Regional Integration in Western Balkans: A Case for Cross-Border Business Cooperation?

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Abstract Considering the regional trade pattern and business potential in the Western Balkans, we argue that despite the significant political, institutional and socio-economic advances of the individual countries during the last 20 years, regional integration and endogenous business development are still lagging. This is much the outcome of persistent state rigidities and trade distortions. On the one hand, regional integration has been adopted as the policy for enhancing the region's competitiveness in the context of EU accession and globalization. But this has been only manifested in Regional Trade Agreements with the EU. On the other hand, trade relations among the region's countries are weak. Many governments have maintained intra-regional trade barriers to secure customs revenues, while they have directed trade to EU markets. However, results have been poor: FDI and exports have risen only in textiles, metals and mining where competitiveness is based on cheap labor or natural resources; and very few local companies have been able to compete in EU markets as most are too weak financially to upgrade production to EU high value-added standards. Nevertheless, data supports that intra-regional trade is important for the countries and sectors in question. Trade with neighboring countries can be a realistic way to improve the potential of local businesses – struggling with obsolete equipment, high debts and low productivity. Restoring old trading relationships interrupted by war could considerably increase cross-border trade, and assure regional business viability. The barriers posed by the individual countries in the region to doing business especially across borders, indicate that regional integration in Western Balkans is very weak from the economic point of view. We argue however, that regional integration from a socio-cultural point of view – built on people's common historical background,

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shared goals and concerns for good neighborly relations – constitutes a solid base for cross-border business cooperation. We outline here an analytical approach, capturing the complexity of the war-torn Western Balkan area and its socio-cultural and political specificities, overlooked by mainstream economics. We argue that Western Balkan countries can accelerate their economic development by exploiting their potential for cross-border trading and entrepreneurship. This may offer a politically and economically realistic strategy for regional integration in the area. Economic development and regional cooperation could directly benefit stability and security as well. Cross-border business clusters, embedded in common socio-economic contexts, could act as development leverage. Existing obstacles need to be addressed and overcome; and this is more a question of political willingness than of corporate strategy.

Keywords Regional integration • Business clusters • Transition economies

JEL Classification Codes R11 • F59 • P25

1 Introduction

Despite the important political, institutional and socio-economic progress of the Western Balkan countries during the last 20 years, integration and endogenous business development in the region are still falling behind. The region today is even less integrated than it was in 1991, as many economic links forming path-dependent trade patterns in the past were dissolved during the political turbulence of the 1990s (Uvalic 2005). Regional integration is evidenced mainly in Regional Trade Agreements (RTAs) with the EU, while trade relations and business co-operations among the region's countries have almost no substance. Persistent state rigidities in the region have led to trade distortions, as governments maintain intra-regional trade barriers to secure customs revenues as a significant income. This has resulted to a poorly functioning intra-regional market and to a deficient production level (Kaminski and de la Rocha 2003). Moreover, on the inter-regional level, trade to EU markets has also poor results, because FDI and exports have only risen in sectors where competitiveness is based on cheap labor or natural resources (i.e. textiles, metals and mining) (Barrett 2002).

It can, therefore, be sustained that, regional integration on the economy level – as the policy to enhance the region's competitiveness and growth in the context of EU accession and globalization – has failed so far. Local business potential has not allowed for high value-added produce to compete in the EU market, as the majority of local enterprises are too weak financially to upgrade production to EU standards. In addition, the recent on-going crisis first hit the export-oriented companies and those which have borrowed in order to expand. We argue however that, regional integration on the society level – built on the people's common socio-cultural background, shared goals and concerns for good neighborly relations – constitutes a substantial basis for development. This could nourish cross-border business cooperation without massive investment in production upgrade or marketing.

On this ground, we emphasize the complexity of the war-torn Western Balkan area and its socio-cultural and political specificities (Sklias 2011). The latter are overlooked by mainstream economic theories setting the prerequisites and variables for successful regional cooperation and business development. Our point is that the socio-cultural and political elements play a critical role in this process; therefore they should be extensively addressed. Despite the considerable contribution of EU trade and FDI to the economic growth of the region's newborn states, political adjustment is lagging and its inconsistencies and gaps impede intra-regional trade and business development. A robust small and medium-sized business sector could guarantee long-term prosperity in transitional economies; and this is the main problem to be solved. As evidenced in several cases, business people recognize the benefits of regional co-operation opportunities (Uvalic 2005). But political willingness and determination is still a prerequisite.

We argue that competitiveness and development of the Western Balkans can be accelerated if the region's countries capitalize their potential for cross-border trade and entrepreneurship. This might be a politically and economically realistic strategy for regional integration and development, as inter-state cooperation could directly benefit political stability and national security (Barrett 2002). We therefore conclude with recommendations towards the development of cross-border locally embedded business clusters that would act as development leverage. Local embeddedness encompasses geographical proximity, cultural coherence and production complementarity, as the already existing prerequisites to attain the desirable agglomeration externalities. But the political requirements for such an achievement are yet to be met. Endogenous market forces in the transitional economies seem to be less influential than policy-makers in fostering the process of regional integration. In other words, the strategic orientation towards overcoming existing obstacles is more a question of political than of corporate strategy.

2 Assessing Regional Integration

Regional integration and the effective use of regional resources, as mobility barriers for goods and factors are abolished, depend on the efficiency of regional markets and institutions (Grupe and Kušić 2005). Business development on the regional level is therefore important, as is the establishment of regional trade partnerships. Mainstream economics explain trade patterns among countries in the context of the international division of labor: national economies specialize in production where they capitalize their comparative advantages; and trade exchanges adjust respectively to the complementarities among countries. However, international data show that trade flows can emerge independently of comparative advantages. Trade flows among countries have been also explained by the 'gravity model', where trade patterns are related to broader geopolitical trends (Johnston 1976; Schiff and Winters 2003; Bergstrand and Egger 2007). According to gravity model estimates, trade correlates positively with the size of the national economy and negatively with its distance from trade partners. In other words, large economies (of high GDP) export and import more; and proximity between countries means more trade. Still, this theoretical model suffers from certain shortcomings, as data often indicate low trade relations among neighboring countries of compatible economic characteristics.

The abolition of barriers – as a consequence of cross-national economic agreements – has been the major reason for the astonishing increase of trade in the last decades. RTAs have substantially boosted trade within geopolitical blocks of countries, such as the EU, the EFTA, or the CEFTA states (Bayoumi and Eichengreen 1997). However, RTAs have also led to trade distortion (Frankel et al. 1997). Notably, trade flows within the EU (intra-block trade) have considerably increased during 1980–1996, while at the same period extra-block (i.e. with the rest of the world) trade flows decreased (Soloaga and Winters 2001). As more apparent in the case of developing regions, trade liberalization agreements have advanced their integration in the world economy, while regional integration is limited due to low intra-regional trade. Namely, the impact of RTAs is differentiated by industrial location, specialization and consequently, inequality among partner-countries. According to the explanatory framework suggested by Venables (2003), integration between low-income countries tends to lead to divergence. Thus, less developed countries are likely to benefit from economic agreements with developed countries ('north-south' rather, than 'south-south' trade).

Nonetheless, the 'north-south' integration of the lagging South and Eastern Europe (SEE) economies in the EU has not resulted to income convergence. And although income data of the developed EU countries document the benefits of 'north-north' integration (Ben-David 1998), it has been also evidenced (Carmignani 2007) that convergence is not necessarily a privilege of 'north-north' integration. A lack of convergence, or even divergence in such integration processes has been often indicated, as well (Karras 1997). The important conclusion is that 'south-south' integration does not necessarily imply widening intra-regional disparities. The success of Regional Integration Agreements (RIAs) strongly depends on the socio-cultural, political and institutional characteristics of both investing and host countries. Membership in a RIA – e.g. the EU, cannot attract FDI and motivate endogenous growth if certain territory-specific elements are missing. These include economic factors such as: regional specialization, accumulated knowledge, labor skills, and business milieu among others (Balasubramanyam et al. 2002). But also, political willingness and determination to replace past barriers with institutions promoting cooperation, are crucial factors to the integration process.

The impact of politics and culture on economic growth, business practices and development dynamics is illustrated in Fig. 1 as the interface between economic and political variables. Accordingly, the regional integration process of the Western

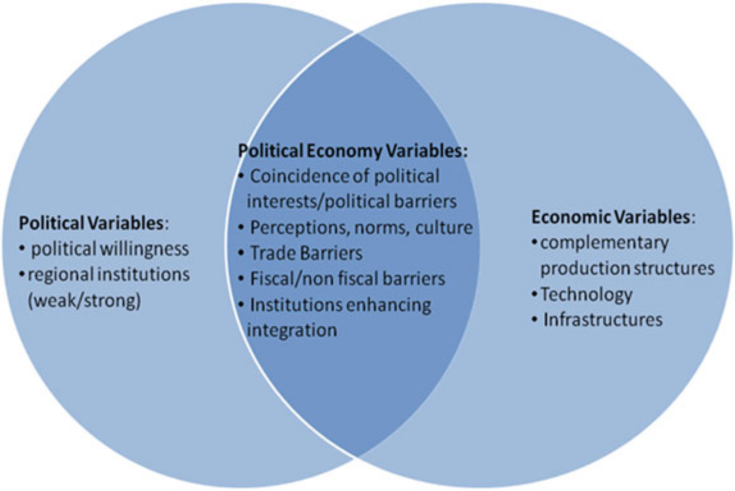

Fig. 1 Regional integration variables (Source: Sklias, 2011)

Balkans will be here assessed within a framework which comprises the interaction and interdependence of economic, cultural and political factors in order to capture the complex situation in the examined war-torn region (Sklias and Tsampra 2013).

3 Regional Integration Pattern in Western Balkans

According to World Bank data (Kathuria 2008), Western Balkan exports are low, but growing in services; while declining exports in manufactured goods have resulted to increasing unemployment. In overall, export levels in SEE still fall short of potential and needs: Albania, Bosnia and Herzegovina, Serbia and Montenegro are lagging in almost all fields; Bulgaria and Croatia are strong performers; while Romania, the largest country by far, has lower export intensity than Bulgaria and Croatia, although faster growing than either of them (Kathuria 2008). Regional trade in the area, as previously argued, has been severely influenced by exogenous forces such as: (i) the intense trade relations among the states of the former SFRY – with the exception of Serbia and Croatia; (ii) the Stabilization and Association Agreements (SAAs) enhancing trade between SEE and EU countries; and (iii) the Stability Pact-induced Free Trade Agreements (FTAs), which concluded in the CEFTA (in 2006), encouraging trade within SEE (Kathuria 2008).

The bilateral RTAs have differentiated the trade relations of the individual countries with the EU; the status and 'distance' of each state from the EU varies along with the level of democratization and economic recovery. Moreover, preferential arrangements and contractual agreements have further fragmented trade

Table 1 FYROM export and import of goods by country (million Euros)

	Exports								Imports							
	1991		2000		2005		2010		1991		2000		2005		2010	
Country	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Germany	225.0	20.5	257.0	19.4	364.0	17.8	692.0	21.0	243.0	19.1	253.0	12.1	336.0	10.4	610.0	11.2
Albania	5.0	0.5	12.0	0.9	27.0	1.3	72.0	2.2	5.1	0.4	3.0	0.1	9.0	0.3	22.8	0.4
Serbia							271.0	8.2							418.0	7.7
Bulgaria	48.0	4.4	27.0	2.0	76.0	3.7	294.0	8.9	68.0	5.3	97.0	4.6	234.0	7.2	301.0	5.5
Romania	9.0	0.8	1.0	0.1	4.0	0.2	54.0	1.6	10.6	0.8	14.0	0.7	64.3	2.0	126.2	2.3
Montenegro							27.0	0.8							1.4	0.0
Greece	62.0	5.7	84.0	6.4	313.0	15.3	245.0	7.4	85.0	6.7	200.0	9.6	297.0	9.2	448.0	8.2
S&M	69.0	6.3	335.0	25.3	459.0	22.5					190.0	9.1	264.0	8.2		
B&H	55.0	5.0	23.0	1.7	50.0	2.4	184.0	5.6	2.0	0.2	5.3	0.3	23.5	0.7	49.1	0.9
Turkey	18.0	1.6	10.0	0.8	45.0	2.2	50.0	1.5	28.0	2.2	52.0	2.5	113.0	3.5	260.0	4.8
Russia	255.0	23.3	10.0	0.8	21.0	1.0	26.0	0.8	339.0	26.6	191.0	9.1	425.0	13.1	552.0	10.1
Total	1095.0	100	1322.0	100	2042.0	100	3301.0	100	1274.0	100	2093.0	100	3232.0	100	5450.0	100

Source: National Bank of FYROM

Table 2 Kosovo export and import of goods by country (thousands Euros)

	Exports				Imports			
	2009 February		2010 February		2009 February		2010 February	
Country	Value	%	Value	%	Value	%	Value	%
Romania	4.0	0.0	564.0	2.2	995.0	0.8	2080.0	1.4
Bulgaria	342.0	2.2	79.0	0.3	1590.0	1.2	2240.0	1.5
EU 27	9194.0	58.6	16835.0	65.5	50381.0	39.5	57366.0	38.5
Albania	1568.0	10.0	2300.0	8.9	2696.0	2.1	3334.0	2.2
FYROM	1498.0	9.6	2365.0	9.2	16218.0	12.7	19303.0	13.0
Montenegro	147.0	0.9	337.0	1.3	332.0	0.3	300.0	0.2
Serbia	272.0	1.7	518.0	2.0	15129.0	11.9	19152.0	12.9
Turkey	447.0	2.9	291.0	1.1	8001.0	6.3	9232.0	6.2
B&H	241.0	1.5	10.0	0.0	3.4	0.0	3398.0	2.3
Total	15681.0	100	25714.0	100	127493.0	100	148993.0	100

Source: Kosovo Agency of Statistics (2011)

relations within the region (Bartlett 2009). While the deterioration of inter-ethnic relations and the absence of multicultural policies, have obstructed regional stability and prosperity (Petričušić 2005). In this context, Western Balkan regional trade is illustrated by data of imports and exports among countries in the following Tables 1, 2, 3, 4, and 5. As evidenced by the presented data:

- EU and Serbia have the largest share in the trade volume of FYROM. Compared to other Western Balkan countries, FYROM has more balanced trade relations as a result of respective institutional reforms. However, the strong Albanian minority has not sustained trade with Albania, despite traditional economic links and complementarities;
- EU share in Kosovo's trade is increasing; but the largest shares are these of Albania and FYROM, both in terms of imports and exports. This can be justified by neighboring and the strong political, social and religious ties among these countries. The considerable share of Serbia in imports can be attributed to the strong Serbian minority in Kosovo;
- Albania's trade with the rest of the world maintained its previous geographical pattern. Imports mainly originate from EU countries – mostly Italy, followed by Greece – although declining since 2008. Imports originating from outside the EU – China and Turkey having the largest shares – fell as well in 2009. As exports to Italy decline, the country's overall EU exports have narrowed. Exports to countries outside the EU have declined as well. Albania's exports to other Balkan countries also dropped substantially in 2009;
- Montenegro's main export trade partners are Serbia, Greece and Italy. The country's main import trade partners are Serbia, Bosnia and Herzegovina and Germany. Trade exchange is bigger with the CEFTA and the EU countries.

In sum, regional trade in Western Balkans increases between individual states and their partner-countries in free trade agreements, namely the EU member-states and the CEFTA countries. Trade with Russia remains significant mainly due to oil

Table 3 Albania import of goods by country (thousands Euros)

Country	2005	2006	2007	2008	2009	2009/2008 (%)
EU Countries:	1,401	1,580	1,820	2,168	2,088	−3.7
Italy	611	677	826	946	850	−10.1
Greece	346	381	444	524	505	−3.6
Germany	113	136	167	216	209	−3.2
Bulgaria	59	66	54	69	61	−11.6
Non EU countries:	683	831	1,244	1,402	1,161	−17.2
China	140	145	203	266	236	−11.3
Turkey	140	145	203	266	236	−1.9
FYROM	26	39	59	79	60	−24.1
Russia	85	99	125	157	87	−44.6
Total	2,084	2,411	3,045	3,570	3,249	−9

Source: Bank of Albania (2011)

and natural gas imports. But intra-regional trade among the Western Balkan states is limited in scope and volume. From the neoclassical point of view, low trade in the region is the result of overlapping comparative advantages among its countries. This has led to similar trade structures with little complementarities, given the small size of the regional market (Grupe and Kušić 2005).

As depicted in Table 6, the prevailing industrial specialization in raw-material- and low-skilled-labor-intensive products reflects production structures typical for developing countries in their exchanges with developed ones. The resulting trade pattern is unfavourable for regional development and competitiveness, as capital-intensive products account for more than 30 % of regional imports (von Hagen and Traistaru 2003). Western Balkans exports are low, and buyer-driven trade prevails over slowly emerging producer-driven trade (with the exception of Romania). The region's state-economies compete in the same external markets and are characterized by withdrawal of cross-border trade and excessive trade-dependence on the EU. This brings forth the issue of preferential 'north-south' integration, at the expense of 'south-south' integration. The outcome is lower increase in exports, larger deficits, lower productivity and weaker economic systems compared to the Central European transition countries; as well as increased vulnerability to low-wage competition from Asia and other regions (Jackson and Petrakos 2000).

The recent economic slowdown in Europe since 2008 has further pointed out the need for alternative development strategies in the area: competitive production structures require turning away from low-cost production, moving-up skills and technology and developing products for customers in the increasing SEE market. It is also important to stress that any increase evidenced in intra-regional trade is identified among certain neighboring states of shared historical path, and strong ethnic and cultural ties. These are the cases of trade relations between Kosovo and Albania, Kosovo and FYROM, Serbia and Montenegro, Serbia and B&H, Serbia and FYROM. This observation supports our argument for the importance of culture and politics – along with economic variables – in the regional integration process.

Table 4 Montenegro export and import of goods by country (thousands Euros)

Exports	2006		2007		2008		2009		Imports	2006		2007		2008		2009	
Serbia	172.016	14%	106.726	11%	107.811	13%	79.606	14%	BiH	40.937	3%	117.166	7%	164.810	8%	1.149.882	32%
Slovakia	63.277	5%	46.847	5%	62.135	7%	60.877	11%	Slovenia	52.841	4%	149.019	8%	161.297	8%	1.148.161	32%
Italy	239.231	19%	145.286	15%	130.563	15%	34.218	6%	Serbia	402.153	33%	705.041	40%	839.179	43%	599.232	17%
Slovenia	23.046	2%	28.556	3%	37.355	4%	24.095	4%	Slovakia	201.899	16%	166.449	9%	24.835	1%	191.998	5%
BiH	28.548	2%	26.022	3%	22.089	3%	18.882	3%	Croatia	60.408	5%	133.610	8%	169.665	9%	126.477	4%
Belarus	12.299	1%	8.019	0.8%	17.462	2%	16.811	3%	Italy	141.088	11%	163.687	9%	193.195	10%	108.577	3%
Hungary	44.245	4%	63.338	7%	9.248	1%	11.683	2%	Germany	154.495	13%	95.987	5%	136.849	7%	63.215	2%
Croatia	8.797	0.7%	10.987	1%	6.620	0.8%	9.829	2%	Switzerland	51.430	4%	110.801	6%	120.519	6%	56.742	2%
Lithuania	4.797	0.4%	8.930	0.9%	8.091	0.9%	7.733	1%	Hungary	16.490	1%	48.578	3%	54.710	3%	31.433	0.9%
Germany	5.682	0.5%	9.188	1%	16.218	2%	6.792	1%	FYROM	15.596	1%	22.342	1%	29.878	2%	21.347	0.6%
Latvia	3.248	0.3%	5.562	0.6%	5.589	0.6%	3.938	0.7%	Czech Rep.	21.754	2%	30.131	2%	29.800	2%	14.532	0.4%
Estonia	2.630	0.2%	1.040	0.1%	2.339	0.3%	1.912	0.3%	Romania	27.207	2%	15.311	0.9%	21.191	1%	12.560	0.4%
Russia	869	0.1%	585	0.1%	1.041	0.1%	1.513	0.3%	Russia	38.300	3%	9.836	0.6%	3.042	0.2%	10.158	0.3%
FYROM	2.036	0.2%	794	0.1%	902	0.1%	1.439	0.3%	Bulgaria	6.262	0.5%	10.238	0.6%	11.915	0.6%	8.694	0.2%
Czech Rep.	1.476	0.1%	2.836	0.3%	4.425	0.5%	1.058	0.2%									
Romania	1.337	0.1%	119	0.01%	995	0.1%	689	0.1%									
Bulgaria	66	0.01%	434	0.05%	122	0.01%	130	0.02%									
EU	617.492	50%	483.175	51%	428.980	50%	276.611	50%									

Source: Statistical Office of Montenegro (2011)

Table 5 Serbia import and export of goods by Country (USD millions)

	Exports				Imports			
Country	2010		2011		2010		2011	
Total	2,030	100.0	2,683	100.0	3,812	100.0	4,627	100.0
Europe	1,951	96.1	2,594	96.7	3,149	82.6	3,803	82.2
Russia	96.6	4.8	157.7	5.9	525.5	13.8	674.8	14.6
Germany	229.6	11.3	306	11.4	394	10.3	424	9.2
Italy	249.8	12.3	349	13	338	8.9	368	8
Romania	103	5.1	222	8.3	131	3.4	239	5.2
B&H	220	10.9	235	8.8	115	3	145	3.1
Montenegro	181	7.5	170	6.3	53	1.4	46	1
FYROM	100	5	118	4.4	44.8	1.2	55.7	1.2
Greece	37.2	1.8	50	1.9	53	1.4	66	1.4

Source: Statistical Office of the Republic of Serbia (2011)

Table 6 Revealed competitive advantages across Western Balkan countries

Industrial sectors	Albania	B&H	Croatia	FYROM
Basic manufactures	0.76	3.38	1.24	3.67
Transport equipment		0.06	1.12	0.14
Clothing	11.08	3.85	3	8.81
Leather products	24.03	8.35	2.8	2.46
Wood products	1.03	4.59	2.12	0.34
Non-electronic machinery	0.17	0.46	0.55	
Miscellaneous manufacturing	0.36	1.31	0.82	0.17
Fresh food	1.75	1.06	0.79	1.92
Minerals	0.28	0.64	0.93	0.2
Processed Food	0.24	0.79	2.07	2.55
Textiles		0.58	0.64	1.24
Electronic components		0.12	0.68	0.47
Chemicals		0.13	0.91	0.5
IT and consumer electronics			0.24	

Source: Calculations of Grupe and Kušić (2005), based on Comtrade of UNSD, ITC 2002

4 Regional Business and Cross-Border Cooperation

The analysis of the political, cultural, institutional and economic variables denoting regional integration prospects in Western Balkans has so far indicated a low level of accomplishment across all states (Sklias 2011), which is reflected in the regional trade patterns. The specific socio-cultural contexts of certain norms and perceptions define also the prospects of regional business development, based on joint efforts for competitiveness and growth (Grupe and Kušić 2005). Regional business development is defined by the business milieu (formed by business regulations, economic environment, and business policy) as well as the awareness and competency of entrepreneurs to operate in a changing business environment and benefit from the challenges of cross-border cooperation. The political and cultural specificities of individual border-regions also affect the opportunities and constraints for enterprises and their cross-border activities (Bartlett and Bukvic 2002, Venesaar and Pihlak 2008).

According to Petrakos and Totev (2001), the more peripheral the location of a developing or transitional economy, the more important is cross-border trade for maintaining variety and sectoral differentiation in the production system. Regional business could benefit from the exchange of knowledge, practices and skills in countries sharing a similar background and facing common problems. In Western Balkans however, cross-border trade has been hindered by political circumstances as a result of the region's disintegration during the 1990s. But the regional integration process of the last decade has initiated the re-establishment of inter-state connections, often despite political impediments. Kosovo is an example, where trade between Serbia and Albania is booming, although the political dialogue between Serbs and Albanians remains stalled. As local entrepreneurs gradually understand the gains from regional integration, they cooperate to revive old distribution channels within the region. Emerging trade in the region suggests that companies exploit opportunities once costs are reduced. Countries in bilateral free-trade agreements with their neighbors enjoy higher trading levels than those which continue to impose heavy import duties.

Local initiatives for intra-regional trade relations need to be further promoted and supported by economic policy; the establishment of trust and confidence relations is required in the business community, as well as collaboration between economic actors and the state across all Western Balkan countries. Exporting to the EU must remain a key long-term goal for regional companies, but it is not necessarily the best starting point for them – as previously evidenced by the presented data. Joining the EU, or bilateral trade agreements with EU member-states, resulted in changes of foreign trade regimes for the Western Balkan countries, with differentiated effects. In the case of Bulgaria's EU accession, trade was relocated from more efficient non-EU countries to less efficient EU member states (Delevic 2007, Venesaar and Pihlak 2008):

> Before Bulgaria Membership in EU, the beef meat was imported mainly from South America. Since 2007, however, the high custom-tariffs for the meat imported in EU have made this source unprofitable to use. On the other hand, the production of beef meat in Bulgaria (approximately 10,000 tons per annum) is extremely insufficient for the need of the meat processing industry. This forces Bulgarian meat processing enterprises to purchase the necessary raw materials from the EU countries, where the price is higher (about 2 levs per kilo more expensive).

The results of a study on member-states of the recent EU accessions suggested that the economic integration process increases competition and decreases demand for domestic firms. The adoption of the *acquis communautaire* ensures the improvement of domestic business environment; but it also implies significant investment by domestic firms – especially heavy for the smaller ones – in order to meet standards concerning emissions, waste management, product safety, working conditions etc. In addition, foreign investment – in the form of subsidiaries or manufacturing plants – represent important clients for small local suppliers and sub-contractors, that contribute to technology transfer and management skills. From a different aspect however, foreign companies are usually more competitive and may crowd out local SMEs (Smallbone and Xheneti 2008).

At the same time, many business opportunities at the regional level could be exploited without massive investment in upgrades or marketing, as trade can benefit from brand recognition across regional markets – e.g. products in the new states of the former Yugoslavia (Barrett 2002). Local companies could also benefit from joint ventures, offering local knowledge in exchange for capital. Under the circumstances in areas like the Western Balkans, trade with neighboring countries would be a more realistic strategy, as those provide a favorable market of: (i) similar consumer preferences (formed by shared history and culture), that require less effort and cost for products promotion; and (ii) territorial proximity, that reduces transport costs. Thus, business cooperation in border-areas should be a strategic priority for regional integration.

In Western Balkans, border areas are characterized by low economic development, high unemployment, and absence of investments; also by common transition experiences, cohabiting ethnic populations, shared culture, and political tensions between countries. These elements form an environment of low local demand and thriving informal entrepreneurial activity (IEA) which boomed in early 1990s with the collapse of communism. Large differences in prices and the variety of goods in border regions attracted many households to engage in IEAs (petty trade of clothes, foodstuffs, fuel, alcohol, or illegal work) as a way of escaping unemployment or generating income (Welter and Smallbone 2011). The evidence however, shows that few of these activities can compensate for the hardship associated to peripherality.

Cluster initiatives have therefore emerged in recent years, as a policy with positive results – mainly practiced and evidenced in CE countries: Slovenia, Slovakia, Poland, Hungary and Czech Republic. In all such cases, various policy tools and initiatives have been used to foster cluster development directly or indirectly. In Western Balkans, poor know-how and marketing inadequacies prevailing in the region's national economies could be surpassed through business cooperation of mutual benefits. Such cooperation should exceed market overlapping and boost intra-regional trade, on the basis of product improved quality and international competitiveness. In order to counteract the region's marginalization and deficiencies, we propose the establishment of cross-border business clusters which fulfill the following preconditions:

(a) Geographical proximity, meaning neighboring areas of different Balkan states;
(b) Shared cultural and historical background, e.g. common religion, or language;
(c) EU membership of one cluster partner-state: i.e. Greece, Romania or Bulgaria.

The proposed clustering is depicted in Fig. 2, for the case of a three nation-states partnership:

The designated RBC area is the location which satisfies the preconditions forming the necessary cultural, political and economic background for local business development. Border-regions are defined by economic (production specialization,

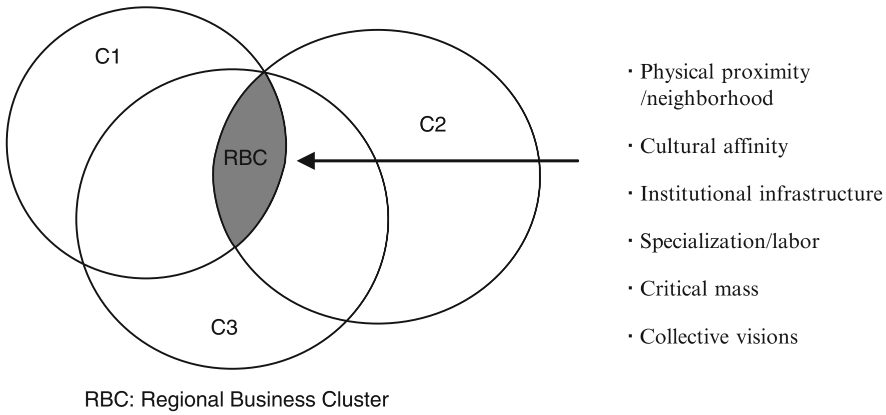

Fig. 2 Cross-border business cluster among C1, C2 & C3 countries

labour, critical mass) and non-economic aspects (prevailing socio-cultural conditions related to ethnic, religious, linguistic and geographic parameters) that favour cross-border business activity. Under this perspective, border-regions are examined as social constructions where the role of norms, collective identities and shared memories is important for interaction (Keating et al. 2003). Our proposal implies the necessary political willingness and financial support to overcome existing impediments and boost competitive advantages in regional business. In this framework, a series of policy initiatives and measures can be proposed for the specific RBCs, targeting at:

- Joint business projects, joint efforts for product development, shared supplies, production and marketing;
- Joint action for an extrovert business orientation, e.g. international fairs and expositions, for a common marketing and sales platform, e.g. promoting the comparative advantages of the cluster;
- Know-how exchange and historically developed competence in the certain fields of activities;
- Sharing of expertise and skills, e.g. language skills and competences, cultural acquaintance, human resources, training, learning from good practices and diffusing innovation;
- Building institutional and administrative capacity, sustaining entrepreneurship across the regions involved;
- Developing infrastructure and technology projects, enhancing accessibility and mobility of production actors across the regions involved.

RBCs defined by the cultural particularities, the political interests and the economic objectives of private and public stakeholders in the countries involved, can counteract stagnation and boost local and regional development.

5 Conclusions

The analytical framework adopted in this paper encompasses the specificities of socio-cultural, institutional and economic contexts in order to assess regional integration in the Western Balkans. Our objective is to comprehend why despite the economic progress of individual states, endogenous growth is still weak in the region. Foreign investment might be the engine of economies in transition, but long-term regional prosperity requires the development of the domestic business sector. The evidence points to the limited scope of intra-regional trade and regional business cooperation. Endogenous business development is a central issue that requires cross-border cooperation, specific measures enhancing intra-regional trade and political determination to pursue regional integration. Achieving regional integration beyond trade liberalization requires practices that reduce the market-segmentation caused by domestic policies. The benefits of integration lie in the creation of a single economic space and include greater contestability, a larger market, greater economies of scale – all evidenced in intra-regional supply chains, higher FDI, increased efficiency of backbone sectors and increased intra-regional trade (Kathuria 2008).

The emergence of the EU as the most important trading partner for the SEE countries in the 1990s, led the shift from traditional intra-regional (inter-state) trade links to new extra-regional (primarily with the EU) trade relations. As the disintegration of the SFR of Yugoslavia and the SEE transition during that period proceeded with war conflicts, embargoes and the implementation of various restrictions, new economic barriers were formed and led to overall trade reduction (Uvalic 2005). Thus, the already weak economic links between the SEE states – comprising the sub-region of the former Yugoslavia states and the states of Albania, Bulgaria, and Romania – became even weaker. Since 2000, evidence on the re-integration of the SEE-5 countries – forming now the Western Balkan region – confirms that prospects are strongly determined by path-dependencies, state policies and institutional structures (Sklias and Tsampra 2013). Historical links and inherited trade patterns prove to be more important than many economic elements. The regional integration pattern has been heavily influenced by political factors in the past – i.e. before 1989 and throughout the 1990s – and this is still the case. On this ground, we suggest the political, institutional and financial support of intra-regional business especially in cross-border areas, where clusters can capitalize on geographic proximity, shared historical background and culture.

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