In the meantime, some countries of the region (BiH, North Macedonia, and Montenegro) entered new wave(s) of the pandemic with the worst pandemic-related mortality rates on a global scale.

Table 1.
Percentage of fully vaccinated citizens in the Western Balkan countries

	May 2021	September 2021	February 2022
Albania	10.1	27.67	41.12
Bosnia and Herzegovina	1.6	15.57	26.46
Kosovo	n/d	29.79	45.52
Montenegro	12.4	33.72	44.45
North Macedonia	3.9	34.89	39.86
Serbia	29.6	42.23	47.38

Sources: [Johns Hopkins University](#), [Our World in Data](#).

SERBIA’S VACCINE DIPLOMACY

In the midst of securing jobs and starting mass vaccination campaigns, Serbia was also able use the pandemic as an opportunity to strengthen its regional (economic) role. Despite the Serbian government’s incentives to get vaccinated (for instance, citizens who got vaccinated [received](#) EUR 25), the level of immunisation has remained relatively low. As vaccines do have an expiry date, securing plenty of Western and Eastern vaccines also posed a risk of expiry. Given the combination of these factors, Serbia, and President Aleksandar Vučić in particular, could take an active role in making it possible for the former Yugoslav republics to start their immunisation campaigns.

Residents of neighbouring countries, notably BiH, North Macedonia, and Montenegro, could easily [access](#) vaccines in Serbia, and Belgrade also provided the Serbian community in [Kosovo](#) with jabs. In addition to “vaccine tourism” on weekends, Belgrade also promoted this opportunity to the economic and business community of the region, and they donated some number of jabs to the former Yugoslav republics. These donations were of symbolic importance: it was enough

for the respective countries to begin the vaccination process of workers in critical infrastructure, and it had enough power to positively shape the Serbian President's regional image. (Interestingly, China did not allow Serbia to give Chinese vaccines to other countries.)

It is clear that by aiding neighbouring countries, Serbia wants to take a leading regional role in producing vaccines as well. The Belgrade-based Torlak Institute started the production of the Russian Sputnik-V in 2021, and an additional factory is in the making that would produce [Sinopharm](#) from mid-2022 with the assistance of China and the United Arab Emirates. In addition, Serbia could be the first European country to produce the Sputnik Light vaccination as well as a [nasal vaccine](#). Moreover, the World Health Organisation (WHO) recently [greenlit](#) the production of RNA vaccines in Serbia. The country's aim is not only to supply the local population if revaccinations are needed (e.g. annually) but also to be the prime supplier of vaccines for the former Yugoslav space.

SIGNS OF A LOOMING ECONOMIC CRISIS

As supply chains slowly returned to normal by 2021, the increased demand resulted in shortages of agricultural and manufactured goods and increased electricity and oil prices. By the second half of 2021, the Western Balkans, similarly to the EU, also experienced the negative economic implications of the pandemic. (Economic progress usually has at least a one-year delay following events that shape global tendencies; thus, the changes and lockdowns that occurred as the pandemic began in 2020 had a visible economic impact by mid-2021.)

Increasing inflation and the high prices of agricultural goods are testament to the negative global economic tendencies. According to the Statistical Office of the Republic of Serbia (*Republički zavod za statistiku Srbije*), producer prices of agricultural and fishing products [increased](#) by 20 percent in 2021, mainly due to the rising global energy prices. In addition, the annual inflation rate in Serbia has reached its highest rate in almost a decade: in August it accelerated by 4.3 percent, and as of November the year-to-year consumer price inflation [grew by](#) 7.5 percent. The ongoing energy crisis also impacted the entire region: in North Macedonia electricity prices [increased](#) by almost 10 percent by the end of 2021, while in Kosovo the energy crisis was further complicated by power outages and the poor infrastructural situation of its two coal-based plants. The Serbian (and later the [North Macedonian](#)) government's action [to freeze](#) the price of five basic foodstuffs for a 90-day-period in November and to later [extend this](#) provision to an additional three-month period, could, however, only generate consumption in the short run and might endanger economic stability in the medium and long run.

The above-mentioned negative changes indicate that 2022 will still be characterised by the economic impact of the COVID-19 pandemic, although the Western Balkan region has already started its economic recovery. According to [World Bank](#)



[estimates](#), in 2021, the region bounced back stronger than expected and was set to grow 5.9 percent. As the study [points out](#), although the economy is expected to reach pre-pandemic levels in 2022, the low vaccination rate across the region might pose new uncertainties. Private consumption (i.e. tourism, remittances) still continues to be the driving force behind the economic growth, and consumer price inflation is expected to decrease in mid-2022 in the entire region.

Table 2.
Annual GDP changes and estimates (in percentage)
in the Western Balkan countries.

	2019	2020	2021	2022 (IMF)	2022 (WB)	2022 (EBRD)
Albania	2.20	-3.3	5	4	3.8	3.7
Bosnia and Herzegovina	2.8	-4.3	5.9	3.3	4.1	3
Kosovo	4.76	-5.34	5.9	3.8	4.1	4.5
Montenegro	4.1	-15.2	12.3	5.6	5.6	5.7
North Macedonia	3.2	-4.5	5.9	4.3	2.7	4
Serbia	4.2	-1	7.5	4.5	4.5	6.5

Sources: IMF, World Bank, European Bank for Reconstruction and Development.

NEARSHORING: AN UNTAPPED POTENTIAL FOR THE WESTERN BALKANS

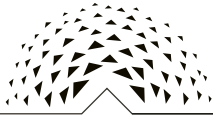
Nearshoring can be considered one alternative for the countries of the Western Balkans to recover from the economic setback caused by the pandemic. Although there has been no substantial change in [FDI inflows](#) during the past two years, the COVID-19 pandemic has demonstrated the vulnerability of supply chains in diverse areas, which has also been perceived directly at the societal level. The lack of vaccines and protective equipment or the shortage of automotive components has exemplified the disruption to both global production and supply chains. This has provided an incentive for companies to rethink the relocation of production to closer locations, thereby increasing the resilience of supply chains to further impacts. It should be noted that this process is not entirely new, a [“globalization slowdown”](#) was also observed

due to global uncertainties after the 2008 global economic crisis. In addition, Industry 4.0 is helping to transform factories, as a result of which production is becoming decentralized. [Forecasts](#) show that these trends will intensify due to the pandemic as companies strive for greater autonomy in production. This will essentially shorten supply chains: geographical proximity will be one of the main considerations in choosing production sites; for the European Union (EU) these sites will include the Western Balkans.

Before exploring the nearshoring potential of the Western Balkans, the [conceptual framework](#) needs to be clarified. Several terms are used in parallel for relocating production, often as synonyms, although they have different meanings. As a result, the terms reshoring, backshoring, and nearshoring are often used interchangeably, as opposed to offshoring. From the perspective of the Western Balkans, it is nearshoring that should be considered, where a company relocates its production not to the company's home country but to a neighbouring or nearby country. In contrast, reshoring refers to relocation to the mainland, which is now more frequently exploited by companies in connection with the opportunities offered by Industry 4.0, while in the case of backshoring only certain parts of production are affected.

The economic potential of the Western Balkans has been recognized by the European Union not only in connection with COVID-19, as the [largest](#) economic partner of the region is the EU, with [EUR 45 billion](#) in FDI flowing into the region between 2010 and 2019. The main beneficiary sectors are manufacturing (EUR 8 billion), finance and insurance activities (EUR 5.2 billion), and trade (EUR 4.2 billion). The main reasons for this include geographical and cultural proximity, the number of skilled workers (with STEM degrees), and/or the size of an eligible and easy-to-train workforce. Previous good experiences of effective collaboration and the role workforce attitudes play should be also highlighted. Furthermore, in [Yugoslav times](#), many went to Germany to study and stayed there as guest workers, providing them with language skills. While the role of lower wage levels and tax rates is not negligible, it is not significant compared to the other factors, as low wage levels also mean a low-skilled workforce, which can result in additional costs for the company. Furthermore, neither the wage levels nor the tax rates can compete with the levels of the MENA region or Asia.

This experience is confirmed by a [study](#) published by the *Vienna Institute for International Economic Studies*, which examines nearshoring opportunities in the Western Balkans from the perspective of German companies based on two surveys. 40 percent of respondents have experienced disruptions in supply chains, with 68 percent of them thinking about relocating these. However, beside many of the benefits of the Western Balkan countries, the surveys highlight that in addition to geographical proximity and the quality of the workforce, the most important factors are government effectiveness and institutional stability, as well as infrastructure such as the road network, industrial parks, digital infrastructure, and level of education. This is basically reflected in the competition between



CEE countries and the Western Balkans; investors prefer a skilled workforce and institutional stability and do not necessarily favour countries with the cheapest costs. Furthermore, systemic problems must also be treated as challenges arising from BiH's multi-level governance and harmonization problems or the existence of large-scale informal economies, as well as the imminent shortage of labour due to the emigration of young and skilled labour.

However, the question remains as to how dominant the nearshoring/reshoring tendencies will be in the 21st century. Although the phenomenon has been researched extensively, and the media coverage of the topic is also significant due to the shortages that are directly perceptible at the everyday level, currently only a limited number of companies are changing their actual location. The reason for the slowdown in offshoring activity after 2008 must be found in the economic crisis, although [Eurofund](#) notes that the 20 years before the crisis was an exceptional period, when China and Eastern European countries were integrated into the world economy. According to the same report, between 2010 and 2012, 2-3 percent of German companies reshored production, which is the same amount as in the previous ten years. From 2014 to 2018, 253 companies came to Europe, a figure that does not suggest large-scale resettlement, only an emerging trend. It should also be noted that only 5.1 percent of companies have conducted a nearshoring strategy, most of which (92.4%) have moved home immediately. Reasons for doing so may include the leverage that can take advantage of the "Made in" effect, or emotional factors such as returning to the local roots of the company.

The Fall 2021 report of the World Bank Group also [confirms](#) that although FDI to the Western Balkans is significant, as is the nearshoring potential of the region, mass relocation is not yet expected. The economic downturn caused by the pandemic does not yet predict a protracted crisis, and the pandemic is still here with uncertain future waves, with the result that companies are still biding their time with the extremely costly nearshoring, which would require a fundamental supervision of their value chains and long-term strategies. Instead, efficiency gains are on the agenda. Rival regions in terms of relocation must also be considered, and in addition to a number of benefits, it is not necessary for companies to opt for the Western Balkans in any case. A significant advantage of the CEE region is the EU membership of the countries, a crucial element when the EU is one of their export regions, giving them a significant cost advantage inside the single market. Furthermore, the role of China cannot be left out of the equation, as the abandonment of complex production and supply networks in China is not justified by the disruptions in global value chains, nor is the production for the Chinese market negligible.

Nevertheless, COVID-19 is indeed an opportunity for the region to accelerate reform processes in potential sectors (precision mechanics, chemicals, pharmaceuticals, IT, electrical engineering, and the automotive industries), as a result of which they can promote themselves to potential investors. [Compared](#) to the 2015-2019 statistics, despite the pandemic, investment also increased in

financial services (21%) and transportation (48%) in 2020. In Serbia, FDI to the automotive sector nearly doubled from 2019 to 2020 (EUR 301 million) due to the [construction](#) of Japan's Nidec electric motor plant.

CONCLUSION

The second year of the pandemic has posed the same challenges to the Western Balkans as it did to any other country. However, as the Western Balkan countries are small transition economies and not part of the European Union, overcoming these challenges, such as the scale of the economic downturn and the current energy crisis, requires much greater effort. Although both the 2021 GDP data and projections point to a rapid recovery, unforeseen challenges may arise due to the low vaccination rate across the Western Balkans.

An alternative to the economic setback could be nearshoring, which is likely to increase after the pandemic, and the Western Balkans might be the obvious first option for European companies considering moving production closer to their home locations. Thus, the countries of the region are expected to benefit from the reorganization of supply chains, although this will also require internal reforms on their side. While geographical and cultural proximity and a skilled or easy-to-train workforce make the region attractive, many areas need to be developed. It is clear from surveys that low wage levels or favourable tax rates are less important for companies today, while the quality of the infrastructure and the workforce is more essential, and quality of education or institutional stability is inextricably linked to this. Placing emphasis on these features can potentially mitigate the negative consequences of the pandemic and contribute to sustainable economic growth in the region.