The impact of regional cooperation in the Western Balkans on the traditional patterns of labour mobility

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Background

- The emigration from the Western Balkan region is a well-documented and long lasting phenomenon, having been present as a form of labour market adjustment for several decades.
- The Western Balkan migrants generally live in traditional destination countries and with respect to this, they share similar patterns of labour mobility.
- A mix of push and pull factors contributes to the observed labour emigration waves that have led to significant international diasporas in Europe and North America.
- The main economic factors that initiate emigration from the Western Balkan countries are the unfavourable economic conditions such as high unemployment, lack of jobs and income gap with respect to more developed receiving countries.
- In addition to the economic factors, there are other reasons that contribute to increased emigration from the Western Balkan region such as disrupted value system, emphasized political divide, insufficient level of democracy, and persistent ethnic and political tensions.
- The recent episodes of global instability such as political conflicts, pandemics and energy crises considerably affect the migratory movements from the Western Balkan region.

Traditional patterns of emigration from WB economies 2015/2016

Albania	
Italy	481106
Greece	394986
United States	95725
Germany	63981
United Kingdom	28747
Total	1064545
% of total	95

Bosnia and Herzegovina	
Germany	171729
Austria	162019
United States	111922
Slovenia	102846
Sweden	58110
Total	606626
% of total	71

Kosovo	
Germany	219763
Austria	31215
Italy	29704
United Kingdom	22093
Slovenia	16164
Total	318939
% of total	90

Montenegro	
Germany	18725
United States	16612
Italy	2946
Slovenia	2848
Switzerland	2475
Total	43606
% of total	76

North Macedonia	
Germany	92427
Italy	75914
Switzerland	59927
Turkey	43402
Austria	38961
Total	310631
% of total	73

Serbia	
Germany	188977
Austria	137057
France	81307
Switzerland	61047
Hungary	44625
Total	513013
% of total	72

Source: OECD (2022) Labour Migration in the Western Balkans: Mapping Patterns, Addressing Challenges and Reaping Benefits

Regional cooperation in the Western Balkans

- The Western Balkan region has been considered as an arena of numerous political conflicts that took place in the recent past and to large extent have affected the regional cooperation.
- Unsolved conflicts and bilateral disputes have contributed to mistrust in the region, which is sometimes a source of instability and undermines the cooperation and progress assumed by the regional initiatives.
- The regional cooperation is a principle of utmost importance for political stability, security and economic development.
- Many of the challenges faced by the Western Balkan countries are not exclusive but rather have a cross-border dimension that involves the entire region.
- In economic terms, regional cooperation among the Western Balkan countries is an instrument for improving the business climate, attracting foreign direct investments (FDI), and supporting the boost of national direct investments, which constitutes the basis for increasing employment thereby the welfare of the citizens in the region.

The history of regional cooperation in the Western Balkans

- In 2014, a diplomatic action was initiated related to the future enlargement of the European Union called “Berlin Process” with an aim to improve the cooperation between the Union and the Western Balkans in the European integration process.
- In 2017, the Regional Cooperation Council presented the Multi-annual action plan for the regional economic area (MAP REA). MAP REA was approved by the Western Balkan leaders on the Trieste Summit of the Berlin Process on 12 July 2017.
- In 2019, an initiative for closer regional cooperation titled “Mini-Schengen” was launched striving towards advancing political and economic relations and strengthening cultural ties between the nations (initiated by Albania, Serbia and North Macedonia).
  - Unlike previous regional initiatives that encompassed all six countries from the very beginning, there was no consensus for “Mini-Schengen”.
- The regional cooperation forum that took place on 29 July 2021 in Skopje as a regional initiative of North Macedonia, Albania and Serbia known as “Mini-Schengen” acquired a new name – Open Balkan.
  - Memorandum of Understanding for cooperation related to free access to labour market with an aim to facilitate movement of persons is expressed to secure easy and free access to the labour market by removing working permits and simplifying procedures on residence permits.

Research questions/hypotheses

- During the last decade, we witness a gradually increasing regional cooperation processes that are mainly engendered by the common vision for EU integration.
- In this context, it is a challenging task to (re)assess the emigration movements from the Western Balkan region in order to redefine the policy responses for economic development from the perspective of strengthened regional cooperation.
- The recent developments in the regional cooperation might have been affecting the outward movements from the Western Balkan region through the following channels:
  - First, the easier cross-boarder movements and mutual recognition of qualifications is expected to intensify the intra-regional labour mobility, which to some extent, can act as a substitute to the traditional emigration from the region.
  - Second, the strengthened regional cooperation is assumed to increase the attractiveness of the Western Balkan region among foreign investors that might provide additional job opportunities for domestic labour force thus, reducing the migratory pressure.
  - Third, the improved socio-economic development prospects due to the regional cooperation might increase the confidence among the diaspora that can be manifested by increased remittances and/or return migration.

Data

- Work permits data are obtained from the National Employment Agencies of the Western Balkan economies.
- The Work permit share is calculated as a ratio between the number of work permits issued to Western Balkans citizens and total number of issued work permits.
- The data on Gross average monthly wages, Unemployment rates, Consumer Price Index and Foreign Direct Investments are obtained from the Vienna Institute for International Studies (wiiw).
- The data on the Worldwide Governance Indicators (Rule of law, Control of corruption, Regulatory quality, Government effectiveness and Political stability) are obtained from the World Bank.
- Dummy variables on Neighboring economies, Same language, Participation in Open Balkan Initiative and period after Covid-19 pandemics.
- The Distance variable is calculated as a distance between the capitals of the Western Balkan economies.
- The panel is unbalanced and contains in total 274 observations and 28 groups.

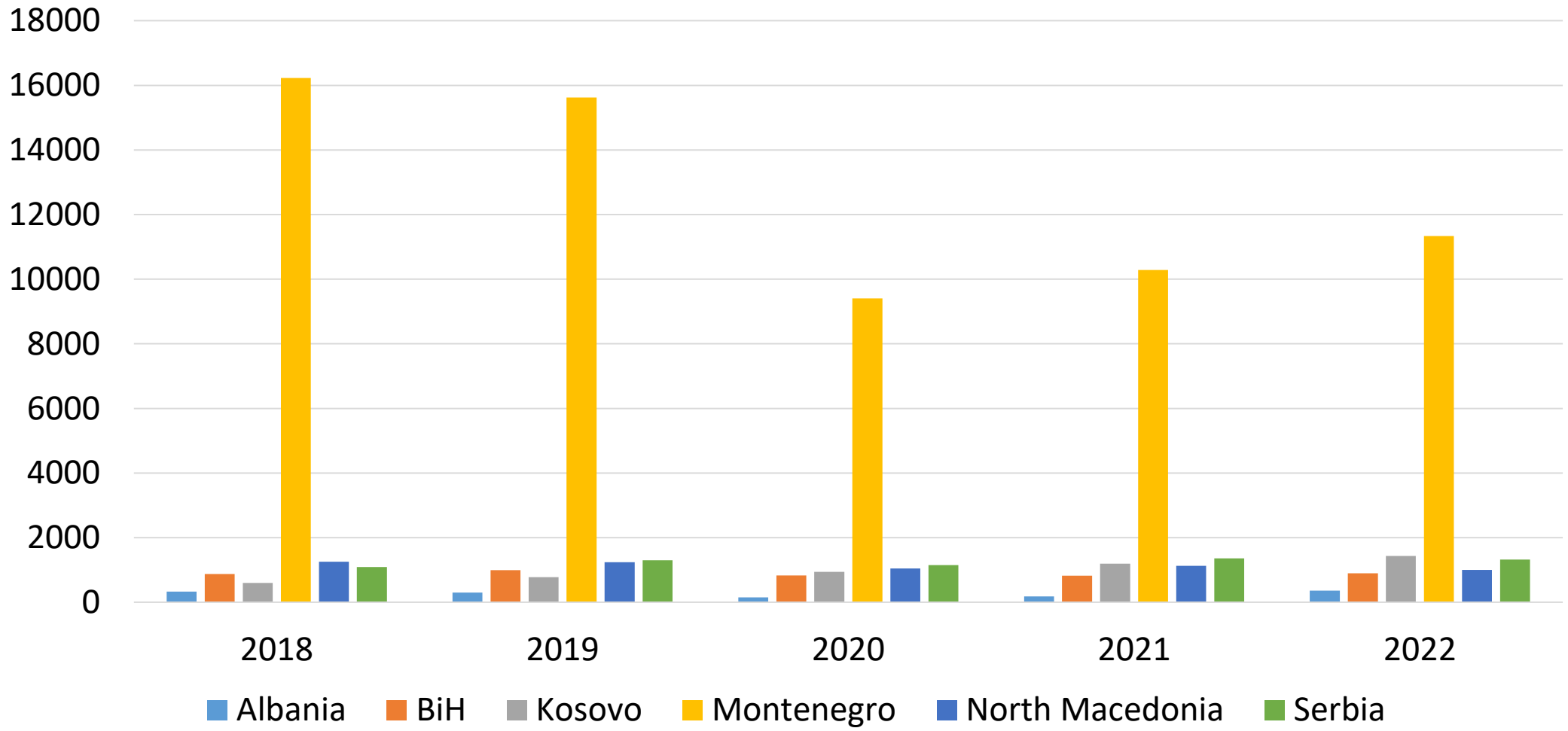
УНИВЕРЗИТЕТ „Св.КЛИМЕНТ ОХРИДСКИ" БИТОЛА

WBF Western Balkans Fund Supporting Common Projects

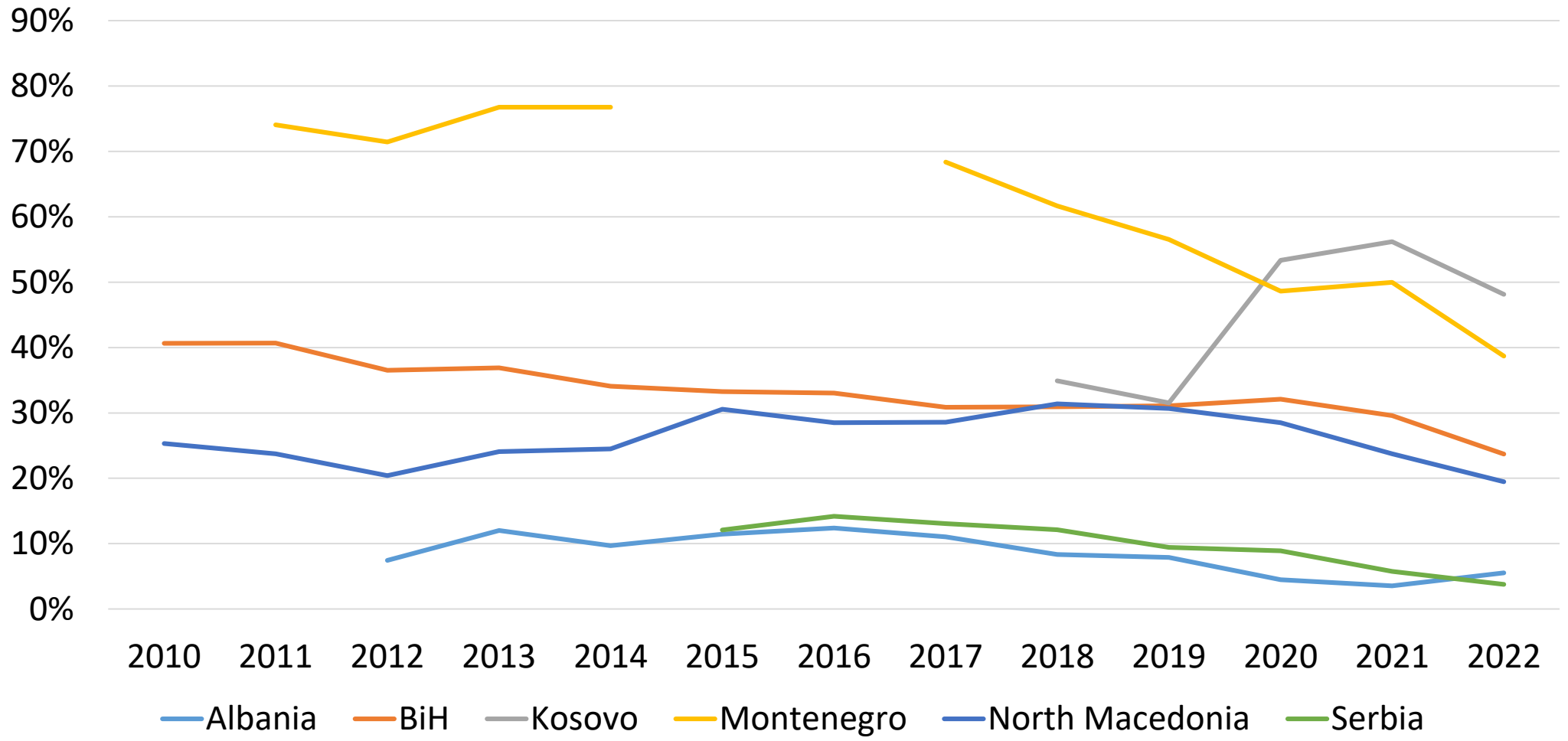
Data availability 2010-2022 (Work permits data)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB	BIH-ALB
KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB	KSV-ALB
MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB	MNE-ALB
MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB	MKD-ALB
SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB	SRB-ALB
ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH	ALB-BIH
KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH	KSV-BIH
MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH	MNE-BIH
MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH	MKD-BIH
SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH	SRB-BIH
ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV	ALB-KSV
BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV	BIH-KSV
MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV	MNE-KSV
MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV	MKD-KSV
SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV	SRB-KSV
ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE	ALB-MNE
BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE	BIH-MNE
KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE	KSV-MNE
MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE	MKD-MNE
SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE	SRB-MNE
ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD	ALB-MKD
BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD	BIH-MKD
KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD	KSV-MKD
MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD	MNE-MKD
SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD	SRB-MKD
ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB	ALB-SRB
BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB	BIH-SRB
KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB	KSV-SRB
MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB	MNE-SRB
MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB	MKD-SRB

Total number of work permits issued to WB citizens 2018-2022

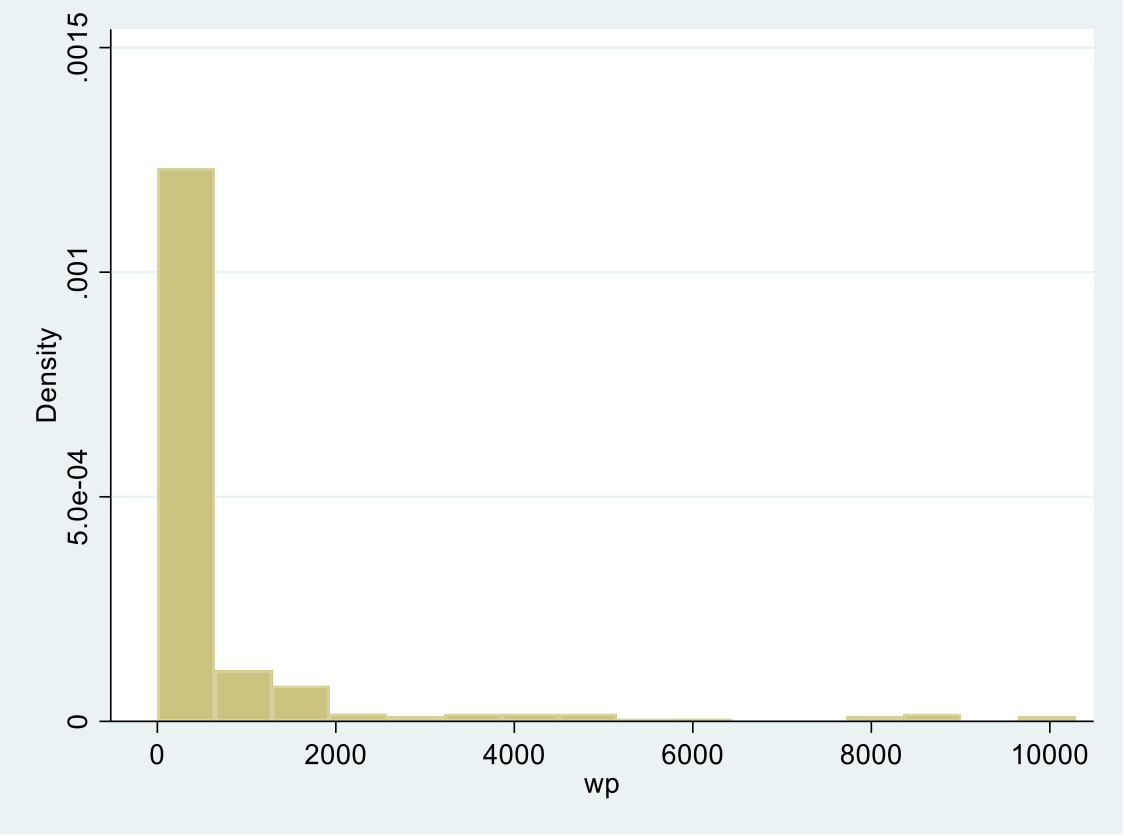


Work permits issued to WB citizens as shares in total numbers

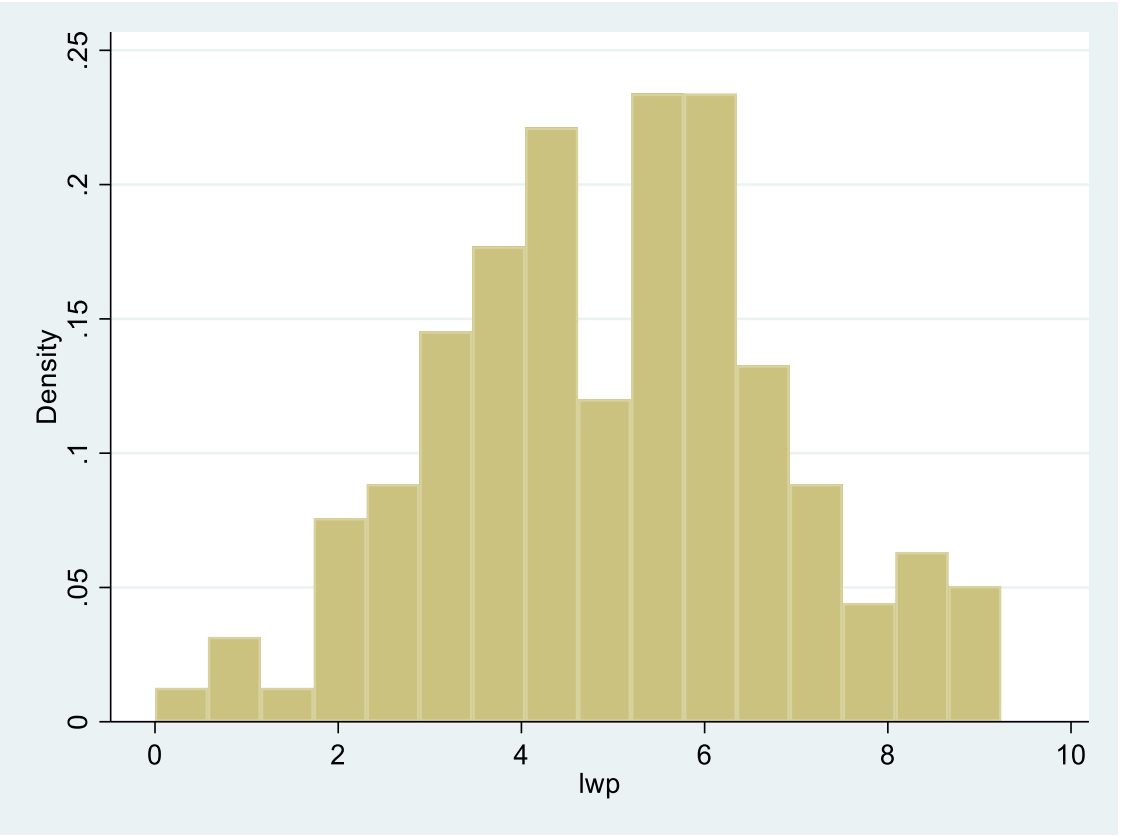


Distribution of the number of issued work permits

Original data



Natural logarithm



Gravity model

- Gravity models have long been popular for analyzing economic phenomena related to the movement of goods and services, capital, or people.
- Gravity models assume that flows between two countries are directly proportional to their size (population or GDP) and are inversely proportional to the physical distance between them (similar to Newton's gravitational law).
- Due to the recent availability of bilateral (i.e. two-way, country to country) migration data, gravity models have become more frequently used in the context of migratory flows. This allows for a better understanding of migration determinants when assessing policy impacts.
- However, there are additional factors that can affect migration flows. For this reason, gravity models are enlarged with variables related to different migration pull and push factors;
- Gravity models have been used to understand the role of exogenous factors such as distance or linguistic proximity, while also being used to assess policy impacts such as visa restrictions.
- The use of gravity models has been growing extensively during the last decades, although there are still some limitations in terms of data availability and other technical issues.

Variables under consideration in the Gravity model

$$\ln WP_{ijt} = \beta_0 + \beta_1 \ln(PopOrigin_{it}) + \beta_2 \ln\left(PopDestination_{jt}\right) + \beta_3 \ln\left(Dist_{ijt}\right) + \gamma_i + \varphi_j + \varepsilon_{ijt}$$

- WP_{ijt} – Number of work permits issued in destination economy *j* to citizens from origin economy *i* in year *t.*
- $PopOrigin_{it}$ – Total population in the origin economy *i* in year t.
- $PopDestination_{jt}$ – Total population in the destination economy *j* in year t.
- $Dist_{ijt}$ - Distance between the capitals of the origin economy *i* and destination economy *j*.

Alternatively, we replace the variable $Dist_{ijt}$ with the following dummy variables:

- $Neighbour_{ijt}$ – takes value 1 if economy *i* and economy *j* are neighbouring, and 0 otherwise.
- $Language_{ijt}$ – takes value 1 if economy *i* and economy *j* have same language, and 0 otherwise.
- $OpenBalkan_{ijt}$ – takes value 1 if economy *i* and economy *j* takes part in the Open Balkan, and 0 otherwise.
- $Covid_{ijt}$ – takes value 1 for years 2020, 2021 and 2022, and 0 otherwise.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	7.5523 (0.108)	5.40971 (0.151)	9.095055** (0.013)	9.025168** (0.040)	9.055693** (0.043)
Ln(PopOrigin)	0.9006827** (0.022)	0.8626069*** (0.004)	0.7073351** (0.018)	0.775904** (0.031)	0.7744063** (0.032)
Ln(PopDestination)	-1.159564*** (0.007)	-1.085795*** (0.001)	-1.317087*** (0.000)	-1.304492*** (0.001)	-1.306932*** (0.001)
Distance	-0.0018796 (0.481)				
Neighbour		1.844887*** (0.000)			
Language			1.935918*** (0.000)		
Open Balkan				-0.1042792 (0.517)	
Covid-19					-0.0192009 (0.809)
R^2 within R^2 between R^2 overall	0.0460 0.3389 0.3543	0.0457 0.5573 0.5479	0.0493 0.5615 0.5506	0.0492 0.3216 0.3329	0.0509 0.3223 0.3328

Push and pull factors

$$lnWP_{ijt} = \beta_0 + \beta_1(W_{jt} - W_{it}) + \beta_2(u_{jt} - u_{it}) + \beta_3(CPI_{jt} - CPI_{it}) + \beta_4(FDI_{jt} - FDI_{it}) + \gamma_i + \varphi_j + \varepsilon_{ijt}$$

- WP_{ijt} Number of work permits issued in destination economy *j* to citizens from origin economy *i* in year *t.*
- $W_{jt} - W_{it}$ Difference in gross average monthly wage between destination and origin economy
- $u_{jt} - u_{it}$ Difference in unemployment rates between destination and origin economy
- $CPI_{jt} - CPI_{it}$ Difference in Consumer Price Index between destination and origin economy
- $FDI_{jt} - FDI_{it}$ Difference in Foreign Direct investments between destination and origin economy
- $Neighbour_{ij}$ – takes value 1 if economy *i* and economy *j* are neighbouring, and 0 otherwise.
- $Language_{ij}$ – takes value 1 if economy *i* and economy *j* have same language, and 0 otherwise.
- $OpenBalkan_{ijt}$ – takes value 1 if economy *i* and economy *j* takes part in the Open Balkan, and 0 otherwise.
- $Covid_{ijt}$ – takes value 1 for years 2020, 2021 and 2022, and 0 otherwise.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	5.101551*** (0.000)	3.885143*** (0.000)	4.623016*** (0.000)	5.107224*** (0.000)	5.103416*** (0.000)
$W_{jt} - W_{it}$	.002971*** (0.005)	.0031119*** (0.000)	.0030482*** (0.000)	.0029704*** (0.000)	.0030023*** (0.000)
$u_{jt} - u_{it}$	-.0354943*** (0.000)	-.0352702*** (0.000)	-.0350799*** (0.000)	-.0355511*** (0.000)	-.0355065*** (0.000)
$CPI_{jt} - CPI_{it}$	-.041093*** (0.000)	-.0408104*** (0.000)	-.0410046*** (0.000)	-.0413448*** (0.000)	-.0411633*** (0.000)
$FDI_{jt} - FDI_{it}$	.0468906* (0.093)	.0394223 (0.147)	.0396473 (0.148)	.0463225* (0.098)	.0454709 (0.104)
Neighbour		1.794723*** (0.000)			
Language			1.672152*** (0.003)		
Open Balkan				-.0877787 (0.567)	
Covid-19					-.0044272 (0.953)
R^2 within	0.1643	0.1584	0.1588	0.1615	0.1603
R^2 between	0.1571	0.4641	0.4188	0.2307	0.2310
R^2 overall	0.1266	0.4126	0.3868	0.1855	0.1861

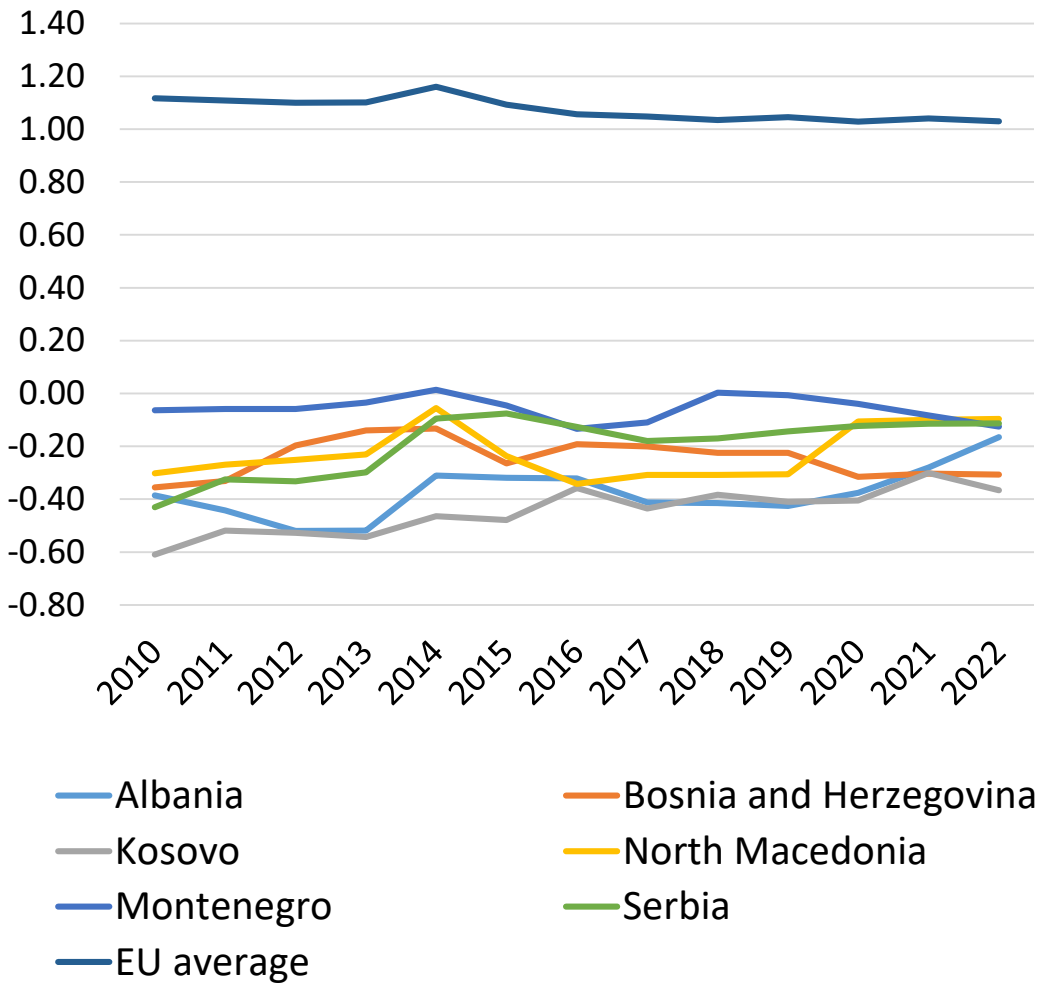
The Worldwide Governance Indicators (World Bank)

- Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
- Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.
- Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.

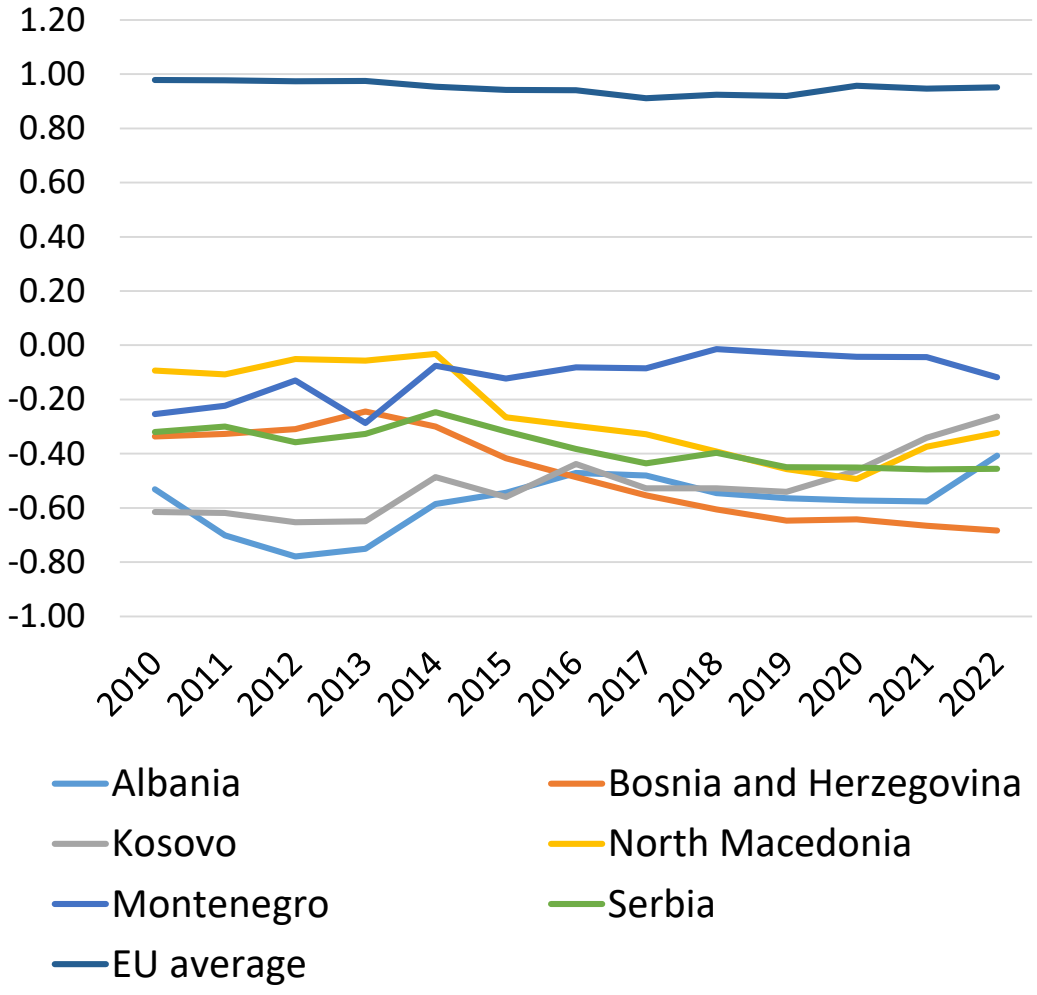
Calculation and range of governance indicators

- The aggregate indicators are based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide.
- The calculation is done in three steps:
  - STEP 1: Assigning data from individual sources to the aggregate indicators.
  - STEP 2: Rescaling of the individual source data to run from 0 to 1.
  - STEP 3: Using an Unobserved Components Model (UCM) to construct a weighted average of the individual indicators for each source.
- The composite measures of governance generated by the UCM are in units of a standard normal distribution, with mean zero, standard deviation of one
- The range of the governance indicators is from approximately -2.5 to 2.5, with higher values corresponding to better governance.
- Details on the underlying data sources, the aggregation method, and the interpretation of the indicators, can be found in the paper: Kaufmann et al. (2010) "The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues“, World Bank Policy Research Working Paper No. 5430.

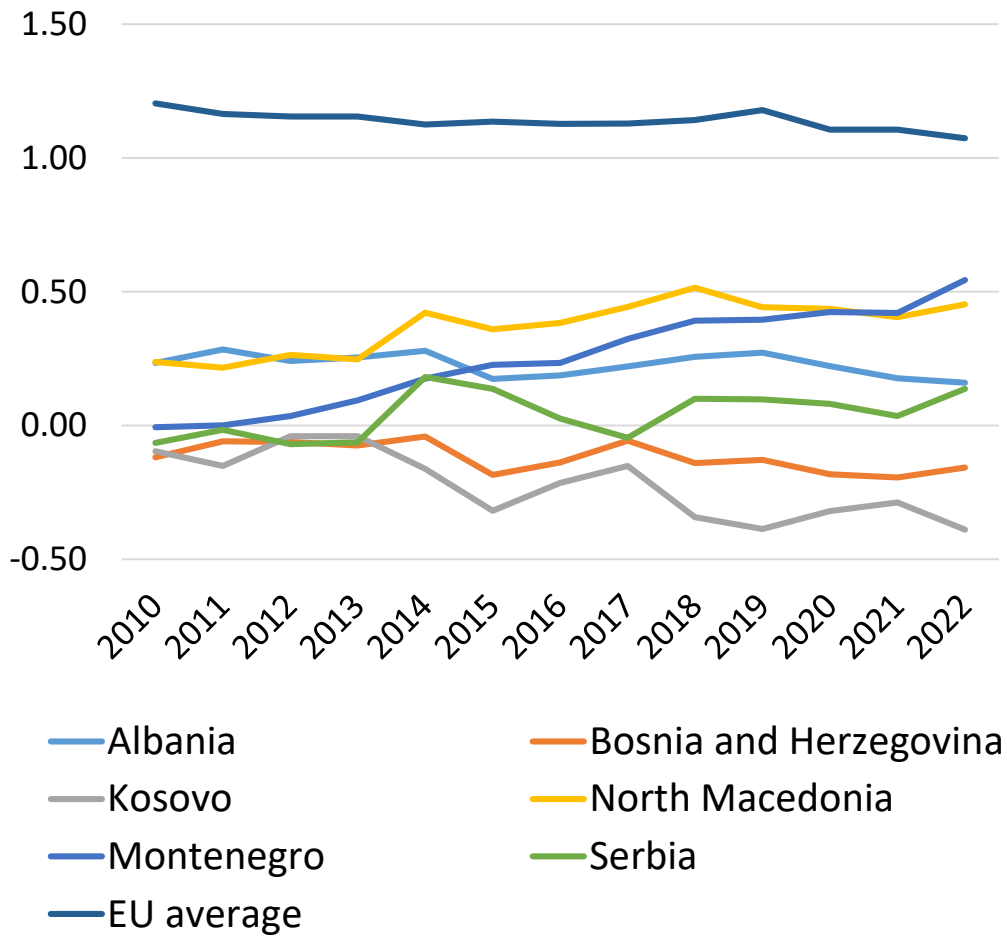
Rule of law



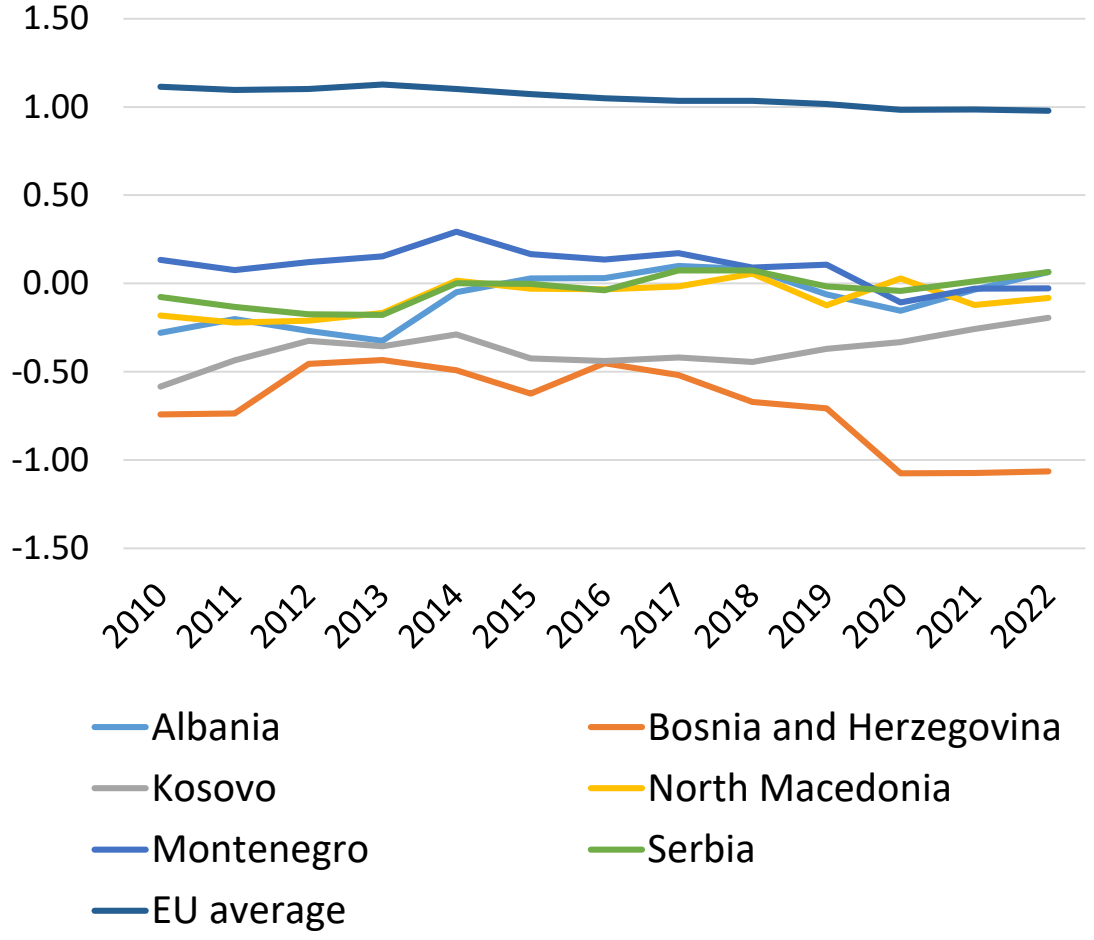
Control of corruption

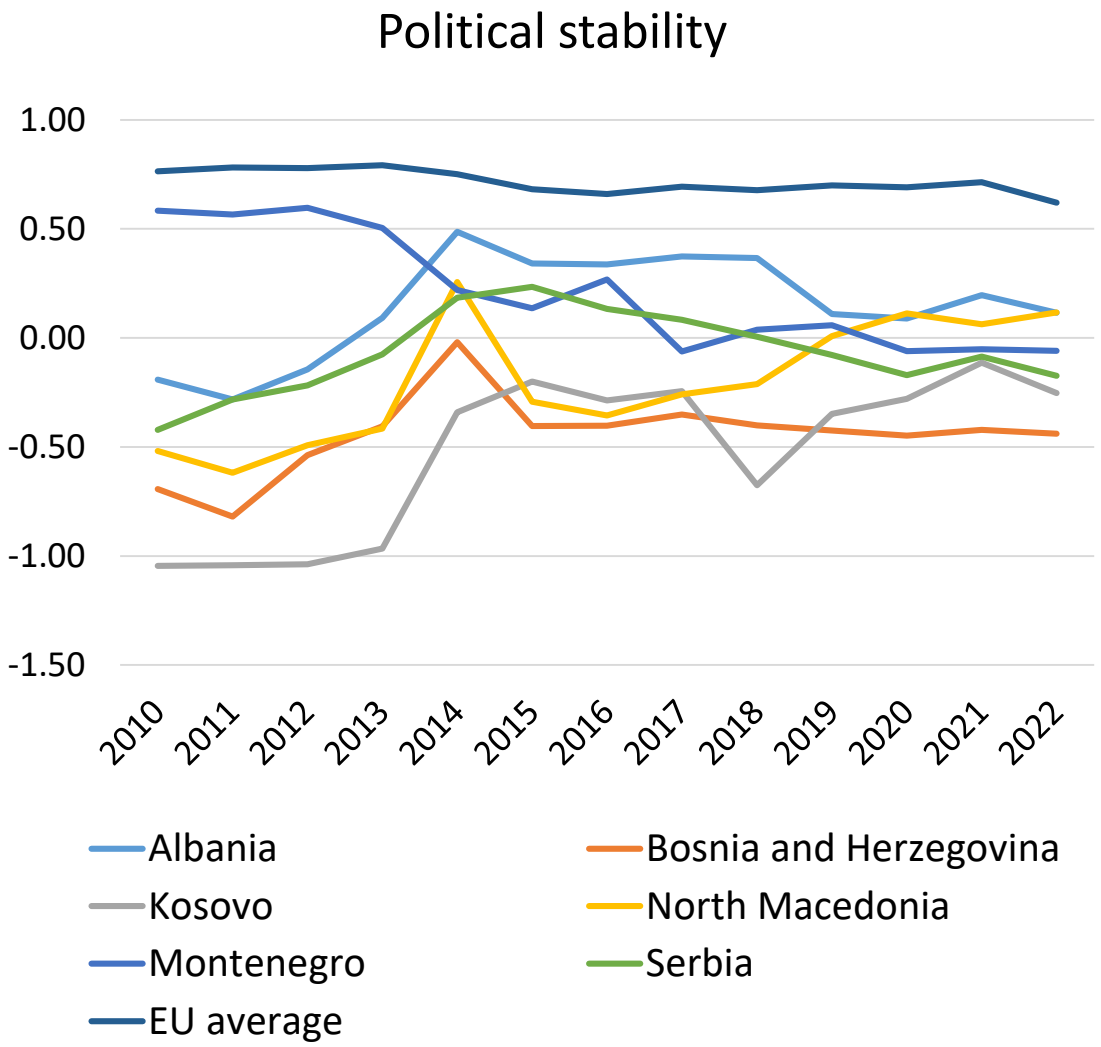


Regulatory quality



Government effectiveness





Variable	Model
Constant	5.187853*** (0.000)
$W_{jt} - W_{it}$	.0040404*** (0.000)
$u_{jt} - u_{it}$	-.0458855*** (0.000)
$CPI_{jt} - CPI_{it}$	-.046011*** (0.000)
$FDI_{jt} - FDI_{it}$	.0536506** (0.048)
$Rule_{jt} - Rule_{it}$	-.2158801 (0.622)
$Corr_{jt} - Corr_{it}$	.245893 (0.359)
$Regul_{jt} - Regul_{it}$	1.310018*** (0.000)
$Effect_{jt} - Effect_{it}$	-.5709848** (0.016)
$Polit_{jt} - Polit_{it}$	.1641869 (0.264)

Conclusions

- From the estimated gravity model, there is a significant movements of workers from bigger to smaller countries (Montenegro being an example of negative net migration).
- The distance does not appear as a significant variable, but neighboring economies and those who share same language have significantly higher migration. In addition, Open Balkan and Covid-19 are not statistically significant.
- Higher average wage and Foreign Direct Investments in destination economies vis-à-vis origin economies attract significantly higher number of issued work permits.
- In contrast, higher unemployment rate and Consumer Price Index in destination economies vis-à-vis origin economies negatively affect the number of issued work permits.
- Among the governance indicators, better regulatory quality positively affect the number of issued work permits, while the government effectiveness exerts negative impact.
- The remaining governance indicators (Rule of law, Control of corruption and political stability) do not appear as statistically significant determinants of the number of issued work permits.