5 Trade policy (Dimension 2)

A trade policy that facilitates cross-border economic activity promotes the competitiveness and growth of an economy. Trade liberalisation measures provide access to larger markets, leading to greater economies of scale and efficiency gains. This chapter assesses the frameworks, strategies, processes, and institutions in the six Western Balkan economies (WB6) related to trade policy. In doing so, it focuses on three key sub-dimensions. The first, the trade policy framework, examines governments' capacities to design, implement and evaluate trade policy, including institutional co-ordination, public-private consultations and monitoring and evaluation mechanisms. It also examines the development of market opening in the region through the evolution and outcomes of the network of trade facilitation agreements concluded by the WB6 economies. The second sub-dimension, trade in services restrictiveness, focuses on the regulations that govern and hinder the degree of openness of the economies in 12 service sectors. The third sub-dimension, e-commerce and digitally enabled services, focuses on the regulatory environments governing the most dynamic areas of trade flows – those operated through digital means. The sub-dimension analyses the regulations in force on e-commerce and the degree of restrictiveness of digitally enabled services. The chapter includes suggestions for policy enhancements for each of these sub-dimensions in order to improve trade performance and in turn increase the economies' competitiveness.

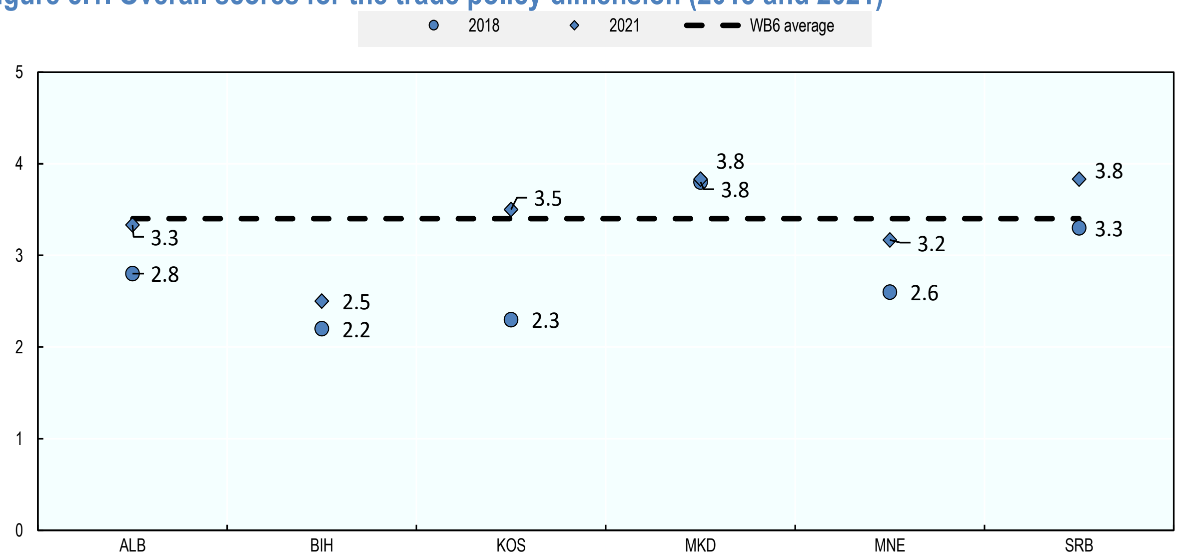
Key findings

- **Trade policy institutional frameworks are functioning well and have been strengthened since the previous assessment**. Inter-institutional co-ordination of trade policy formulation is solid in most WB6 economies, usually involving official committees or working groups led by the ministry in charge of trade policy (either the trade or economy ministries). There are formal instruments for consultation with the private sector and civil society, and the economies have recently established trade facilitation committees.
- **The WB6 economies are well integrated commercially with their main trading partners.** Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia are signatories to the Central European Free Trade Agreement (CEFTA), alongside with United Nations Interim Administration Mission in Kosovo on behalf of Kosovo in accordance with the United Nations Security Council Resolution 1244, through which they have achieved full liberalisation of tariffs on trade in manufactured and agricultural products. They are also parties to bilateral free trade agreements and stabilisation and association agreements (SAAs) with the EU. Overall, while the six economies continue to develop their networks of bilateral and multilateral trade agreements, they do so at disparate rates and most of the efforts focus on the EU. Indeed, there have been no substantial developments in global trade integration since the last round of analysis. Bilateral treaties with non-EU member states are rare and the process of accession of Bosnia and Herzegovina and Serbia to the World Trade Organization (WTO) is still ongoing, which in particular may limit the benefits of a favourable foreign direct investment regulatory regime in the latter economy.
- **Significant improvements have been made in opening up trade in services** through the adoption of Additional Protocol 6 to CEFTA in December 2019 and its ratification by Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia, as well as through reforms to services trade policies. These and subsequent efforts will significantly reduce the costs of trade in the WB6. Nevertheless, the extent of liberalisation depends on the economy and the sector analysed, with a number of regulatory restrictions reducing the attractiveness of certain service sectors for foreign service providers. However, none of the economies have reported an increase in the restrictiveness of their regulatory environment.
- **All six economies have taken steps to strengthen their legal framework for e-commerce.** They have continued to align their sectoral laws and regulations with the EU e-commerce directive and have worked to remove non-legal barriers to the adoption of e-commerce, including raising awareness among small and medium-sized enterprises (SMEs). The emergence of the global pandemic and the increasing importance of e-commerce in world trade has boosted government responses. However, regulatory frameworks have evolved heterogeneously across the region and respond disparately to the challenges created for e-commerce globally in the context of COVID-19.
- **Regulations on digitally enabled services largely reflect international best practice**. The six economies' regulatory environments are more open than those of the OECD member states' average, and variations in performance across the region are very small, pointing to the potential for a high degree of regulatory harmonisation. The remaining restrictions mainly relate to infrastructure and connectivity measures. This indicates that telecommunications regulations could be further improved, particularly in the area of interconnection.

Comparison with the 2018 assessment

Since the Competitiveness Outlook 2018, the economies of the WB6 have made progress in the areas of inter-institutional co-ordination and public-private consultations, and their evaluation and monitoring capacities have also improved overall, but at a slower and more irregular pace (Figure 5.1). Economies have also made progress on their e-commerce frameworks, but also at very variable speeds. The remaining elements of the current framework cannot be compared with the previous Competitiveness Outlook because this edition has prioritised different services sectors for analysis.

Figure 5.1. Overall scores for the trade policy dimension (2018 and 2021)



Note: Scores for 2021 are not directly comparable to the 2018 scores due to the addition/removal of relevant qualitative indicators. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Methodology and assessment process chapter for information on the assessment methodology.

Implementation of the Competitiveness Outlook 2018 recommendations

Progress on implementing the CO 2018 policy recommendations ranges from moderate to advanced (Table 5.1). Progress has been made in improving the regulatory framework by developing single strategies or action plans designed to increase trade performance, while advanced improvements have been made to enhance public-private consultation mechanisms. Implementation across economies however varies.

Table 5.1. Implementation of the CO 2018 policy recommendations: Trade policy

Competitiveness Outlook 2021		
CO 2018 policy recommendations	**Main developments during the assessment period**	**Regional progress status**
The WB6 economies could consider developing single strategies or action plans designed to improve trade performance.	• In Albania the National Plan for Trade Policy Coordination and Trade Facilitation (2017-2020) was adopted in 2017 and is aligned with Albania's National Strategy for Development and Integration 2014-2020. The new National Plan for Trade Policy Coordination and Trade Facilitation (2021-2023) is prepared. This plan contains concrete trade facilitation measures for Albanian businesses aiming to develop trade in the WB region, EU countries and beyond, and is harmonised with the trade policy developments undertaken by Albania in the framework of the implementation of the Protocol. Addendum 5 "On Trade Facilitation", Additional Protocol 6 "On Trade in Services" of the Regional Free Trade Agreement CEFTA 2006 and in full harmonisation with the Action Plan for the establishment of the Common Regional Market approved by the Prime Ministers of the economies of the Western Balkans at the Sofia Summit on 10 November 2020 (MAP REA 2021-2024). • Kosovo has a trade facilitation strategy (covering the period 2017-2021) and an action plan (2017-2019) • The other WB6 economies have incorporated trade elements in their recent development strategies but do not have or have not updated their strategies or action plans dedicated primarily to trade facilitation since 2018. • The first action plan of Serbian Trade Facilitation Body was adopted for two-year period 2018/2019 and the second one was adopted for 2020/2021.	Moderate
The public-private consultation mechanism could be improved.	• In Bosnia and Herzegovina, progress has been made with the adoption of the Regulation for the Implementation of Public Consultation Standards at the state level within the 2017 *Regulation of Consultations in Legislative Drafting* which contains the provisions on minimum requirements for consultations. According to the regulation, BIH institutions at the state level are obliged to publish draft laws on a dedicated website (eConsultation) which allows the public to submit proposals and remarks. The use of the eConsultation website is growing by BIH institutions as well as the business community. • In Kosovo progress has been made since the regulation on Minimal Standards for Public Consultation Process entered into force in 2017. According to the annual reports of the Office of Good Governance (OGG), the government has been consulting with an increased number of institutions and stakeholders. A dedicated website has been set up to enable free access to draft and final laws and regulations and for the private sector to comment on draft laws in a transparent manner. The OGG produces reports on the implementation of the minimum standards of PPCs set up in the law. • In Montenegro, a mandatory consultation procedure for all draft legislation was introduced under the new Decree on State Administration (2018). The government now must conduct a public hearing when preparing laws and strategies. In addition, the government has formalised the requirements for participation in working groups, making it mandatory for it to invite relevant stakeholders to provide inputs and comment on draft laws. The decree has also extended the scope of public consultations to cover national strategies. An online participation platform was created to facilitate public consultations. • North Macedonia has implemented the 2019 Rules for the Organization of the Public Consultation in starting the Legislative Process, which improved its regulatory transparency by simplifying public consultation mechanisms and making them more accessible via the centralised and dedicated PPCs website, ENER.GOV.MK. • Serbia has made strides in increasing stakeholder participation by NGOs, academia, private sector, and Chamber of Commerce during both the formation and the implementation phases of policy making, as mandated by the Law on Planning System of the Republic of Serbia, Decree on Public Policy Management Methodology, Policy Analysis and Regulations, the content of individual public policy documents and amendments to the Law on State Administration. The Rulebook Governing the Guidelines of Good Practice for the Realization of Public Participation in the Preparation of the Draft Laws and Other Regulations and Acts in 2019 further defines the consultation process and methods. Additionally, in January 2020, the government adopted guidelines on including civil society in working groups for drafting regulations and public policies.	Advanced

Competitiveness Outlook 2021		
CO 2018 policy recommendations	**Main developments during the assessment period**	**Regional progress status**
Ease conditions on the temporary movement of natural persons and reduce the remaining barriers to market entry and competition in their services sectors.	The WB6 economies have made efforts to reduce non-tariff restrictions in their services related regulations: • Serbia, North Macedonia and Kosovo have been the most active in implementing reforms: Serbia in 2014-16 and North Macedonia in 2016-19, in particular targeting the architecture and engineering sectors. Kosovo has maintained a steady flow of reforms in the period 2014-20 with a notable highlight being the opening of its courier market in 2019. • Montenegro has mainly opened up its construction, engineering and architecture sectors. Albania started with a more attractive environment in 2014 so that it has had a more stable environment until 2019. The exception is the 2015 reforms in the courier sector. It is also the economy that has lowered its degree of restrictiveness the most in 2019 and 2020. Finally, BIH has maintained a low degree of variation in its indices over the years. • The six economies also refrained from implementing protectionist measures in 2020, which contrasts with the marked STRI increases observed in some OECD economies for the same period. • Significant progress has been made in easing the conditions for the movement of persons between the CEFTA economies through the adoption of Additional Protocol 6 to the CEFTA agreement.	Moderate

Introduction

While decades of multilateral, regional and unilateral efforts have significantly reduced traditional trade barriers such as tariffs, many elements can still impede trade. Regulatory heterogeneity and non-tariff barriers are now increasingly seen as a major source of trade limitations and costs, affecting both domestic producers and foreign suppliers (OECD, 2017[1]). These latter barriers particularly affect services, which constitute a large part of the global economy, generating more than two-thirds of global gross domestic product (GDP), attracting more than three-quarters of foreign direct investment (FDI), employing the largest number of workers, and creating most of the world's new jobs (OECD, 2017[2]).

A trade policy that facilitates cross-border economic activity therefore promotes the competitiveness and growth of an economy. Trade liberalisation measures provide access to larger markets, leading to greater economies of scale and efficiency gains. Better market access also leads to greater competition from international firms in domestic markets, resulting in increased competition and better allocative efficiency.[1] In addition, transparent and well-designed policies facilitate access to global value chains (GVCs), which are very effective ways to integrate into the global economy and connect to modern technologies and skills (OECD, 2015[3]). Trade facilitation through transparent, predictable, and simple border procedures speeds up the movement of goods and allows firms to reduce losses of perishable goods, lower costs, be more responsive to changing consumer preferences and participate in time-sensitive global value chains (OECD, 2018[4]).

Economies are therefore faced with the need to put in place trade policies that on the one hand smooth trade flows, while at the same time refraining from putting in place measures that act as disincentives to trade, all the while maintaining a balance with the international environment and public utility considerations. In recent years, attention has grown on the regulatory heterogeneity and inclusiveness of other areas such as environmental protection and labour laws. While regulatory heterogeneity is often the result of diverging national public policy objectives, it may be the undesired result of rule-making that ignores the international regulatory environment and interconnectedness of our societies and economies (Basedow and Kauffmann, 2016[5]). Good regulatory practices involving stakeholder feedback and evaluation are therefore critical to ensure that regulations achieve their desired objectives.

This chapter is intended to provide guidance to help economies develop appropriate and balanced trade regulatory policies. In doing so, it is linked with other policy dimensions analysed in this Competitiveness Outlook:

- **Chapter 4. Investment** (and in particular FDI) depends on an open and liberal trade regime with effective trade facilitation measures in place, such as efficient customs administrations and reduced transaction costs. Moreover, investment is complementary to trade as foreign investment abroad stimulates the growth of exports by investing economies. Finally, both a sound investment framework and unrestricted trade are seen as facilitators of economic growth.
- **Chapter 11. Employment policy** and job creation for both skilled and unskilled workers are stimulated by more open goods and services markets and competitive environments. Exporters benefit from reduced barriers to the movement of people in services increases the demand for more highly skilled labour. Foreign skilled labour, on the other hand, can encourage a transfer of knowledge that increases the expertise of local workers.
- **Chapter 12. Science, technology and innovation** are sources of comparative advantage which drive trade. Exports, investments abroad or licensed technologies are driven by innovative and more productive companies. Open and more liberal markets contribute to the diffusion of innovation and the international transfer of technology (Ferencz, 2019[6]). Trade in capital goods and intermediate goods and services, the movement of people and licensing agreements, allow for new technologies to be transmitted across borders.
- **Chapter 13. Digital society** stimulates trade. High quality access to competitively priced communication networks and services is fundamental (OECD, 2019[7]), including to digital trade which has become vital for economic activity and innovation during the global COVID-19 pandemic. Digitalisation facilitates trade, the co-ordination of global value chains and the dissemination of ideas, changing the way companies engage in international trade, what they sell and to whom. Digitalisation creates new business opportunities for companies to sell more products to more markets, allowing economies to diversify their export baskets. It increases trade in goods and services across all sectors and allows economies to make better use of their trade agreements. However, barriers to digital services, which form the backbone of digital trade transactions, are increasing and are not necessarily only regulatory (OECD, 2019[8]).
- **Chapter 14. Transport** is key for trade facilitation, which depends mainly on physical infrastructure, traffic management, and customs and border crossing points. Sectors with high export intensity, such as manufacturing and agriculture, depend on quick, cost-effective, and reliable transport modes. Delays due to poor transport and logistics can be costly: an extra day can reduce exports by at least 1% and can also impede export diversification (OECD/WTO, 2013[9]). Poor logistics act as a heavy barrier to the growth of cross-border e-commerce for physical goods in many economies, especially the developing ones (Rodriguez, 2018[10])
- **Chapter 17. Agriculture policy** and trade are highly interdependent. Trade plays a crucial role in providing food to consumers around the world. It helps to provide a wider choice of consumer goods and has played a role in reducing global food insecurity. Over the past decade, international food and agricultural markets have undergone some significant changes, bringing national and international markets closer together. Since 2000, agri-food trade has grown strongly as world markets have responded to a more rules-based trading environment, lower tariffs, and reduced trade-distorting producer support (OECD, 2019[11]). But agri-food trade is not only growing, it is also becoming global. Food is increasingly made from a wider range of products, produced in more places around the world. Now a growing share of agri-food trade takes place in global value chains (GVCs) that link agri-food sectors with other sectors of the economy around the world (OECD, 2020[12]). Since agri-food products in GVCs may cross borders several times before reaching final consumers, their costs can be substantially increased by uncontrolled non-tariff measures – those

related to laws, regulations and requirements such as sanitary and phytosanitary measures (SPS), technical barriers to trade and customs procedures (OECD, 2019[11]).

Assessment framework

Structure

This chapter measures trade policies in the WB6 economies by assessing the following three broad sub-dimensions:

1. **Sub-dimension 2.1: Trade policy framework** focuses on the quality of the decision making in trade-related policies and the effectiveness of the government in formulating and implementing new trade policies. This is assessed by their degree of integration into the network of international trade agreements as well as their implementation of the OECD Trade Facilitation Indicators.
2. **Sub-dimension 2.2: Services trade restrictiveness** assesses restrictions to services trade in the WB6 economies. As services are a major part of the global economy, estimated at around 80% of global GDP, this chapter puts a strong focus on trade in services, which allows economies to specialise according to their comparative advantages in services and skills. To do so, it makes use of the main tool in this field, the OECD's Services Trade Restrictiveness Index (STRI). Compared to previous editions, the 2021 iteration of the WB6's STRI has been significantly expanded.
3. **Sub-dimension 2.3: E-commerce and digitally enabled services** assesses the regulatory environment for e-commerce and trade in digitally enabled services. This area of global trade is currently rising and the anticipation is that e-commerce will grow more in the near future, especially with new technologies. The sub-dimension therefore focuses on the two main components of trade: trade in goods and trade in services enabled through digital networks. They are assessed through two indicators: the quality of the e-commerce framework and the degree of restrictiveness of digitally enabled services.

Figure 5.2 shows how these sub-dimensions and their constituent indicators make up the assessment framework for the trade policy dimension. The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews undertaken with relevant non-government stakeholders. Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and agencies, and other databases – formed an integral part of this assessment. The main part of the analysis of trade in services in the WB6 region is based on a partial OECD Services Trade Restrictiveness Index (STRI) for the six economies that make up the region (Box 5.1). The regulatory databases set up for the partial OECD STRI for the WB6 were created thanks to co-operation with the WTO and CEFTA, which is gratefully acknowledged. They are based on the WTO/World Bank I-TIP Services regulatory databases, updated in November 2020 and to which the OECD STRI methodology has been applied. For more information on the methodology see the Methodology and assessment process chapter.

Figure 5.2. Trade policy dimension assessment framework

Trade policy dimension		
Sub-dimension 2.1 Trade policy framework	**Sub-dimension 2.2** Trade in services restrictiveness	**Sub-dimension 2.3** E-commerce and digitally enabled services
Qualitative indicators 1. Institutional co-ordination on trade policy formulation 2. Public-private consultation 3. Network of free-trade agreements 4. OECD Trade Facilitation Indicators	**Qualitative Indicators** Analysis of barriers to trade in selected services sectors 5. Transport and distribution supply chain 6. Market bridging and supporting services 7. Physical infrastructure services 8. Digital network services	**Qualitative Indicators** 9. E-commerce policy framework 10. Trade in digitally enabled services restrictiveness
Quantitative Indicators 1. Number of newly issued and number of modified trade measures (laws, regulations, trade agreements)	**Quantitative Indicators** 2. OECD Services Trade Restrictiveness Index 3. OECD Heterogeneity indices	**Quantitative Indicators** 4. OECD Digital Services Trade Restrictiveness Index

The leaders of the WB6 endorsed the Common Regional Market (CRM) 2021-2024 Action Plan at the Berlin Process Summit held on 10 November 2020 in Sofia. The plan is made up of targeted actions in four key areas: (1) a regional trade area; (2) a regional investment area; (3) a regional digital area; and (4) a regional industrial and innovation area.

In the regional trade area, the WB6 economies commit to closely align rules and regulations with the core principles governing the EU Internal Market, based on the “four freedoms”: enabling goods, services, capital, and people to move more freely across the region. The findings of the services trade restrictiveness sub-dimension can inform the implementation of actions under this component (Box 5.6).

Key methodological changes to the assessment framework

The assessment has undergone a substantial change in its 2021 iteration since the 2018 CO analysis framework.

This chapter aims to help the WB6 economies to put in place effective trade policies that maintain a balance between domestic considerations and the fluidity of trade flows while refraining from imposing or maintaining regulations that are not conducive to trade. In addition, in view of the region's new trade considerations, which aspire to greater regional integration and ultimately the adhesion into the EU, the chapter also aims to identify points of regulatory divergence and convergence with these goals. To do this, the trade policy assessment framework now gives pride of place to three sets of unique regulatory transparency tools from the OECD which serve to identify bottlenecks and give benchmark opportunities in trade related policies:

1. The OECD Services Trade Restrictiveness Index (STRI), an evidence-based tool that provides information on regulations affecting trade in services (Box 5.1).
2. The OECD Trade Facilitation Indicators (TFIs), which help policy makers assess the state of their trade facilitation efforts, pinpoint challenges and identify opportunities for progress (Box 5.3).
3. The OECD Digital STRI, the latest OECD tool that identifies, catalogues, and quantifies cross-cutting barriers that affect digital trade with a focus on services (Figure 5.20).

These three tools should be read together to help policy makers decide on trade reform options, benchmark them against global best practice, and assess their likely effects; for trade negotiators to clarify restrictions that most impede trade; and for businesses to understand the requirements when entering foreign markets. The use of these three sets of tools, together with the analysis of the qualitative and quantitative questionnaires, provides a comprehensive view of the state of trade policies in the region.

Box 5.1. The OECD Services Trade Restrictiveness Index (STRI)

The OECD Services Trade Restrictiveness Index (STRI) was used to evaluate the WB6 economies' policies for 12 services sectors. The STRI is a unique, evidence-based diagnostic tool that inventories trade restrictions in OECD member states and partner economies (Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa, and Thailand). It covers 22 services sectors, allowing countries to benchmark their services regulations against global best practice, identify outlier restrictions, and prioritise reform efforts.

For this CO assessment cycle, the 12 services sectors are grouped into four clusters: 1) transport and distribution supply chain (air transport, road transport, rail transport, courier); 2) market bridging and supporting services (commercial banking, insurance, legal services); 3) physical infrastructure services (construction, architecture, engineering); and 4) digital network services (computer services, telecommunications).

Information was collected from the WB6 economies' laws and regulations, and indices were calculated for seven years (2014-20). These composite indices compute restrictions across five policy areas: foreign entry, movement of people, barriers to competition, regulatory transparency, and other discriminatory measures. The indices quantify regulatory restrictions in each of the 5 policy areas for the 12 sectors by giving them a value between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1.[1]

Each policy area is composed of a series of measures. These measures are called "horizontal" if they are present in all sectors, or "sector specific" if they only affect a particular sector.[2] The STRI measures the most-favoured-nation (MFN) restrictions and does not take into account any specific concessions, such as regional trade agreements or mutual recognition agreements (Geloso Grosso et al., 2015[13])

Relevant STRI tools include:

- **Compare your country:** (www2.compareyourcountry.org/service-trade-restrictions). This interactive website can be used to compare services trade restrictiveness across 22 sectors in all OECD countries and partner economies. Key economic indicators are projected onto a world map to give a comparative view of the importance of services in the economies covered by the STRI.
- **Policy simulator:** (http://sim.oecd.org). The policy simulator provides all STRI information by economy and by sector. It can be used to understand how the STRI indices are calculated, to analyse the contribution of each policy measure to the index, to compare economies in detail, and to simulate the impact of a policy change on the index value. The focus view option provides links to legal sources. Finally, simulations can be saved and shared with other users, and the relevant data can be downloaded.
- **Online regulatory database**: (http://qdd.oecd.org/subject.aspx?Subject=STRI). The online STRI regulatory database displays complete and up-to-date regulatory information collected for the sector composite indices. This qualitative database contains information on trade restrictions and behind-the-border regulations. The database entries are documented with reference to the sources (title and articles of the relevant law), with an internet link to each legal source.

- **Indices:** (http://stats.oecd.org/Index.aspx?DataSetCode=STRI). The STRI indices are easily accessed and extracted from OECD.Stat (under the heading: Industry and Services, subheading: Services Trade Restrictions). In addition to the five policy areas, the indices are presented by four additional classifications: GATS market access/national treatment and domestic regulation/other, GATS modes of supply, discriminatory versus non-discriminatory measures, firm's establishment versus on-going operations. The indices of regulatory heterogeneity based on the same information included in the STRI regulatory database are also displayed under this section.

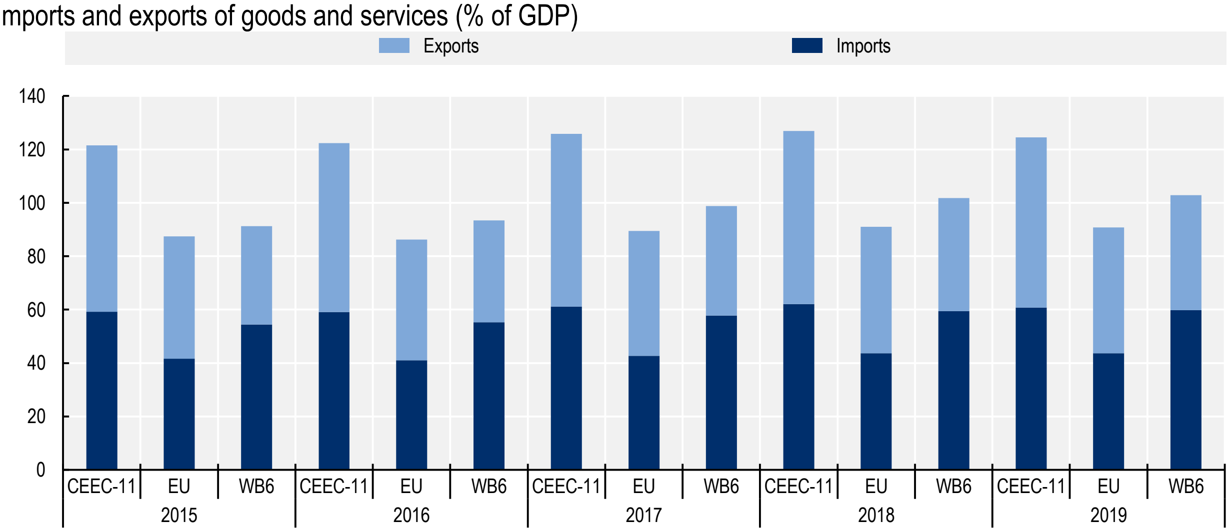
1: The full set of OECD STRI indices and comparison tools as well as policy simulators for OECD member and partner states that have undertaken the OECD STRI are available on the dedicated OECD website https://www.oecd.org/trade/topics/services-trade.
2: The complete list of measures sector by sector is also available on the OECD STRI website.
Source: (OECD, 2017[2]), *Services Trade Policies and the Global Economy*, https://dx.doi.org/10.1787/9789264275232-en.

Trade policy dimension performance and context in the WB6

In the period 2009-19, the total foreign trade in goods and services of the six Western Balkan economies grew steadily, largely due to an increase in exports initiated after the economic crisis of 2009. The share of trade in the region's gross domestic product (GDP) reached 110% on average in 2019, compared to 80% in 2009. Despite this increase, the region remains below the average for Central and Eastern European countries (CEEC-11)[2] averages (Figure 5.3).

Figure 5.3. Key trends in external trade in goods and services (2015-19)

Imports and exports of goods and services (% of GDP)

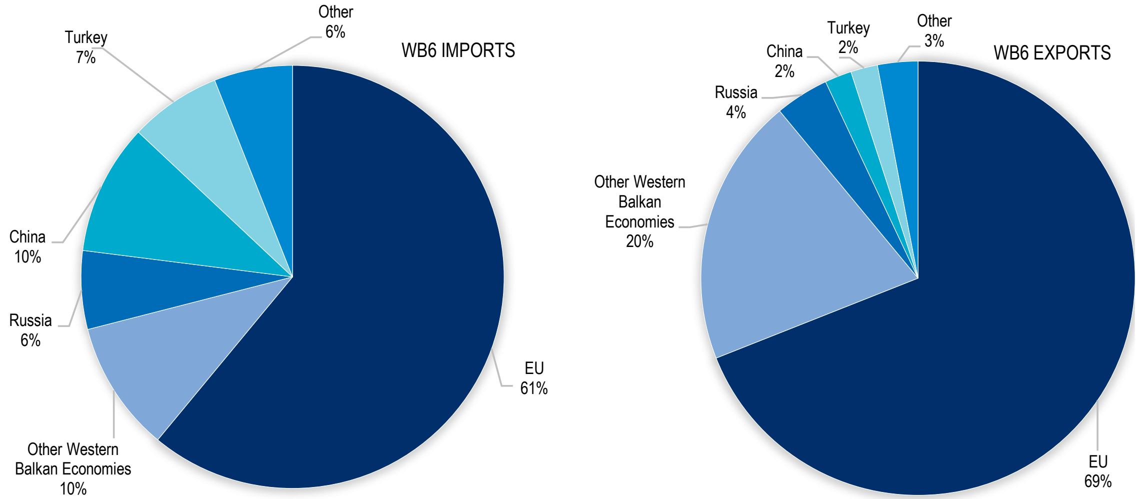


Note: CEEC-11=Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.
Source: (World Bank, 2021[14]), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators.

StatLink https://doi.org/10.1787/888934253480

The EU is the WB6 region's main trading partner, accounting in total for around two-thirds of the region's total trade (Figure 5.4). Germany and Italy play a predominant role, accounting for about one-third of all WB6 exports. The other EU Member States, and in particular the neighbouring states of Bulgaria, Croatia, Romania and Slovenia, are also important export destinations and account for 15% of the exports of the six economies. Trade among the WB6 represents 10% of the region's imports and 20% of its exports. Finally, China plays an increasing role in the region's trade, accounting for 10% of the region's imports, particularly as a source of raw materials needed for the region's integration into global value chains.

Figure 5.4. Main trading partners of the WB6

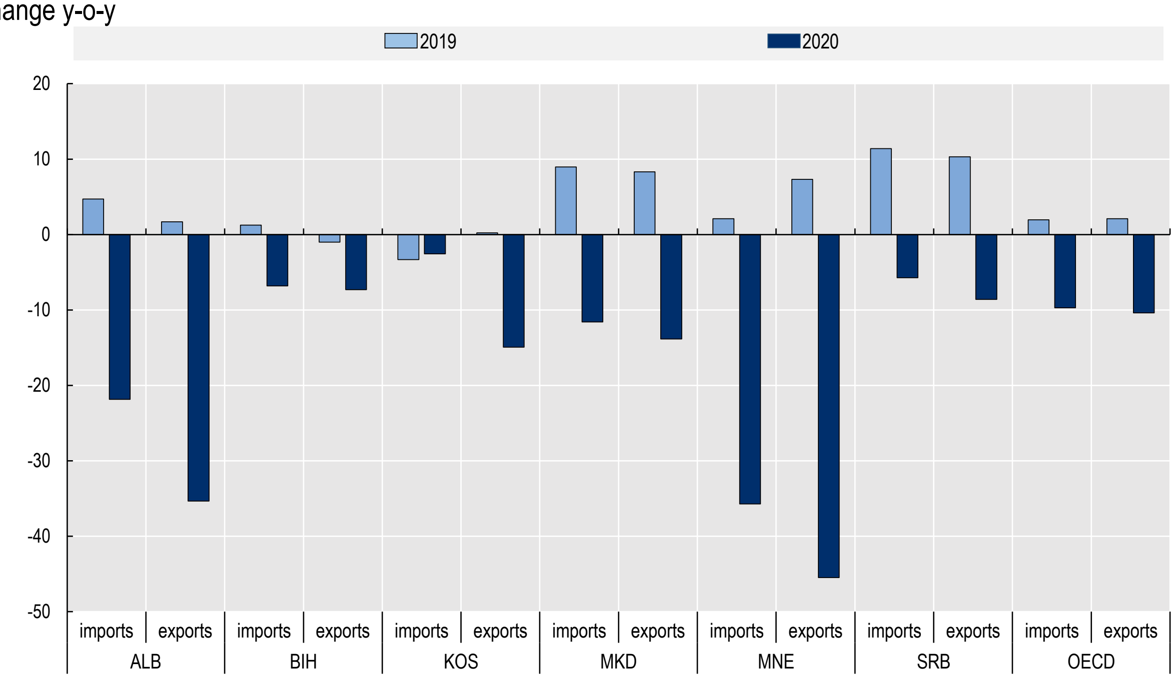


Source: (Eurostat, 2020[15]), https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database.

The COVID-19 crisis, combined with the related export bans, limitations on the movement of people and retail shutdowns, resulted in a significant drop in imports and exports in Q2-Q3 2020 relative to 2019 (Figure 5.5). On average, WB6 exports and imports dropped by 20% and 14% respectively (IMF, 2020[16]). While Albania, and Montenegro suffered the largest decrease of import and export volumes, ranging from -20% to -45%, Bosnia and Herzegovina and Serbia experienced the smallest fall (above -12%) in the region (OECD, 2020[17]).

Figure 5.5. Impact of COVID-19 on import and export volumes (2019-20)

% change y-o-y



Source: (IMF, 2020[16]), *World Economic Outlook* (October), https://www.imf.org/en/Publications/WEO/weo-database/2020/October; (OECD, 2020[18]), *OECD Economic Outlook*, Volume 2020 Issue 1, https://dx.doi.org/10.1787/0d1d1e2e-en.

StatLink https://doi.org/10.1787/888934253499

The GVC links in WB6 economies are mostly oriented towards services and low-value manufacturing products (OECD, 2019[19]). In all WB6 economies, services account for the largest share of GDP – see Services trade restrictiveness (Sub-dimension 2.2) – followed by a sizeable manufacturing industry. However, the impact of the containment measures has varied according to the composition of the economies' export basket, which partly explains the differences in the region's declining trade flows. Overall, the sectors of tourism, transport and manufacturing have been the most affected.

Service-oriented economies, such as Albania and Montenegro, are mainly dominated by travel and tourism.[3] The latter contributes to 15% of the overall GDP of the region. It is also the sector most affected by the long-lasting restrictions linked to COVID-19. The industry suffered a 50% to 70% drop compared to 2019 (RCC Int., 2020[20]). In Kosovo, diaspora tourism fell by around 60% in the first three quarters of 2020 compared to the same period in 2019 due to restrictions on international mobility. The balance of services surplus is estimated to have contracted to 5.8% of GDP in 2020 from 13.1% in 2019 in this economy. (Tourism chapter)

In contrast, economies that maintain the highest share of manufacturing in the WB6 region, such as Bosnia and Herzegovina, North Macedonia and Serbia, initially saw their trade flows come to a halt. For North Macedonia and Serbia, trade in intermediate industrial goods linked to GVCs accounts for about two-thirds of exports (World Bank, 2020[21]). The disruption of supply chains resulting from the combined slowdown of manufacturing production in China, as well as reduced demand in the United States and the EU, initially brought trade to a virtual standstill in these two economies. Their GVCs are concentrated in a few sectors (automotive, electrical equipment, machinery, chemicals, and metals) in several European countries (mainly Germany). In mid-2020, exports resumed to some extent once the supply of relevant components was restored and demand from the EU stabilised.

Although less integrated into GVCs, the remaining economies have not escaped disruption, primarily due to the decline in demand from EU Member States rather than to supply shortages. For example, Albania's export basket is highly concentrated, mainly on outward processing in the fashion sector with Italy. As the latter alone accounts for almost 50% of the economy's exports and 27% of its imports, Albanian exports collapsed when Italy went into lockdown.

Trade policy framework (Sub-dimension 2.1)

The recent contraction in world trade has demonstrated the importance of implementing structural policies that strengthen export competitiveness. Global trade policy now goes beyond its original focus on the simple reduction of tariffs and the elimination of quantitative restrictions. It involves policies aimed at reducing non-tariff restrictions that hamper trade. Non-tariff barriers can take the form of rules that go far beyond those that emanate from the legislator's aim to regulate trade. Conversely, trade now involves crosscutting policies. A global method is therefore necessary to respond to modern trade issues. This holistic approach to trade requires the establishment of strong institutional mechanisms for co-ordination, consultation, and transparency. Therefore, this first sub-dimension of the trade policy dimension assesses the effectiveness of governments in formulating, evaluating, and implementing trade policy.

Trade policy makers and negotiators need to regularly co-ordinate different ministries, government agencies and institutions when formulating and implementing trade policy. They should also consult a broad range of private and civil society actors, to ensure that policy development is transparent and inclusive. Governments also need to monitor and evaluate the impact of trade policy on the wider economy, including environmental and social impacts. Finally, building a comprehensive and structured network of bilateral and regional trade agreements promotes regulatory initiatives to open markets in a harmonised manner and encourages increased trade policy co-operation by stimulating trade flows.

The economies with the highest average score for this sub-dimension are Kosovo, North Macedonia and Serbia (each scoring 3.8; Table 5.2), which demonstrate strong implementation across all indicators and monitoring and evaluation activities. Albania and Montenegro score 3.5, meaning that policy frameworks are adopted and implemented. Bosnia and Herzegovina's score of 2.8 implies that policy frameworks are largely in place, but there is a need to improve implementation.

Table 5.2. Scores for Sub-dimension 2.1: Trade policy framework

Sub-dimension	Qualitative indicator	ALB	BIH	KOS	MKD	MNE	SRB	WB6 average
Sub-dimension 2.1: Trade policy framework	Institutional co-ordination on trade policy formulation	3.5	2.5	3.5	4	3.5	4	3.5
	Public-private consultation	3.5	3	4	3.5	3.5	3.5	3.5
	Network of free-trade agreements*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	OECD Trade Facilitation Indicators*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sub-dimension average score		3.5	2.8	3.8	3.8	3.5	3.8	3.5

* Note: Indicator does not have a scoring system attributed to it and is therefore assessed descriptively.

Institutional co-ordination has been strengthened

The institutional co-ordination indicator considers whether there is a leading ministry or institution[4] co-ordinating the work of the various stakeholders in trade policy while shielding trade policy from sectoral interests in order to facilitate coherent trade development.

All WB6 economies have solid inter-institutional co-ordination of trade policy formulation, usually through official committees, councils or working groups led by the trade or economy ministries. The work of these inter-ministerial committees is generally focused on implementing or negotiating regional and international commitments (CEFTA, WTO); facilitating the EU accession process (through the preparation of relevant trade policy-related EU *acquis* chapters); and designing or amending specific trade measures.

The economies are also establishing co-ordination mechanisms to address the more challenging areas of trade policy. All six economies have a National Trade Facilitation Committee (NTFC). These often function in co-operation with other working groups, sometimes in more specialised frameworks, on an ad-hoc basis as in BIH, or institutionalised. The most recent institutionalised example is Kosovo's Committee for Trade in Services, established in July 2020,[5] as a consultative body to propose trade policies in the field of services.[6] Economies have also improved their trade frameworks by implementing new Trade Facilitation Strategy Policies. However, implementation is uneven. All economies have trade-related goals in their latest development strategies,[7] but only Albania and Montenegro have dedicated trade facilitation strategies. Albania's National Plan for Trade Policy Coordination and Trade Facilitation (2017-2020) was recently revised reflecting new developments in Albania's trade policy, and now covers 2021-2023. Montenegro has a Strategy for Trade Facilitation 2018-2022. Overall, the relevant ministries are better equipped to improve trade-related co-ordination and consultation with an increased number of agencies and institutions.[8]

Inter-ministerial co-ordination and consultations with stakeholders (private sector and civil society) complement each other, mainly during the policy initiation and formulation stage. However, evidence suggests that involvement of the private sector in the policy implementation and evaluation phase varies across the region. It seems that the inter-institutional co-ordination mechanisms can be improved in all economies. Some NTFCs are not fully able to fulfil their objectives. The region's business sector stakeholders were critical about the actual impact of their participation in the NTFCs' work. OECD stakeholder consultations as part of the CO2021 assessment framework have highlighted the perception that the NTFCs do not always address sufficiently substantive issues related to the region's business development. These criticisms are more pronounced in some economies than in others, and also vary according to the type of private actor. SMEs express more reservations about the frameworks established in the region, given their generally less organised nature; and as they are not always members of the business associations that are regularly included in co-ordination and consultation processes.

Public-private consultations are required in all economies, but implementation varies

Effective public-private consultation (PPC) improves regulatory policy making, particularly for business, as it brings private sector expertise, perspectives and ideas to the design and implementation of policy changes. The participation of private actors in decision making helps to increase the transparency and openness of the legislative process as a whole, but is particularly important in trade-related matters as it ensures that the international commitments and needs of the business community are properly addressed and harmonised. Increased transparency and stronger private sector engagement in turn leads to greater acceptance of government programmes and projects and builds confidence in government institutions (OECD, 2018[22]). Consultations with the private sector should take place within a formal structure and at all stages of policy development, from preliminary discussions on possible legislation to monitoring and evaluation of a given policy.

The WB6 governments have continued their efforts to institutionalise consultations on trade with private stakeholders. All the economies have legal and regulatory frameworks in place that define the general principles and procedures for conducting PPCs. All business legislation in the region (both primary and secondary) is subject to a form of public consultation – either institutionalised (in all economies) or both institutionalised and informal, such as in Albania and Serbia. In Albania, business associations are members of the Inter-Institutional Working Group for Trade Policy and Trade Facilitation. Representatives of these associations are taking part intensively in trade co-ordination meetings and are coming up with concrete proposals. In terms of content, Kosovo, Montenegro, North Macedonia and Serbia go beyond consulting only on laws, and submit other relevant documents for PPCs or public availability as part of the transparency process.[9] As was already the case in the previous CO assessment, all WB6 economies require line ministries to report the outcomes of consultations and to publish reports on them, including suggestions that were accepted and those that were not, and, if not, specifying the reasons with legally binding deadlines. However, the public-private consultations in the WB6 differ as to frequency, the depth of stakeholder participation and the availability of information published online. There is also variability in the amount of time stakeholders are given to contribute to the consultation process.

In Albania and Serbia, formal consultations take place on a regular basis and are complemented by informal meetings to facilitate feedback. Draft laws are then published and comments from different types of stakeholders (citizens, NGOs, business organisations, chambers of commerce, etc.) are made available to the public via the ministries’ websites. Similarly, in Montenegro, the ministry responsible for the draft regulation publishes a report on the consultation on its website and on the e-Government portal. However, its responsibility is to only disseminate the report to the entities that participated in the process.

The most effective and transparent way to solicit the participation of private stakeholders in legislation is through a centralised and dedicated website that serves as a hub for all PPC procedures, as well as a platform for reporting on these procedures. The advantage of a centralised system over publishing draft laws on ministry websites is that a dedicated website reduces the need to solicit institutions, such as chambers of commerce, to disseminate calls for consultation. This is particularly important in the case of trade, which is by nature a cross-cutting area.

All the economies have a centralised dedicated website except Serbia, which, however, is in the final stages of setting one up. Consultations are carried out via the ministries responsible for enacting laws and regulations in this economy. The most recent PPC online platforms have been established in Kosovo and Bosnia and Herzegovina – although the latter’s only lists PPCs relating to BIH state-level institutions. The use of portals could still be perfected in all economies. Even though each institution proposing new trade related legislation is obliged to publish information on the PPC process on its dedicated website and on the centralised government portal, it is left to the discretion of each institution to announce the future publication of such projects.

In all WB6 economies, participation in PPCs on the dedicated websites is open to all interested participants. There are, however, disparities in the *de facto* participation of private-sector stakeholders according to their legal nature and nationality. North Macedonia and Serbia have the largest number of non-government stakeholders participating in consultations as they incorporate into the process the full extent of civil society. In the other economies, consultations tend to take place through chambers of commerce and participation is often limited to their members, which does not always include all SMEs (OECD et al., 2019[23]) or non-business-related NGOs. Calls for public-private consultation therefore do not always reach all interested entities. However, statistics from Albania, Kosovo and Montenegro suggest that participation in commentary procedures is increasing. With the exception of Montenegro, which indicates involvement by foreign embassies in its PPCs (Montenegro Ministry of Public Administration, Digital Society and Media, 2020[24]), there is no evidence that the processes involve foreign private stakeholders. Involving foreign private stakeholders is good practice and promotes well-harmonised trade policies (Basedow and Kauffmann, 2016[5]).

Monitoring of the quality and shortcomings of public-private consultations is not yet systematic in the region. Public bodies that supervise consultations and monitor their quality remain an exception. However, some initiatives have been introduced. Kosovo has the most developed consultation evaluation mechanisms. PPCs, promotion tools and timelines of consultations are evaluated annually by the Office on Good Governance to determine whether an open, transparent, and non-discriminatory form of PPC was used from the beginning to the end of the legislative process. Moreover, the Office on Good Governance annually reports and monitors public consultation implementation based on effectiveness and inclusiveness goals (Box 5.2).

Albania, Montenegro and Serbia have ad-hoc systems for monitoring public consultations. In Albania, the Law on Public Consultations requires institutions that prepare acts to publish annual reports and analysis on the consultations they have conducted. However, the reports in question are only available for 2020 and not all institutions that conducted public consultations in the same year have published their reports. In addition, the system requires institutions to self-assess, which raises the question of harmonisation of approaches. In Serbia, the role of collecting data on public consultation procedures is assigned to an entity independent of the ministries that develop regulations, the Public Policy Secretariat, whose main role is to support the government in managing the quality of public policies and regulations through evaluation mechanisms. The secretariat produces statistics on the number of legislative proposals that have been subject to public consultation, but not on compliance with consultation standards. Moreover, these reports are still produced irregularly. According to the Serbian Government, in the future the E-participation website will enable monitoring and control of the implementation of consultations and public hearings on public policy documents and regulations, as well as control of reporting on implementation of consultations and public discussion processes. Similarly, in Montenegro, the Ministry of Public Administration, Digital Society and Media produces statistical data on the number of legislative projects that have been subject to PPCs. The reports are comprehensive and detailed but focus mainly on statistics, and do not comply with the standards mandated by Montenegro’s legislation.

Box 5.2. Monitoring public-private consultations in Kosovo

The Office of Good Governance is tasked with preparing an annual report on the public consultation process. It checks whether draft proposals comply with public consultation requirements before the proposals are submitted to the government for decisions. Kosovo's annual reports on the public-private consultation process present the results for 2017 and 2019. Based on the Minimum Standards for the Public Consultation Process (Regulation No. 05/2016), the reports are prepared in co-operation with all the institutions involved in the legislative development process.

Since 2017, the Office for Good Governance has established co-ordination structures involving public consultation co-ordinators in each ministry. It also carries out capacity-building activities, such as two rounds of on-the-job training on PPCs, using the electronic PPC platform and numerous information workshops. Introducing the electronic public consultation platform was one of the most important steps the government has taken to facilitate PPCs.

As the reports show, a total of 274 documents were drafted by all ministries in 2019, 100% of the acts approved by the government were opened to PPC (compared to 90% in 2017), 272 through the platform while 2 documents were consulted by other means. These were 5 concept documents, 31 draft laws, 77 draft regulations, 129 draft administrative directives, 6 strategies, 5 programmes, 7 action plans and 8 other documents. In addition to the portal, which was the most used tool by the PPC, other tools were used, including e-mail communication, stakeholder workshops and public meetings.

The total number of participants in the consultation process rose to 3 577 in 2019 – a 143% increase on 1 469 in 2018 (and 2 104 in the first report of 2017). A total of 1 339 comments were received; 688 of which (or 51%), were accepted and implemented by the drafting institutions; 97, (7.2%), were partially accepted, while 543 comments, (40%), were rejected. There is a lack of information for the last 6 comments.

Finally, the minimum standards provided for in the regulations were met by 183 consultations or 67% (compared to 52% in 2017), while 91 documents did not meet all the minimum standards (33%). It should also be noted that all documents submitted by the Ministry of Trade and Industry met the minimum standards in 2019.

Source: (Kosovo, 2018[25]), *Annual Report on Public Consultations 2017*, http://konsultimet.rks-gov.net/Storage/Docs/Doc-5b6d8625e8a92.pdf; (Kosovo, 2020[26]), *Annual Report on Public Consultations 2019*, https://konsultimet.rks-gov.net/documents.php.

The network of free trade agreements integrates the WB6 with their main trade partners but less into global trade

The network of free trade agreements[10] indicator looks at the number of bilateral and multilateral free trade agreements in place and their scope. Free trade agreements are paramount as they aim to further co-operation in trade policy and boost trade flows within groups of two or more partners. Regional trade agreements (RTAs) also promote trade in services from the year they enter into force. This immediate effect is not surprising as RTAs take time to negotiate and ratify, allowing firms to prepare in advance (OECD, 2018[27]).

Integration with the main EU and regional trade partners is well established (Figure 5.4). All WB6 economies are signatories to the Central European Free Trade Agreement (CEFTA), through which they have achieved tariff liberalisation on trade in manufactured and agricultural products. In December 2019, the WB6 economies strengthened their treaty network through the conclusion of Additional Protocol 6 on trade in services to CEFTA, which will improve the fluidity of trade flows in services in the region. So far, the protocol has been ratified by Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. All six WB economies have signed a Stabilisation and Association Agreement (SAA) with the EU.[11]

Integration into global trade is still timid. Albania (2000), North Macedonia (2003) and Montenegro (2012) are WTO members, and while the six economies continue to develop their networks of bilateral and multilateral trade agreements, they do so at disparate rates.[12] Bilateral treaties with non-EU states are rare, with the WB6 integrating only with Turkey and to a lesser extent with Ukraine[13] and the United Kingdom (Table 5.3). Albania is in some ways a counter-example and is relatively active, with 7 agreements under negotiation.[14] Overall, however, the region has not significantly advanced its integration into the global trading system since the last round of analysis and major bottlenecks remain: the accession process of Bosnia and Herzegovina and Serbia to the WTO is still ongoing. Serbia compensates for this through bilateral treaties and partnerships, notably an FTA with the Eurasian Economic Union (EAEU) signed in 2019 (for its trade relations with the Russian Federation) but still not in force, and a limited strategic partnership agreement signed in August 2009 with China.

In consequence, the integration of the WB6 region into international trade is half-hearted, with economies having strong legal bases with major partners, in line with their regional integration policies and with the EU, but limiting their trade outside this scope. This is particularly negative for the largest economy, Serbia, as it may hinder the benefits of a favourable regulatory regime for foreign direct investment in this economy (see Investment policy and promotion chapter) and close the doors to third-country investors.

Table 5.3. WB6 economies' bilateral and multilateral free trade agreements

Economy	Bilateral free trade agreements	Multilateral free trade agreements
Albania	Turkey, United Kingdom, SAA	CEFTA, EFTA
Bosnia and Herzegovina	Turkey, SAA	CEFTA, EFTA
Kosovo	Czech Republic, Turkey, United Kingdom, SAA	CEFTA, EFTA Joint Declarations on Cooperation
Montenegro	Turkey, Ukraine, SAA	CEFTA, EFTA
North Macedonia	Turkey, Ukraine, SAA	CEFTA, EFTA
Serbia	Turkey, United Kingdom, SAA	CEFTA, EAEU FTA, EFTA

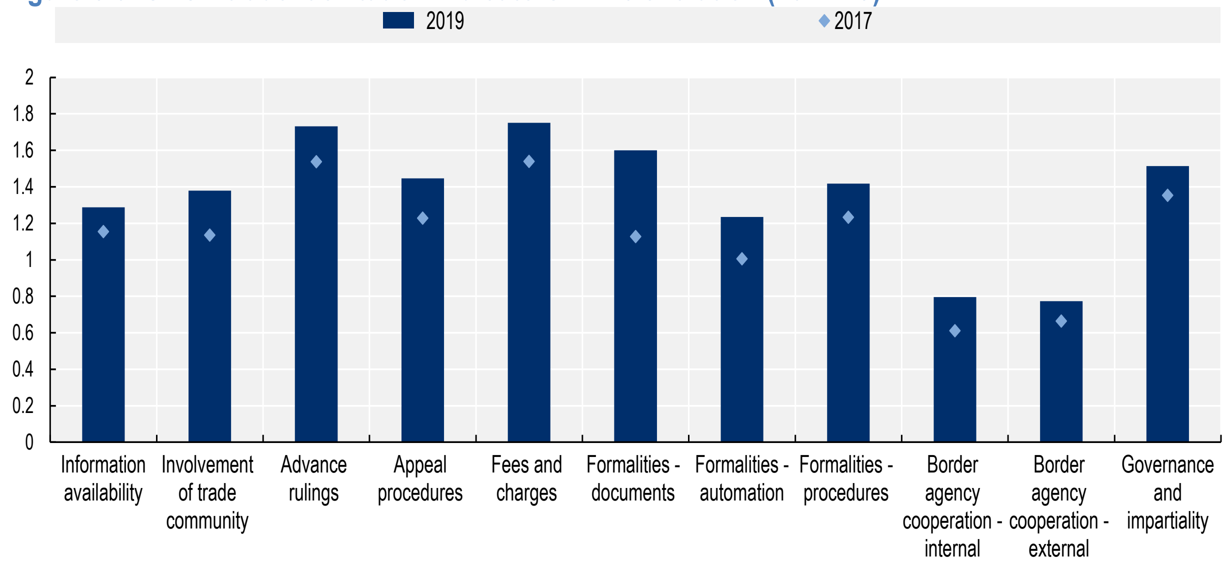
Note: CEFTA = Central European Free Trade Agreement; EFTA = European Free Trade Association; EAEU FTA = Eurasian Economic Union Free Trade Agreement; SAA = Stabilisation and Association Agreement.
Source: OECD Competitiveness Outlook 2021 qualitative questionnaires.

Trade facilitation has seen significant progress

The implementation of the CEFTA Agreement, and in particular its Protocol 5, has led to significant progress on trade facilitation in the WB6 economies, but challenges remain. The OECD Trade Facilitation Indicators (TFIs) are a powerful tool to assess and monitor efforts to improve border procedures, reduce trade costs, stimulate trade flows, and contribute to inclusive growth.

They are the most precisely targeted instrument for monitoring and comparing the trade facilitation performance of economies Box 5.3. According to the OECD's 2019 TFIs, WB6 economies[15] have improved in all areas since 2017 (Figure 5.6).

Figure 5.6. OECD trade facilitation indicators: WB6 evolution (2017-19)

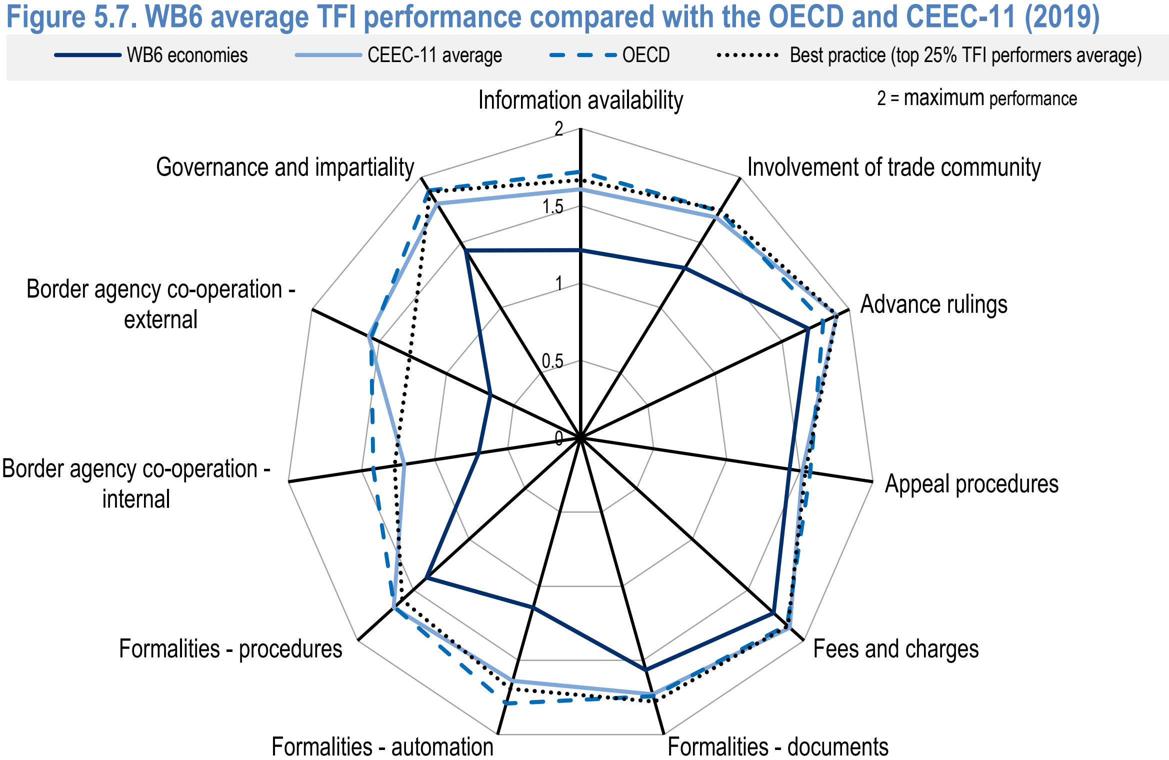


Note: The time comparison displayed is based on the same components covered both by the 2017 and the 2019 trade facilitation indicators (TFI). The figure does not include Kosovo, for which data are not available.
Source: (OECD, 2019[28]), *Trade Facilitation Indicators* (database), www.oecd.org/trade/facilitation/indicators.htm.

StatLink https://doi.org/10.1787/888934253518

As shown in Figure 5.7, in some areas they are close to global best practice (i.e., the top 25% of countries covered by the TFI indices) and to the average performances of CEEC and the OECD.

Figure 5.7. WB6 average TFI performance compared with the OECD and CEEC-11 (2019)



Note: The figure does not include Kosovo, as data are not available; CEEC-11 economies: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia
Source: (OECD, 2019[28]), *OECD Trade Facilitation Indicators* (database), www.oecd.org/trade/facilitation/indicators.htm.

StatLink https://doi.org/10.1787/888934253537

Box 5.3. The OECD Trade Facilitation Indicators (TFIs)

The TFIs consist of a set of variables measuring the extent to which countries have introduced and implemented trade facilitation measures, as well as their performance relative to others. The TFIs are divided into 11 sub-category indicators:

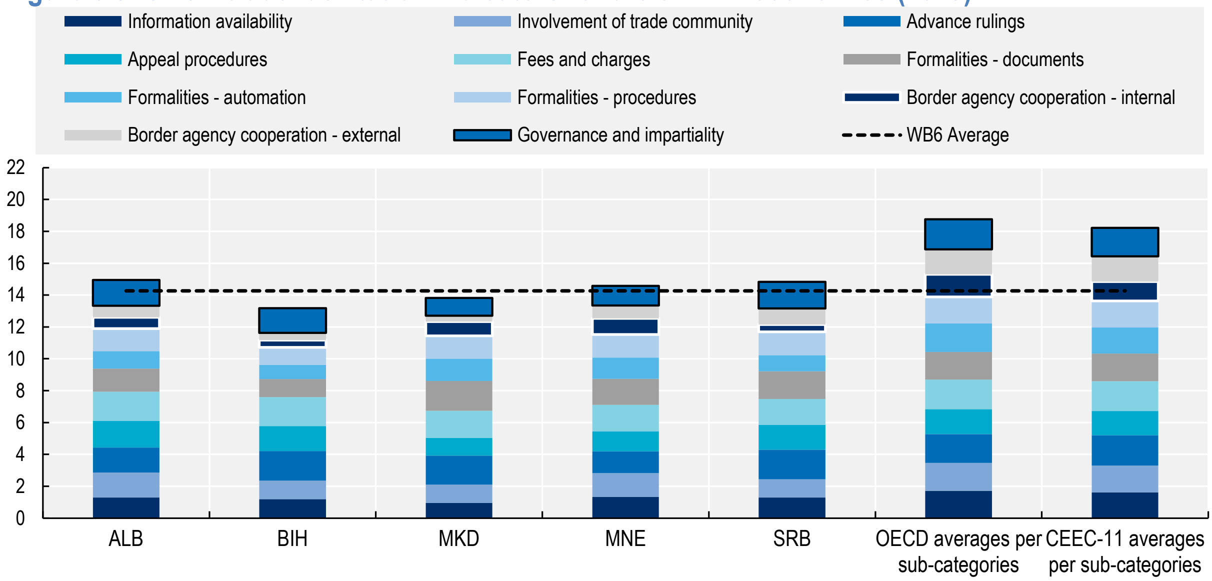
1. Information availability: Enquiry points; publication of trade information, including on the Internet
2. Involvement of the trade community (consultations): Structures for consultations; established guidelines for consultations; publications of drafts; existence of notice-and-comment frameworks
3. Advance rulings: Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements
4. Appeal procedures: The possibility and modalities to appeal administrative decisions by border agencies
5. Fees and charges: Disciplines on the fees and charges imposed on imports and exports; disciplines on penalties
6. Formalities – documents: Acceptance of copies, simplification of trade documents; harmonisation in accordance with international standards
7. Formalities – automation: Electronic exchange of data; use of automated risk management; automated border procedures; electronic payments.
8. Formalities – procedures: Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorised operators.
9. Internal co-operation – Control delegation to customs authorities; co-operation between various border agencies of the country.
10. External co-operation – Co-operation with neighbouring and third countries.
11. Governance and impartiality – Customs structures and functions; accountability; ethics policy.

Each TFI indicator is composed of several specific, precise and fact-based variables on existing trade-related policies and regulations and their implementation in practice.

Note: Further information on how the TFIs are calculated is available at OECD Trade Facilitation Indicators' dedicated webpage: https://www.oecd.org/trade/topics/trade-facilitation/.
Source: (OECD, 2018[4]), *Trade Facilitation and the Global Economy*, https://dx.doi.org/10.1787/9789264277571-en.

The performance of the individual WB6 economies (Figure 5.8) is quite variable, with highs and lows. In the area of *advance rulings*, all economies except Albania and Montenegro performed better than the OECD averages. Bosnia and Herzegovina and Serbia scored just below best practice (i.e., average of the top 25% of all OECD TFI participants) in the same area.

Figure 5.8. OECD trade facilitation indicators for the six WB economies (2019)



Note: The figure does not include Kosovo, as data are not available; CEEC-11 economies: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.
Source: (OECD, 2019[28]), OECD Trade Facilitation Indicators database, http://www.oecd.org/trade/facilitation/indicators.htm.

StatLink https://doi.org/10.1787/888934253556

On *appeal procedures* Albania scored above the OECD and CEEC-11 averages, Bosnia and Herzegovina and Serbia reached best practice level and the OECD average, and only Macedonia and Montenegro scored lower. These areas were already solidly structured in 2015, and improvements to the regulatory frameworks have addressed the most challenging aspects of this sub-category – the timing of the appeals mechanisms (i.e., granting sufficient time to contest a decision; prepare, and lodge an appeal; and avoiding undue delays in the rendering of decisions).

Fees and charges and *formalities* are of particular interest as the region has seen the greatest improvement since 2017 (Figure 5.8). In the first area, *fees and charges,* Albania and Bosnia and Herzegovina are level with OECD average. Montenegro, North Macedonia and Serbia are slightly lower. Key challenges lie in making comprehensive information available online, as well as in conducting periodic reviews to ensure their continued relevance. Only Albania has a dedicated fees and charges webpage on its Customs website. In Montenegro, North Macedonia and Serbia, customs administrations charge fees for answering enquiries and providing forms and documents. All economies allow adequate time between publishing new or amended fees and charges and their entry into force. Provisions for penalties were especially challenging for Albania and Montenegro in 2015, but adequate measures were introduced in 2019. In 2021, Montenegro has gone further, introducing the Register of Fees, which includes 2 299 types of fees defined through 827 regulations at the local and state level.[16]

In the area of *formalities - documents*, North Macedonia and Serbia exceed the OECD and CEEC-11 averages. Border agencies in all economies periodically review documentation requirements; and unduly time-consuming and costly requirements for traders are being simplified, but this is still work in progress. Efforts have been made to simplify and harmonise documents, indicated by the lower number of documents currently requested for import and export compared to 2015 (except in Albania and Bosnia and Herzegovina). However, in Kosovo, Montenegro, North Macedonia and Serbia,the number of documents requested is still above the good practice thresholds. The average time necessary to prepare these documents is also still too long. The acceptance of copies is showing noticeable improvement in the majority of the economies, but copies are still only accepted as an exception in Albania, Montenegro, North Macedonia and Serbia.

WB6 performance in the remaining TFI areas is still below world best practice and OECD averages, although the gaps have narrowed since the last round of analysis. In 2019, economies still lagged behind in the areas of *information availability*, *formalities - automation* and *co-operation between internal and external border agencies*.

In *information availability*, Montenegro, North Macedonia and Serbia had shortcomings in the availability and user-friendliness of data on agreements with third countries. The first two economies also had a weak system of access to rules and examples of customs classification, while Bosnia and Herzegovina had flaws in the provision of information on trade policy changes.

In *formalities – automation*, all economies' IT systems capable of electronic data interchange (EDI) – essential for simplifying documentation requirements and reducing the complexity of document submission – are either being implemented or have been functional since 2015 (OECD, 2018[22]). Challenges remain in the set up and functioning of automated administrative procedures at borders, with most economies having weaknesses in their automated processing capacities. Bosnia and Herzegovina has yet to complete its automated risk management procedures, Albania needs to integrate the electronic payment system with a computerised declaration/cargo processing system, while North Macedonia and Montenegro's IT system capacity is insufficient to exchange data electronically. Serbia still has to promote the availability of full-time automated processing for customs.

Border agencies co-operation is still an issue for the economies, which consistently score around the average. However, economies have made progress in developing a strategy for co-ordination between state agencies. All have demonstrated co-operation and co-ordination of activities by agencies involved in managing cross-border trade, with a view to improving the efficiency of border controls and facilitating trade. However, the alignment of procedures and formalities and of working days and hours with neighbouring economies at land borders has not been fully achieved. The economies have made progress in co-ordinating inspections, but only the border agencies of Montenegro and partly those of Serbia have shared inspection and control results. The development of interconnected or shared IT systems and the real-time availability of relevant data, as well as inter-agency collaboration on certification of Authorized Operators (AOs), has been incomplete in all economies since 2015.

The next analysis of border agency co-operation should show marked improvement: in April 2020, at the peak of the first global wave of COVID-19, the Western Balkan economies set up the CEFTA co-ordination body to exchange all information on trade in goods. They also established priority "green lanes" and "green corridors to facilitate the free movement of essential goods through priority green border/customs crossing points (respectively with the EU-WB6 and within the WB6). Most road transport operators in the six economies used these green corridors. The border posts of the green corridor system operated continuously, as did the customs and other border services. The Systematic Electronic Data Exchange for Customs Administrations (SEED) was updated as a matter of urgency and was used to pre-code products on the essential goods list. The SEED system sends data electronically to customs and other border services (customs directly through the system, while the system generates emails that are automatically sent to phytosanitary, veterinary, and sanitary services for each crossing). These initiatives and the co-operation between the border agencies have helped to maintain a degree of international trade between the WB6 economies and the EU Member States. During the COVID-19 crisis, about 20% of the goods that benefited from the green corridor regime were necessities, the rest being normal trade. This regime, put in place in a time of crisis, has been the catalyst for further co-ordination among agencies and is becoming the basis for considering more efficient transit of goods within the WB6 and with the EU.

The economies have developed the mutual recognition of the national programmes of the Authorised Economic Operators (AEO) of the CEFTA Parties in the field of safety and security. The respective decisions entered into force on 1 April 2020 (CEFTA, 2021[29]). The AEO programme, as a voluntary co-operation between customs and business, allows operators to benefit from reduced customs controls and mutual recognition extends these benefits without additional costs within CEFTA.

The way forward for the trade policy framework

- **Establish mechanisms for evaluating and monitoring public-private consultations** (an integral part of the RIA process) to regularly assess the degree of openness and transparency of consultations in economies that do not have such tools. Ideally, a monitoring programme with an adequate budget and independent office could be introduced to conduct systematic evaluations. In addition, training could be provided in the use of various quantitative and qualitative approaches to measure compliance with the minimum standards set by regulatory frameworks for public consultations. Economies could follow Kosovo's Office for Good Governance initiative (Box 5.2).
- **Improve public-private consultation mechanisms further** by publishing summaries of consultations on draft legislation more systematically. In addition to the regulations already in force, specific guidelines and principles on consultations with the private sector and civil society could be developed, setting out the precise steps and criteria to be followed and monitored. Similarly, a **policy to promote public consultations could be put in place** to invite stakeholders, especially SMEs – which are usually more reluctant or unaware – to become more involved in the legislative process as well as raising perceptions of their capacity to participate in the regulatory decision-making process. Economies could base their efforts on the 2015 EU Better Regulation Guidelines to improve stakeholders' involvement in trade regulatory processes (Box 5.4).
- **Continue to expand the network of bilateral and multilateral FTAs.** Despite progress, Bosnia and Herzegovina and Serbia have not advanced in their accession procedures to the WTO. Within the region, a certain number of bilateral treaties are in an embryonic phase. Similarly, not all economies have ratified the CEFTA's Additional Protocol 6 on Trade in Services. The common regional market is a priority for the WB6 region. However, integration into the global trade network opens up opportunities that should not be overlooked. The economies should therefore continue their efforts towards global trade integration.

Box 5.4. Stakeholder engagement throughout the policy cycle at the European Commission

Following the adoption of the 2015 Better Regulation Guidelines, the European Commission has extended its range of consultation methods to enable stakeholders to express their view over the entire lifecycle of a policy. It uses a range of different tools to engage with stakeholders at different points in the policy process. Feedback and consultation input is taken into account by the Commission when further developing the legislative proposal or delegated/implementing act, and when evaluating existing regulation.

At the initial stage of policy development, the public can provide feedback on the Commission's policy plans through roadmaps and inception impact assessments (IIA), including data and information they may possess on all aspects of the intended initiative and impact assessment. Feedback is taken into account by the Commission services when developing the policy proposal further. The feedback period for roadmaps and IIAs is four weeks.

As a second step, a consultation strategy is prepared setting out consultation objectives, targeted stakeholders and the consultation activities for each initiative. For most major policy initiatives, a 12-week public consultation is conducted through the website "Your voice in Europe" and may be accompanied by other consultation methods. The consultation activities allow stakeholders to express their views on key aspects of the proposal and the main elements of the impact assessment being prepared.

Stakeholders can provide feedback to the Commission on its proposals and their accompanying final impact assessments once they are adopted by the College. Stakeholder feedback is presented to the European Parliament and Council and aims to feed into the legislative process. The consultation period for adopted proposals is 8 weeks. Draft delegated acts and important implementing acts are also published for stakeholder feedback on the European Commission's website for a period of 4 weeks. At the end of the consultation, an overall synopsis report should be drawn up covering the results of the different consultation activities that took place.

Finally, the Commission also consults stakeholders as part of the ex-post evaluation of existing EU regulations. This includes feedback on evaluation roadmaps for the review of existing initiatives, and public consultations on evaluations of individual regulations and "fitness checks" (comprehensive policy evaluations assessing whether the regulatory framework for a policy sector is fit for purpose). In addition, stakeholders can provide their views on existing EU regulation at any time on the website "Lighten the load – Have your say".

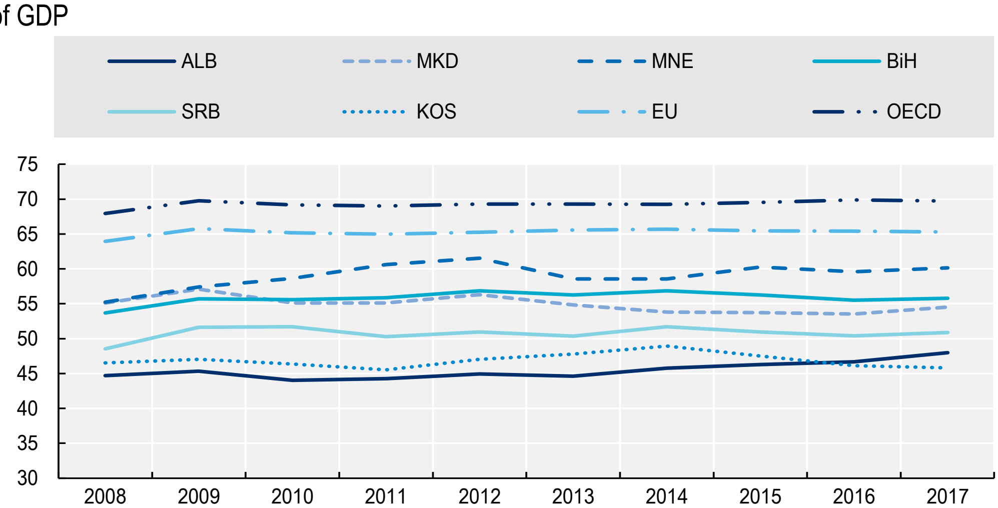
Source: (OECD, 2017[30]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* (draft), www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm; (OECD, 2016[31]), *Pilot database on stakeholder engagement practices in regulatory policy. Second set of practice examples.*, https://www.oecd.org/gov/regulatory-policy/pilot-database-on-stakeholder-engagement-practices.htm; (European Commision, 2015[32]), *2015 Better Regulation Guidelines*, https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en.

Services trade restrictiveness (Sub-dimension 2.2)

Services contribute almost two-thirds of GDP in the WB6 economies (Figure 5.9). More and more business models rely on offering services rather than selling manufactured goods. This is the so-called "servitisation" of manufacturing (Miroudot and Cadestin, 2017[33]). Opening up trade in services can improve domestic firms' efficiency and productivity (Handjiski and Sestovic, 2011[34]). The potential gains from open markets in services trade are significant because greater domestic and foreign competition complemented by effective regulation can enhance trade performance (Hoekman, 2002[35]). They also lower the costs of doing business (Box 5.5).

Figure 5.9. Contribution of services to GDP in WB6 economies (2008-17)

% share of GDP



Source: (World Bank, 2021[14]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

StatLink https://doi.org/10.1787/888934253575

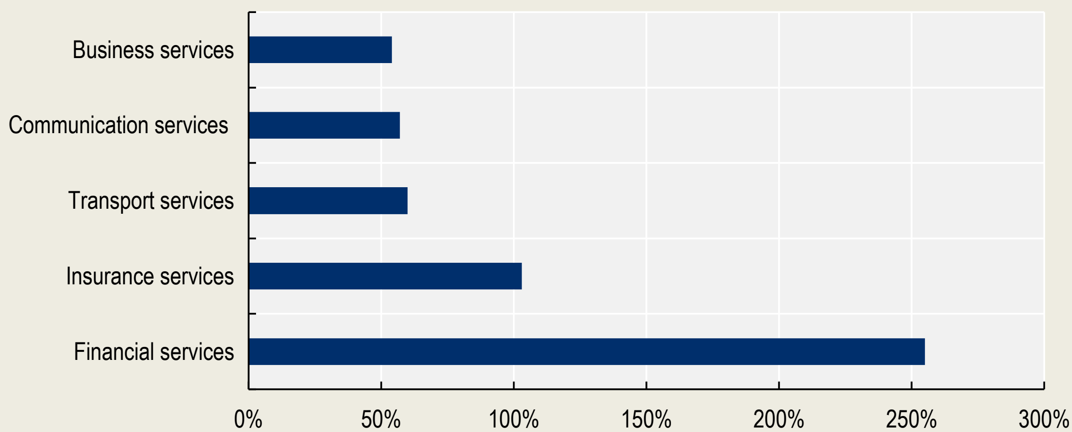
Box 5.5. The costs of regulatory barriers to trade in services

Recent OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016[36]). Trade costs arise both from policies that explicitly target foreign suppliers, and more generally from domestic regulation that falls short of best practice in the area of competition and rulemaking. The costs resulting from barriers to trade in services are much higher than those of trade in manufactured goods.

Trading services is costly. The studies show that policy-induced services trade costs are relatively high. Expressed as percentages of total trade value, average multilateral costs for cross-border services trade are around 57% for communication services and 54% for business services, around 60% for transport services, around 103% for insurance services, and around 255% for financial services (Figure 5.10).

Figure 5.10. Policy-induced average costs for cross-border services trade

% of total trade value



Source: (Benz and Jaax, 2020[37]), *The Costs of Regulatory Barriers to Trade in Services: New Estimates of Ad Valorem Tariff Equivalents*, https://dx.doi.org/10.1787/bae97f98-en.

StatLink https://doi.org/10.1787/888934253594

Even exporting to the most liberal countries still requires compliance with regulations at a cost that corresponds to around 30% of the export value in most sectors and nearly 90% for financial services. Within the European Single Market, however, services trade costs are significantly lower – policy-induced costs of cross-border services trade are around 10% in most sectors and around 32% for financial services.

Source: (Benz and Jaax, 2020[37]), *The Costs of Regulatory Barriers to Trade in Services: New Estimates of Ad Valorem Tariff Equivalents*, https://dx.doi.org/10.1787/bae97f98-en.

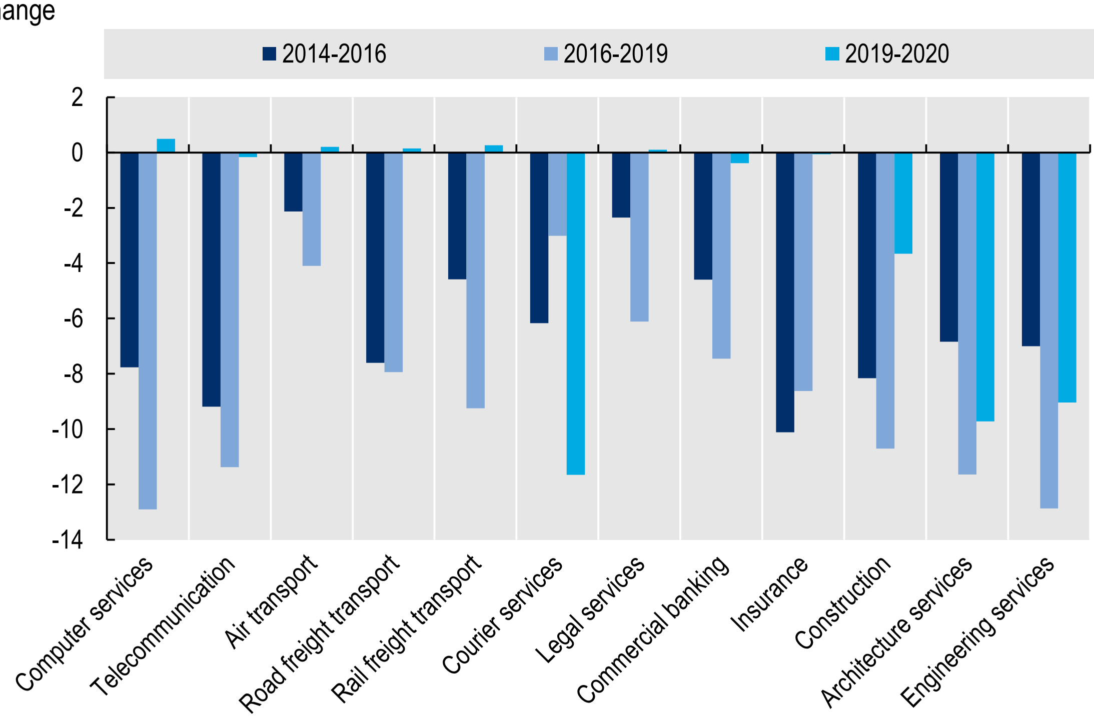
The assessment of this sub-dimension begins with a regional study of the recent evolution of the services sectors. It then presents a typology of sectors and the degree of regulatory harmonisation in the region. A sectoral analysis then studies the horizontal measures that are included in all sectors and that hamper trade in services across the WB6. These include general business regulation, restrictions on the movement of service providers, standards for the cross-border transfer of personal data, the legal framework for public procurement and foreign investment screening. It then displays the STRI scores (for details see Box 5.1), explains sector by sector what drives the results, and provides a brief description of the most common restrictions and good practices.

The WB6 economies continue to lower regulatory restrictiveness in their service sectors

This assessment finds a clear willingness in the WB6 to lower the degree of restrictiveness. A series of reforms has lowered the average STRI indices in the region in all the sectors analysed, and especially in the professional sectors (architecture, engineering and legal services), and the courier sector (following very recent reforms throughout the region) (Figure 5.11). These efforts, however, vary depending on the economy and the sector analysed. Kosovo, North Macedonia and Serbia have been the most active in implementing trade opening policy changes. North Macedonia was in particular active in the years 2014-2016. Serbia reformed the most in 2016-19 and in 2020 with targeted reforms in the architecture and engineering sectors. Kosovo has maintained a steady flow of reforms in the period 2014-20, with a notable highlight being the opening of its courier market in 2019. Montenegro has mainly opened up its construction, engineering and architecture sectors since 2014. Albania already had a more attractive environment in 2014, so it has shown more muted progress, with the exception of the 2015 reforms in the courier sector. It is also the economy that has improved the most from 2019 and into 2020. Finally, Bosnia and Herzegovina has seen little change in its indices over the years as a result of its slower-paced reforms. Nevertheless, an important factor is that restrictiveness has not increased in this economy in the period 2019-20 (Figure 5.11), which contrasts with the marked increases observed in OECD member states and key partners over the same period (OECD, 2021[38]).

Figure 5.11. WB6 economies' evolution on the services trade restrictiveness index (2014-2020)

% change



Note: negative values indicate a reduction in the restrictiveness of the economy's trade regulatory environment.

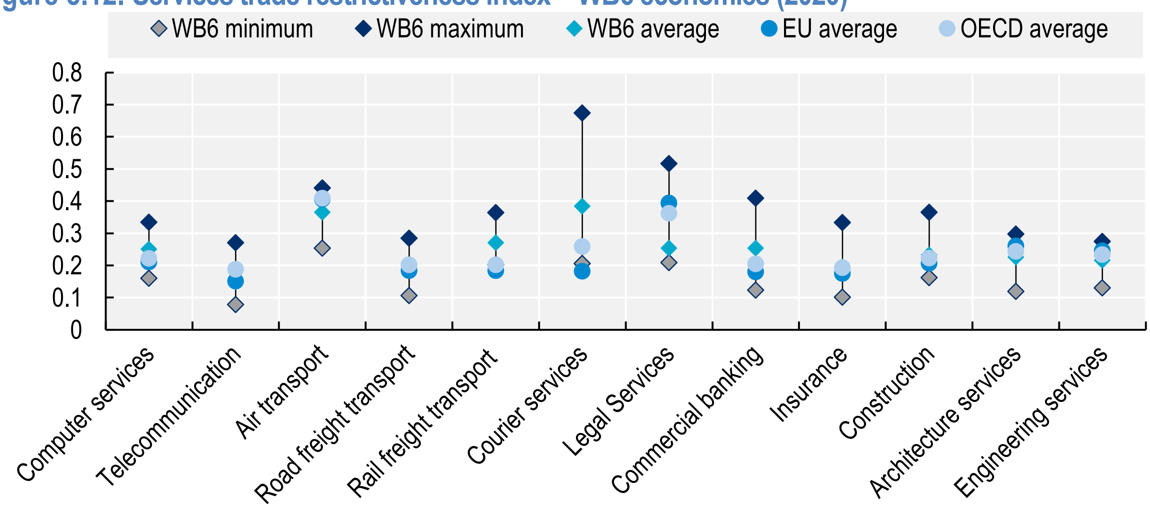
Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253613

Figure 5.12 shows the maximum, minimum and average STRIs for the WB6. The courier, air transport and legal services were the most restrictive in 2020. Conversely, the telecom, insurance and architectural services were the least restrictive.

Overall, the regulatory environments of the WB6 are in the liberal range compared to the averages of OECD member states, with the minimum scores for WB6 being well below the EU and OECD averages, particularly in traditionally restrictive sectors such as legal services. The noticeably small variation between minimums and maximums across the region suggests that sectors are relatively harmonised from the regulatory point of view, with the exception of courier services, which, in addition to being the most restrictive and far from the EU average, also shows the greatest disparity across the region. The high degree of heterogeneity here is driven by the different levels of integration of local legislation with the standards set by the EU Postal Services Directive (97/67/EC), including measures related to postal monopolies and potential preferential treatment they may get (e.g on competition or taxes) (Figure 5.15).

Figure 5.12. Services trade restrictiveness index – WB6 economies (2020)



Note: (0=no restrictions, 1=fully restricted); EU: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.
Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253632

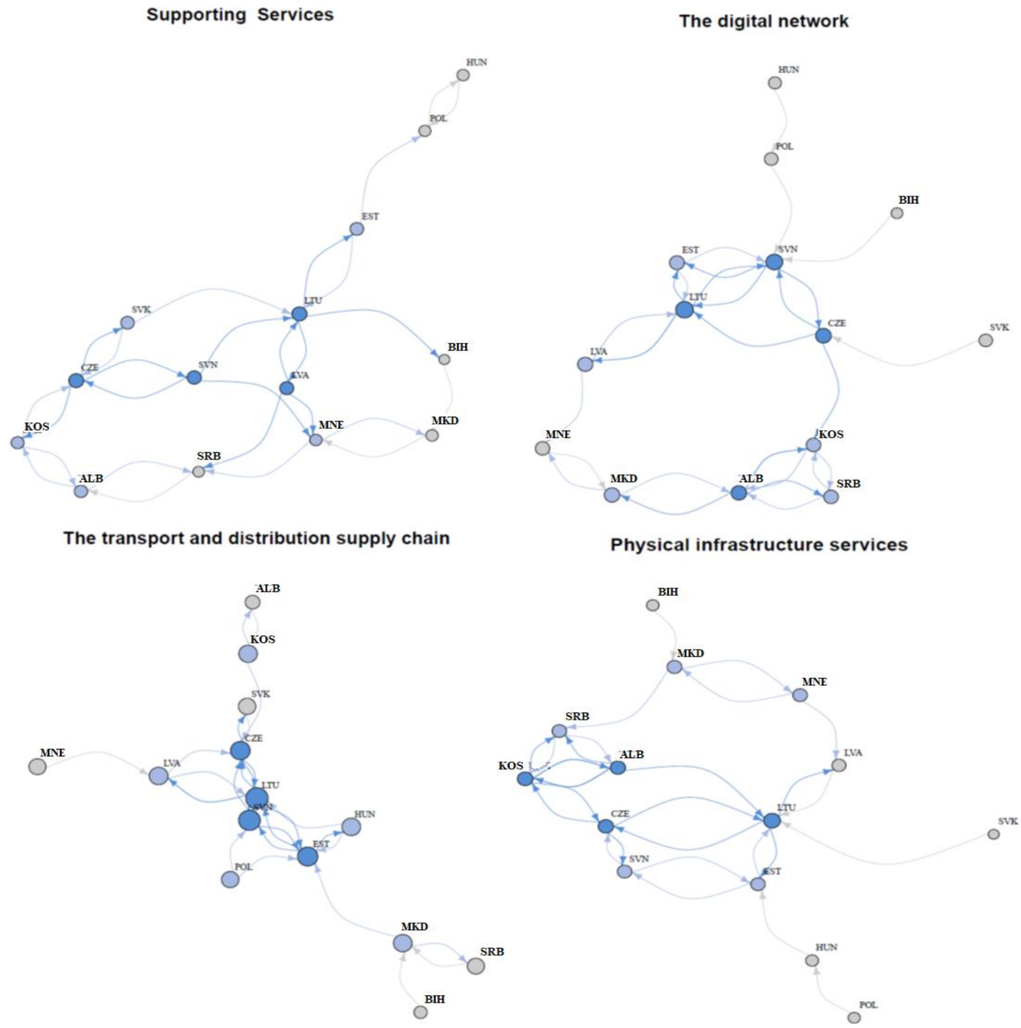
Studies of the relationship between regulatory heterogeneity and trade show that a reduction in regulatory heterogeneity across economies is associated with higher services exports; the lower the heterogeneity in the STRI score, the larger the impact. Moreover, unilateral trade liberalisation shifts trade towards economies to which the regulatory environment is more similar (Nordås et al., 2014[40]). The extent to which the regulatory frameworks of two economies diverge can be gauged through the OECD STRI Regulatory Heterogeneity Indices. The lower these indices, the more similar are the rules in force in each pair of economies.

The WB6 regulatory heterogeneity indices assess the similarity of economies' regulatory frameworks for services. For each economy and each sector, Figure 5.13 shows the share of measures for which the economies have different regulations. Although these figures vary by sector cluster, the heterogeneity indicators show there is great potential for future alignment of regulatory environments in the region. This coincides with the drive to create a common regional market harmonised with EU regulations (Box 5.6).

Most WB6 economies are already in an environment close to the CEEC states. They operate systematically in groups of the two or three closest jurisdictions in the different clusters that make up the STRI (Figure 5.13). For example, in the supporting services and digital network clusters, the heterogeneity indices indicate that six economies (except for BIH in the digital network) are more closely related to each other than to the CEECs. In the transport and distribution supply chain cluster, the results are more nuanced, but the economies operate in groups of two or three (Albania+Kosovo; Bosnia and Herzegovina+North Macedonia+Serbia). Finally, the physical infrastructure services cluster is interesting insofar as the six economies are closest to the core CEEC countries, closer than some of the more distant (from the regulatory point of view) countries such as Poland or Slovakia. This is particularly encouraging in view of the region's efforts to create a common regional market (Box 5.6).

Figure 5.13. How harmonised are services regulations in WB6 and CEEC economies (2020)?

OECD STRI Regulatory Heterogeneity Indices for four services clusters



Note: The size of each economy node indicates centrality and reflects the similarity of the regulations to all other economies. The shade of the nodes also reflects regulatory harmonisation among jurisdictions, with dark blue nodes indicating more central economies than those in grey. The direction of the arrows indicates the most similar economy in an economy pair, while the thickness of the lines further illustrates the degree of bilateral similarity.

Source: (OECD, 2020[39]), "OECD Heterogeneity Indices (2020)", *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

Box 5.6. Towards open trade in the Common Regional Market

The regional trade area of the CRM action plan includes the following five components: (1) cross-cutting trade measures; (2) goods; (3) services; (4) capital; and (5) people. The following key findings of the CO2021 services trade restrictiveness sub-dimension can inform the implementation of the services component:

- Significant improvements have been made to open up trade in services through the conclusion of Additional Protocol 6 to CEFTA in December 2019 and its ratification by Albania, Bosnia and Herzegovina, North Macedonia, and Serbia. Significant progress has been made in easing the restrictions on the movement of people within the CEFTA. These and subsequent efforts will significantly reduce the costs of trade in the Western Balkans 6 and pave the way to the CRM.
- The regulatory policy changes (Figure 5.8) in the six economies show clear regional willingness to open services trade. A series of reforms has lowered obstacles to trade in services in all sectors, especially in the courier sector. This contrasts with the recent rise of protectionist measures observed in OECD economies (OECD, 2021[38]).
- Analysis using the OECD heterogeneity indicators shows there is great potential for future alignment of regulatory environments in the region, which supports the objectives of the common regional market.

General business regulations and barriers to the movement of people undermine openness

While the WB6 have relatively liberal sectoral regulations, general business regulations, i.e., those that apply to all markets, are acting as a brake on the openness of the economies. For example, the acquisition or use of land and real estate by foreigners is restricted in all the WB6 economies except Kosovo. A minimum capital requirement is mandatory in all the WB6 economies except Bosnia and Herzegovina.[17] Registering a company in the economies tends to involve costly, cumbersome, and lengthy procedures. Only Kosovo and Serbia are within the good practice thresholds in terms of cost and length involved in registering a company.

Restrictions on the movement of people are generally also an issue in WB6 economies. Although significant progress has been made to ease the conditions for the movement of people among the CEFTA economies through the conclusion of Additional Protocol 6 to the CEFTA agreement, people from third economies (i.e. outside CEFTA and the EU) are still subject to restrictive requirements, which limits their ability to operate. These restrictions are often the result of employment preservation policies and are very common, including in OECD countries. While sometimes justified, and present in most of the EU Member States, these policies have a potentially detrimental effect on trade in services when applied more than necessary, particularly in sectors where foreign labour could bring in expertise that is lacking in the region such as computer services or the professional services. These measures often take the form of quotas, labour market tests (LMTs) or restrictions on the length of stay of foreign suppliers. Albania, Kosovo and Serbia do not apply quotas to services providers seeking to deliver services on a temporary basis, such as intra-corporate transferees, contractual service providers or independent service providers. In contrast, Bosnia and Herzegovina, Montenegro and North Macedonia have introduced quotas, but they are limited to contractual and independent service providers. In order to balance the adverse effects of quotas and LMTs on trade in services with the legitimate issues of local employment protection, Montenegro has introduced exceptions in its Law on Foreigners. These are aligned with the relevant provisions of EU legislation and are based on reciprocity or exclusion of specific occupational categories from the quota system.[18] In addition, the economies apply economic needs tests to foreign suppliers.[19] Finally, the length of stay of foreign service providers in the WB6 region is very limited, well below international standards and disproportionally restrictive compared to the local labour protection considerations.

Specific services sectors still have restrictions affecting trade[20]

As well as the regulatory measures that affect WB6 economies' trade in services across the board (described above), a number of sector-specific restrictions are maintained in the 12 sectors analysed (listed in Box 5.1).

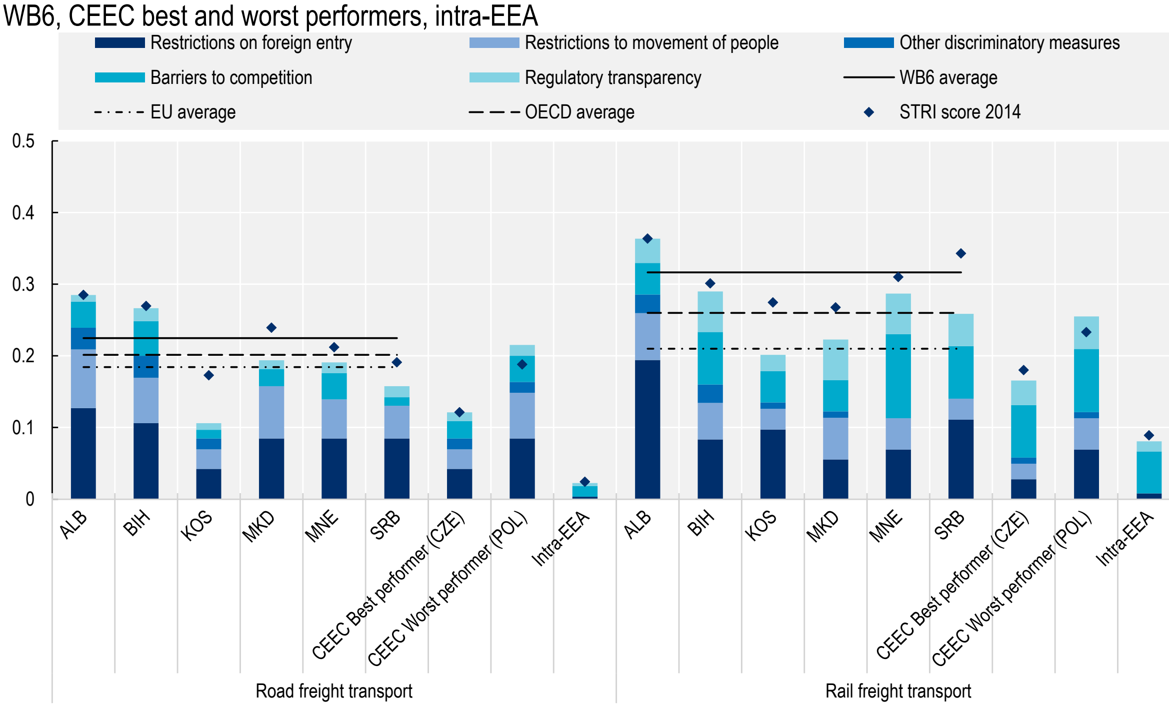
The following analysis describes the STRI scores for the six WB6 economies, as well as the best and worst CEEC performers who conducted the STRI exercise. In addition, the figures also present the OECD Intra-EEA STRI, which introduces data on regulatory barriers affecting services trade within the European Economic Area (EEA), to highlight the lowered degree of restrictiveness within an integrated single market.

Transport and distribution supply chain

Road freight transport.[21] The 2020 WB6 average STRI score is 0.225 (Figure 5.14), compared to the OECD and EU averages of 0.201 and 0.184 respectively. Overall, OECD member states and STRI key partners and WB6 scores range between 0.124 and 0.624. This sector largely dominates the other freight transport sectors in the region. At the regional level, the economies have generally less restrictive sectoral regulations than the averages found in the EU and OECD member states, apart from Albania and Bosnia and Herzegovina, which maintain more restrictive environments.

Figure 5.14. Services trade restrictiveness in road and rail freight transport (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253651

Restrictions on foreign entry are the main barriers in this sector. In all the economies except Kosovo a licence is required to operate road transport services, and licensing is conditional on economic needs. Positively, none of the WB6 economies has introduced limitations on cross-border mergers and acquisitions. In addition, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia have established processes and criteria for recognising foreign qualifications on a most favoured nation (MFN) basis, which is not the case for Serbia and Albania.

In road transport, barriers to competition play an important role. Montenegro and North Macedonia exempt road freight carriers' agreements from competition law and pricing guidelines or price regulation for road hauliers are found in Albania and Bosnia and Herzegovina. These measures have a negative impact on competition in this sector.

Rail freight transport.[22] The 2020 WB6 average score is 0.317, while scores for all OECD member states and STRI partners in this sector range between 0.129 and 1, and the OECD and EU averages are 0.259 and 0.209 respectively (Figure 5.14). The sector is mainly constrained by economy-wide measures, most notably on the movement of people and foreign entry. Measures included under this category are mainly related to general regulations on board members, cross border data flows, local presence requirements, and, in some cases, restrictions on access rights to the internal market. Albania subjects foreign investment in the sector to screening, only approving it if it brings net economic benefits to the economy.

Government ownership is recorded under barriers to competition and is widespread in the rail sector. Only in Albania are all major railway companies privately owned. In Bosnia and Herzegovina and Montenegro, where one of the main rail transport companies is state owned, the government can overrule the decisions of the rail regulator, with very negative impact for the whole sector. Another common restriction in this policy area, in the vertical separated market structures, is the restriction or outright prohibition in all the WB6 economies, except Albania, on transferring and/or trading infrastructure capacity. The benefits of Albania's more positive regulation are however mitigated by the existence of different types of rail agreements exempted from national competition law (a restriction also found in Montenegro).

Air transport services.[23] The STRI for this sector covers services provided through commercial establishment only.[24] The 2020 WB6 average is 0.421, while the scores for all OECD member states and STRI partners range between 0.165 and 0.601, and OECD and EU averages are 0.409 and 0.406 respectively (Figure 5.15).

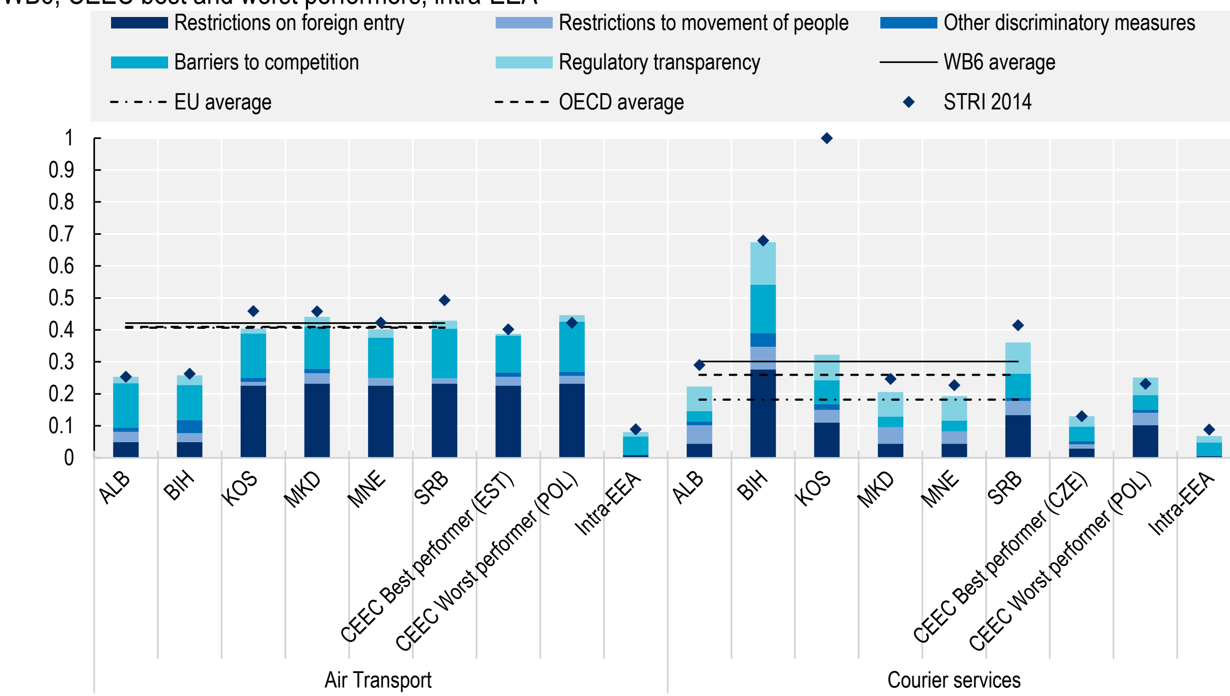
The air transport sector is the archetype of a service industry whose legal environment is regulated by domestic laws driven by international agreement concerns. In absolute terms, the region's regulations are highly harmonised with EU standards, which could explain their relative restrictiveness compared to the best performing OECD Member States in this sector. The degree of restrictiveness in the aviation sector is explained by the balancing of strategic considerations, which are often more prone to trade protection, but not per se protectionist and trade openness considerations. However, given that freight transport in the region is dominated by road transport, especially in Kosovo, some of the measures on air transport that increase the scores of the WB6 economies may seem disproportionate to the real size of their markets.

Restrictions on foreign entry feature prominently in the results. Most WB6 economies, except for Albania and Bosnia and Herzegovina, restrict foreign equity participation in the sector to (at least) less than 50%. The lack of these restrictions in those two economies explains the difference in scores with the rest of the region. Ownership restrictions are often coupled with specific limitations on the nationality of board members and managers of air carriers. The lease of foreign aircraft with crew (wet lease) is effectively prohibited in Kosovo, North Macedonia and Serbia, whereas it is allowed in Bosnia and Herzegovina, and is allowed subject to prior approval in Albania and Montenegro. Leasing foreign aircraft without crew (dry lease) is subject to prior authorisation in all the WB6 economies, except Bosnia and Herzegovina.

The other main category influencing restrictiveness is barriers to competition. All WB6 economies, except Bosnia and Herzegovina and North Macedonia, maintain public ownership in aviation. The maintenance of state-owned enterprises (SOEs) in the sector is generally regarded as a restriction on trade in services as traditional national airlines normally enjoy a competitive advantage over foreign companies. Kosovo is a special case in that regard – while two SOEs exist in this sector, none of them has a fleet of aircraft. The airlines continue to work with other providers serving Pristina and to sell excursion trips. This situation is quite rare and negatively affects the STRI score in this sector. Non-competitive slot allocation is also common. All WB6 economies, except Bosnia and Herzegovina, assign slots in high demand airports based on historic rights, typically forbidding the commercial exchange of slots.

Figure 5.15. Services trade restrictiveness in air transport and courier services (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253670

Courier services.[25] While courier and postal services have traditionally been important means of communication, the rise in modern information and communication technologies has reduced the use of letters between individuals for this purpose. The 2020 WB6 average score is 0.301 in this sector, with scores for all OECD member states and STRI partners ranging between 0.106 and 0.881, and the OECD and EU averages at 0.259 and 0.181 respectively (Figure 5.15). The WB6 average is therefore relatively high compared to OECD member states. In consequence, special attention should be paid to this sector. It is in fact the sector that sees the greatest dispersion of results between performing and non-performing economies. However, this sector is not the most heterogeneous. This means that the degree of restrictiveness is mainly the result of a limited number of measures (Box 5.7).

Box 5.7. Making the best of the STRI tools: Comparing courier services in Slovenia, Czech Republic and the WB6

Whilst the WB6, and Bosnia and Herzegovina in particular, have higher scores in the courier services sector than many OECD members, Slovenia and the Czech Republic both have a very open and liberal courier services market, with amongst the lowest STRI scores in the sector. The Czech Republic is the CEEC's best performer in this respect (Figure 5.14).

The Slovenian Postal Act of 1997 brought the economy's legislation in the postal sector partially in line with the EU *acquis*. Complete liberalisation of postal services was achieved with the adoption the new Postal Services Act in April 2002 and secondary acts in 2003. Currently, courier services are Slovenia's least-restrictive STRI sector. The economy maintains only a few sector-specific restrictions: the existence of a state-owned designated postal operator and limits to the proportion of shares that can be acquired by foreign investors.

The Czech Republic has undergone a similar liberalisation process, which began in the 1990s and materialised in the Acts of 2000 and 2005. The latest piece of legislation is the June 2012 act to amend the Czech Postal Services Act. The amendments followed the latest EU developments regarding the liberalisation of the postal market and came into force in January 2013. The amendments abolished the existing monopoly held by the state-owned Česká pošta (Czech Post) on deliveries of postal items weighing up to 50g and opened the market completely to competition.

Comparing the economies using the STRI policy simulator, it appears that only a limited number of regulatory measures dictates the scoring difference between Slovenia, the Czech Republic, and the Western Balkans. This suggests that the WB6 economies could substantially reduce their restrictiveness indexes to the average levels found in the best STRI performers by focusing on lifting specific restrictions:

- In the area of *restrictions on the movement of people*, scores are largely increased by the quotas and very short durations of stay for foreign service providers. Overall, lifting limitations on movement of people could potentially decrease the WB6 courier STRI scores by a maximum of 0.052.
- In the *barriers to competition* category, Slovenia and the Czech Republic do not apply any preferential tax or subsidy treatment to the national Designated Postal Operator, unlike some of the WB6 regulatory frameworks. Lifting this restriction could potentially decrease courier STRI scores by 0.011.
- Slovenia has incorporated a specific dispute resolution system into its regulatory environment governing the postal sector. No such mechanism exists in the WB6 economies – adding one could enable the economies to lower their degree of restrictiveness in the *barriers to competition* area by 0.011.
- In its 2002 reform of the postal market, Slovenia abolished all reserved services in the sector. This regulatory change is the most significant difference with all WB6 economies. Following Slovenia's example, the removal of these restrictions could potentially reduce the score by a maximum of 0.468, depending on the economy's regulatory situation.[1]

1: On state monopoly in courier services (see page 9 of OECD STRI Scoring Methodology for more detailed explanations).

Restrictions on foreign entry in this sector have a substantial impact on the economies covered by the STRI. Bosnia and Herzegovina limits the proportion of shares acquired by foreign investors in publicly-controlled firms including designated postal operators (DPOs). None of the WB6 economies requires residency for managers or board members, but Bosnia and Herzegovina and Serbia require local presence for cross-border supply.

Barriers to competition also affect the score in all economies. All the WB6 economies stipulate in their laws and regulations that the DPO should provide universal service, which can benefit the DPO in the market. Practically all the DPOs in all six economies, except North Macedonia, obtain preferential tax or subsidy treatment. However, all the economies address the issue by requiring an accounting separation between universal services and other services as well as ensuring access to postal networks on a non-discrimination basis.

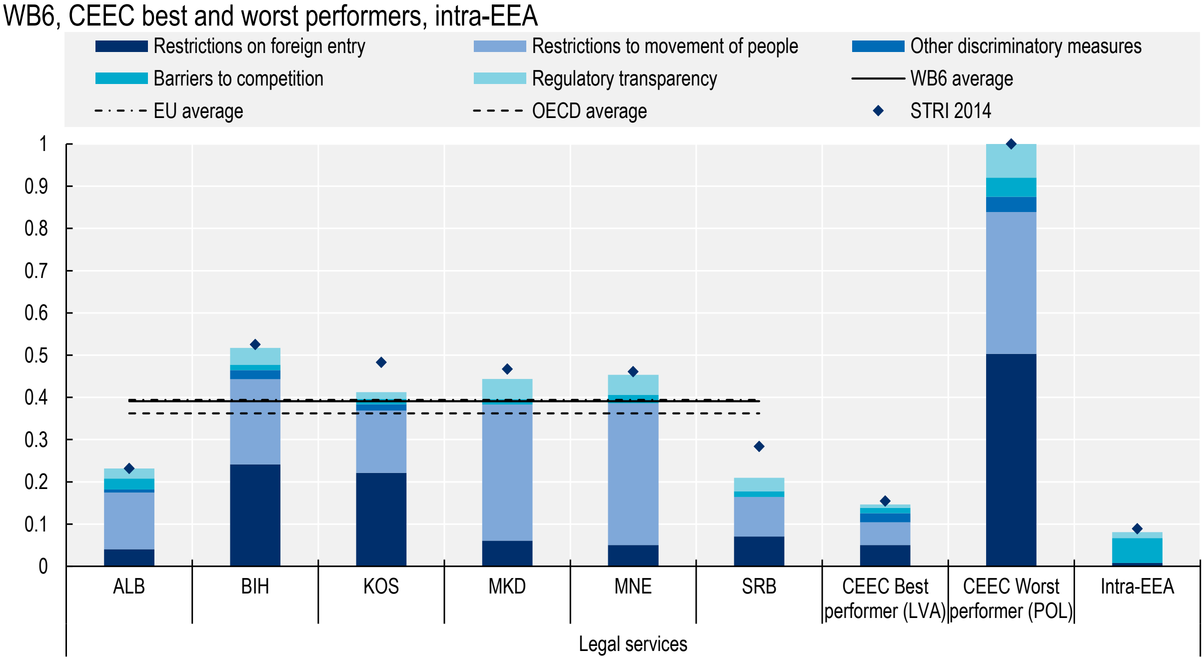
Regulatory transparency includes administrative procedures, such as customs clearance, obtaining a visa, or a licence to operate, which are key to trade in postal and courier services. Most of the economies have smooth customs clearance schemes in place, such as pre-arrival processing in Bosnia and Herzegovina and Montenegro, and a de minimis regime in place in Kosovo and in North Macedonia. As to the process of obtaining a licence, all the WB6 economies have objective criteria and an appeals procedure to ensure transparency.

Market bridging and supporting services

Legal services.[26] The 2020 WB6 average score for this sector is 0.391 (Figure 5.16), which is aligned with the EU average (0.394) but is above the OECD average (0.360). Scores for all OECD member states and STRI partners in this sector range between 0.141 and 1. The results are driven by two policy categories: restrictions on the movement of people and restrictions on foreign entry. This reflects the characteristics of the sector and the policy environment in which it operates. Legal services depend on skilled intensive labour and are subject to licensing in a number of economies.

Figure 5.16. Services trade restrictiveness in legal services (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253689

The movement of lawyers across borders is hindered significantly by licensing and procedures for recognition of foreign qualifications. All the WB6 economies have laws or regulations which establish a process for recognising qualifications gained abroad. Unfortunately, Kosovo is the only WB6 economy that has a temporary licensing system in place. In Bosnia and Herzegovina and Kosovo, nationality or citizenship is required to be licensed to practise domestic law in the economy. In Montenegro and North Macedonia, this is a requirement to practise both domestic and international law. In Serbia, which is the least restrictive economy in the legal services sector in the WB6 region, a foreign lawyer must be registered in the directory of lawyers and can only give oral and written legal advice and opinions related to the application of the law of their home country and international law.

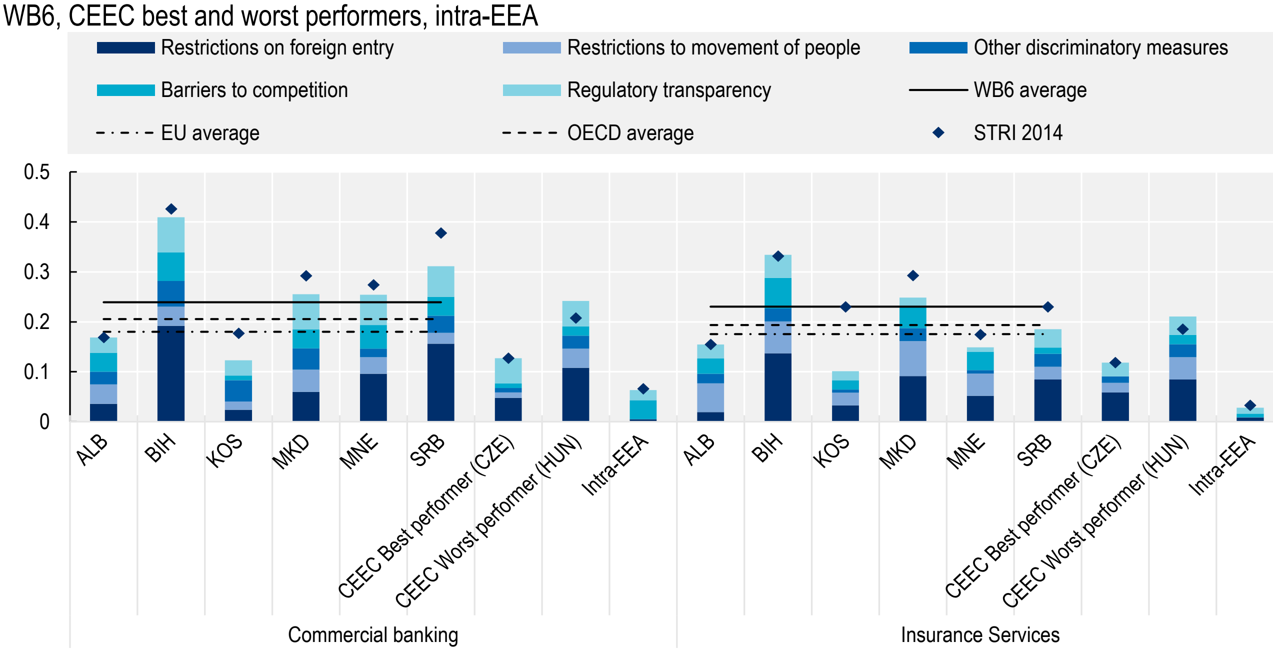
All the WB6 economies, except Bosnia and Herzegovina, require foreign lawyers to pass a local examination and to practise locally before their qualifications can be recognised. All the WB6 economies except Albania and Kosovo place restrictions on advertising legal services by foreign professionals.

Commercial banking.[27] The 2020 WB6 average score is 0.239 for this sector (Figure 5.17), while OECD and EU averages are 0.205 and 0.180 respectively. Scores for all OECD member states and STRI partners in this sector range between 0.131 and 0.517.

Restrictions on foreign entry feature prominently in the indices. A positive outcome is the fact that none of the WB6 economies limit the foreign equity share in local banks. Trade is however tempered by Bosnia and Herzegovina and Serbia's prohibition of the establishment of foreign bank branches. Moreover, Bosnia and Herzegovina imposes more stringent requirements when granting a licence to foreign-owned banks than domestic ones. All WB6 economies except Albania and Kosovo restrict cross-border bank mergers and acquisitions. In Bosnia and Herzegovina and Serbia foreign banks must be locally established in order to provide a full range of services to residents.

Figure 5.17. Services trade restrictiveness in commercial banking and insurance services (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), Services Trade Restrictiveness Index Regulatory Database, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253708

Barriers to competition push up the scores of the economies with the highest index values. Product-level regulations – including prior approval requirements for individual financial products in Albania, Bosnia and Herzegovina, North Macedonia, and Serbia – are significant drivers of this result. Government ownership is not common in the sector, with only one of the largest commercial banks in Bosnia and Herzegovina being state-owned.

Regarding *regulatory transparency* when granting licenses, only Albania and Kosovo mandate the authorities to provide grounds for rejecting an applicant. All the WB6 economies specify a maximum time limit for deciding on a banking licence application.

Insurance services.[28] The 2020 WB6 average score is 0.231 for this sector, while the OECD and EU averages are 0.193 and 0.175 respectively (Figure 5.17). Scores for all OECD member states and STRI partners range between 0.104 and 0.565.

Restrictions on foreign entry feature prominently in the indices. None of the WB6 economies limit the foreign equity share in local insurance companies, but Bosnia and Herzegovina and Serbia restrict the establishment of branches of foreign insurers (for foreign reinsurer branches until the accession of Serbia to the WTO, and for foreign insurer branches four years after Serbia's accession to the WTO). Montenegro imposes supplementary prudential obligations on foreign service suppliers willing to obtain a licence to operate in the economy. These involve additional submissions, including a report on the last three years of operations, audit reports on the financial statements for the previous business year, the opinion of the home country's supervisory authority on the applicant's business and approval to establish the affiliate in Montenegro. Bosnia and Herzegovina and North Macedonia restrict cross-border bank mergers and acquisitions. In Bosnia and Herzegovina and Serbia, insurance carriers must be locally established in order to provide a full range of services to residents. Finally, Serbia requires at least one member of an insurance carrier's Board of Directors to be a resident.

Barriers to competition also contribute to the scores of the economies with the highest index values. Product-level regulations, including prior approval requirements for individual insurance products in all WB6 economies except Serbia are significant drivers of this result. Government ownership is observed in the sector in Bosnia and Herzegovina and Serbia.

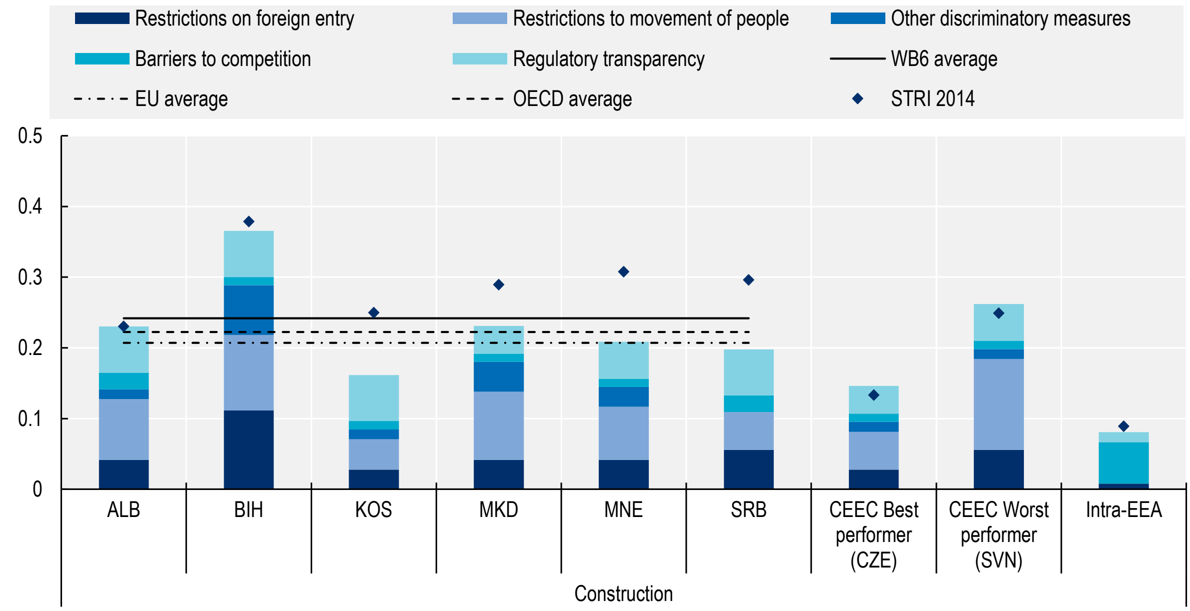
Regarding *regulatory transparency* in the process of granting licenses, all the WB6 economies mandate the authorities to provide grounds for rejecting an applicant, and all of them specify a maximum time limit for deciding on an insurer's licence application.

Physical infrastructure services

Construction services.[29] The 2020 WB6 average score is 0.242 in this sector (Figure 5.18). The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.464; the WB6 average is 0.242 while the OECD and EU averages are 0.222 and 0.207. The more elevated levels of restrictiveness in the construction sector can in part be attributed to general measures affecting all sectors of the economies. In terms of sector-specific regulations, only Bosnia and Herzegovina has limitations on foreign branches, and on cross-border mergers and acquisitions. Notably, all the WB6 economies except Kosovo place impediments on foreigners acquiring land and real estate, which typically have a direct bearing on construction services. For example, property developers cannot own real estate under construction until completion of the project.

Figure 5.18. Services trade restrictiveness in construction services (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253727

Bosnia and Herzegovina and Serbia maintain government ownership of their major construction firms, which are among their few *barriers to competition* for construction services, at times coupled with limitations on foreign ownership of construction firms.

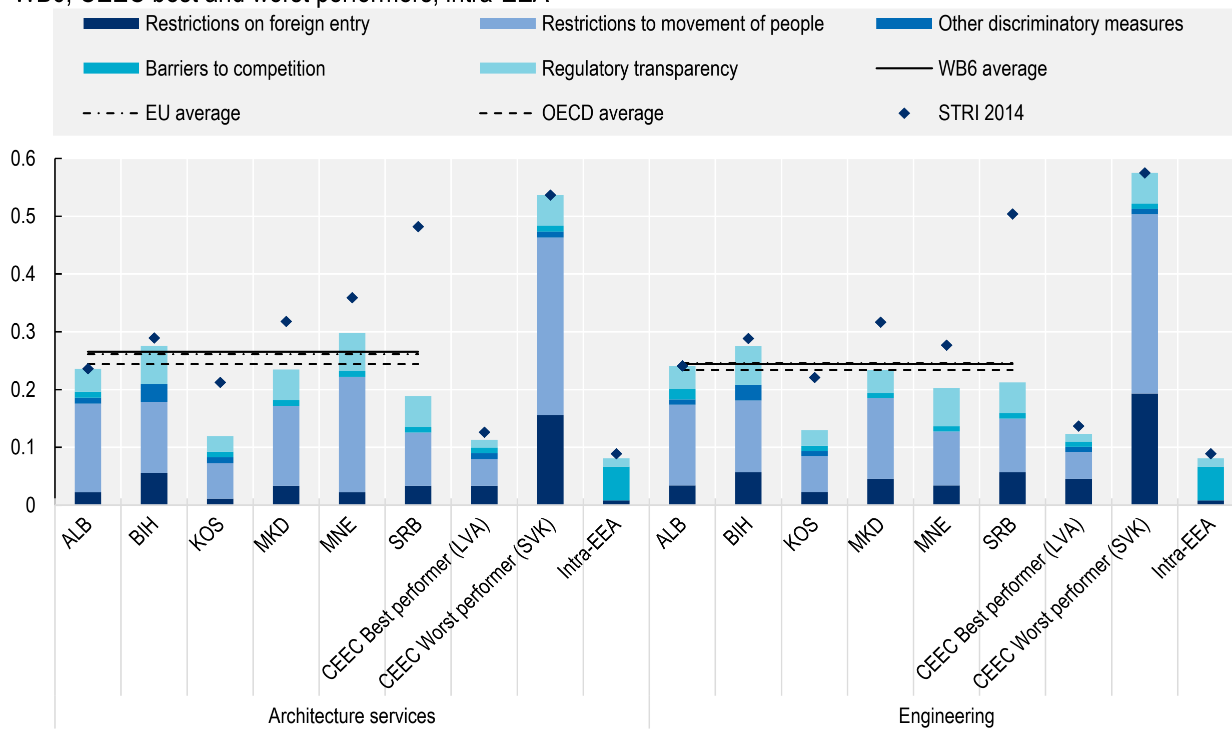
Architecture services.[30] Architecture services constitute the backbone of the construction sector, with key roles in building design and urban planning. An important feature is the regulatory complementarity between architecture, engineering, and construction services. Often, architectural and engineering activities are combined into projects offered by one company and are sometimes subsumed in the building and construction sector.

The 2020 WB6 average score is 0.266 in this sector (Figure 5.19). The 2020 scores for all OECD member states and STRI partners in this sector range between 0.113 and 0.684; the EU average is 0.260 and the OECD average is 0.244.

Architects are affected by economy-wide limitations on natural persons seeking to provide services on a temporary basis as intra-corporate transferees, contractual services suppliers, or independent services suppliers. In addition, architects are subject to issues related to licensing requirements. These include nationality and residency requirements to practise, as well as lack of recognition of foreign qualifications. All of the WB6 economies require a licence to practice architecture. Localisation requirements for professional liability insurance are in place in Serbia and North Macedonia. Other discriminatory measures can be found in regulations on public procurement, with Bosnia and Herzegovina having preferential measures for local suppliers.

Figure 5.19. Services trade restrictiveness in architecture and engineering services (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA); key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253746

Engineering services.[31] The 2020 scores for all OECD member states and STRI partners in this sector range between 0.118 and 0.575, the WB6 average is 0.244, while OECD and EU averages reach 0.233 and 0.245, respectively.

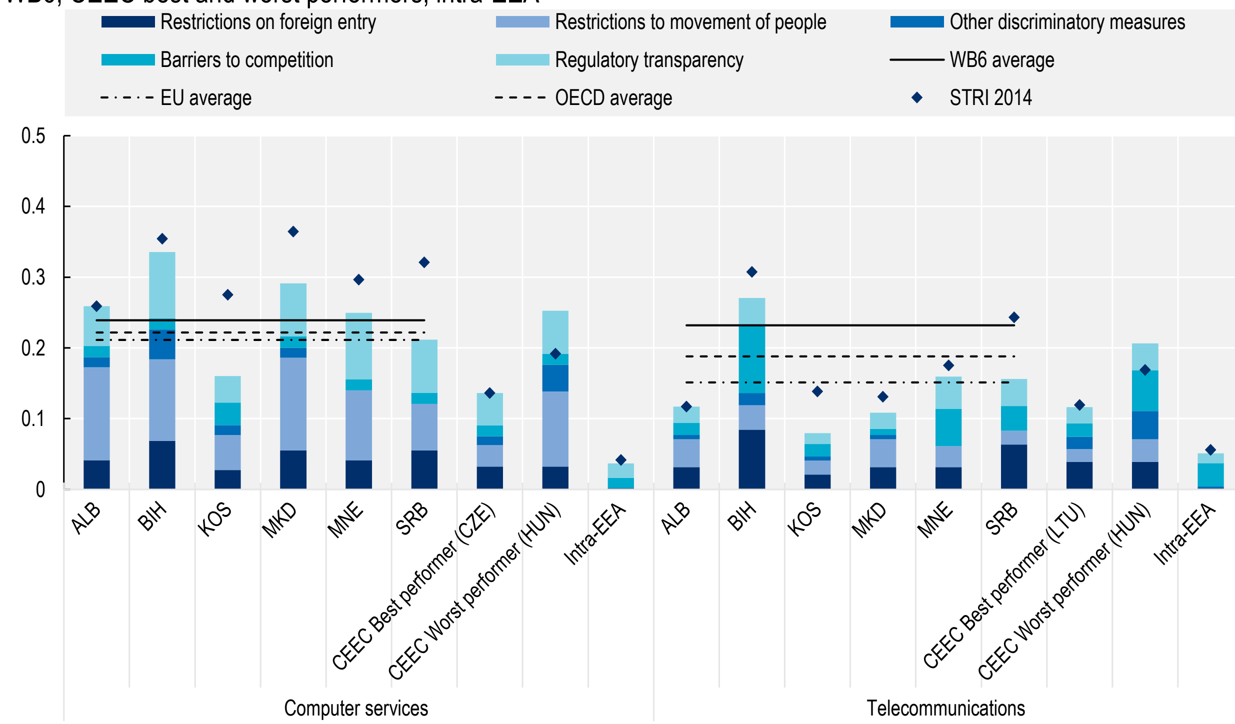
As in the case of architects, engineers are affected by economy-wide limitations on natural persons seeking to provide services on a temporary basis as intra-corporate transferees, contractual services suppliers, or independent services suppliers. In addition, engineers are subject to licensing restrictions. These include nationality and residency requirements to practise, as well as lack of recognition of foreign qualifications. A licence to practise engineering services is required in all of the WB6 economies. Montenegro is the only economy with a temporary licensing system in place. Laws or regulations that establish a process for recognising qualifications gained abroad are in place in all of the WB6 economies except Albania. As regards *barriers to competition*, none of the WB6 economies has restrictions on fee-setting or advertising, which has a positive effect on the STRI score.

Digital network

Computer services.[32] The 2020 WB6 average score is 0.239 (Figure 5.20) in this sector, while OECD and EU averages are 0.221 and 0.211, respectively. Scores for all OECD member states and STRI partners range between 0.123 and 0.448. None of the WB6 economies has increased the restrictiveness of this sector since 2014. In fact, scrutiny related to their future EU membership has led the economies to reform their regulatory frameworks. This sector is rarely regulated by sectoral legislation, with the WB6, like most economies generally subjecting computer services to general laws that apply to the economies as a whole. Together, these factors mean that the STRI scores are better than in the previous cycle of assessments (Figure 5.11).

Figure 5.20. Services trade restrictiveness in computer services and telecommunications (2020)

WB6, CEEC best and worst performers, intra-EEA



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; CEEC: Bulgaria and Croatia are not OECD members nor OECD STRI partner economies and are not covered by STRI indices. Intra-EEA = regulatory barriers affecting services trade within the European Economic Area (EEA).

Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253765

Telecommunication services.[33] Telecommunication services are at the core of the information society and provide the network over which other services, including computer services, audio-visual services, professional services and many more, are traded. The 2020 WB6 average score is 0.232 in this sector, while OECD and EU averages are 0.188 and 0.151 respectively (Figure 5.20). Scores for all OECD member states and STRI partners range between 0.108 and 0.682.

These results are driven by two policy areas: restrictions on foreign entry and barriers to competition. This reflects the special characteristics of this sector, as well as the policy environment in which it operates. It is a capital-intensive network industry, and its strategic importance has prompted many OECD economies to restrict foreigners from investing and operating in the sector. However, none of the WB6 economies require that at least half of the board members in telecommunications companies be nationals or oblige the majority of board members to be residents.

In a network industry, access to essential facilities and switching costs may favour incumbent firms. These market imperfections may constitute a substantial entry barrier, even in the absence of explicit foreign entry restrictions. Therefore, pro-competitive regulation is considered a trade policy issue. Lack of pro-competitive regulation is scored as a trade restricting barrier to competition in cases where an incumbent operator has significant market power. In order to ensure fair competition in the telecommunications market, it is important to have an independent regulator that is separate from interested parties. In all the WB6 economies the national regulatory authority is independent from the government. This is particularly important as the governments of Bosnia and Herzegovina, Kosovo, and Serbia maintain state-owned enterprises in this sector.

Another positive point is that all the WB6 economies regulate termination rates for fixed and mobile line service and in all of the WB6 economies foreign operators seeking interconnection benefit from regulated termination rates on a non-discriminatory basis. In terms of foreign entry, Bosnia and Herzegovina requires commercial and local presence for companies providing cross-border telecommunication services, while Serbia imposes only a local presence requirement. This measure, although common in OECD countries, raises the operating costs of foreign service providers.

All the WB6 economies regulate interconnection. Moreover, all the economies except Bosnia and Herzegovina apply a "use-it-or-lose-it" policy to frequency bands – an important measure that prevents incumbent operators from over-holding valuable frequency licences – as well as free tradable spectrum and telecom services. Bosnia and Herzegovina is the only economy that does not assign contracts for universal services obligations on a competitive basis.

The way forward for services trade restrictiveness

In absolute terms, the region has competitive regulation, especially when compared to the averages in OECD economies or the CEECs. The region combines a number of pro-competitive legal measures while also maintaining a number of trade limitations. However, to continue their efforts, governments need to:

- **Ratify and implement CEFTA Additional Protocol 5 on trade facilitation and Additional Protocol 6 on trade in services.** This is a priority for economies that have still not fulfilled these commitments. This is important given that trade in services continues to be marked by regulations that are highly susceptible to modifications in the international normative environment.
- **Broaden efforts to open trade in services sectors**. Significant improvements have been made among the WB6 economies to open services trade through regulatory efforts and the conclusion of the CEFTA Additional Protocol 6 in December 2019. Nonetheless, the STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness by:
    - **Easing conditions on the temporary movement of natural persons** beyond the obligation set in regional trade agreements. A starting point could be to amend limitations on the length of stay of foreign services providers from third countries, as it falls short of international best practice in most of the economies. Remaining quotas and labour market test should also be assessed.
    - **Reducing the remaining barriers to market entry and competition i**n courier services (described in Box 5.7), legal services and air transport sectors. Further efforts could be made to increase competitiveness.
- **Pave the way for a regional common market with harmonised regulations** by adopting a twin-track approach: increasing regulatory homogeneity while reducing their degree of restrictiveness. Doing so would allow the WB6 economies to benefit from a revitalised post-COVID-19 trade in services. The first step would be to reduce trade restrictions identified in this study to a level significantly below an STRI score of 0.4 in sectors that maintain high levels of restrictiveness. As a second step, economies should consider harmonising the content of their legislation, including through multilateral channels such as the CEFTA regulatory databases and the OECD heterogeneity indices (Figure 5.12). Harmonised and unrestricted service regulations are associated with a strong increase in trade in services.

E-commerce and digitally enabled services (Sub-dimension 2.3)

E-commerce can bring about significant gains for businesses and can also boost firms' process innovation (OECD, 2019[41]). In addition, it enlarges businesses' market scope, reduces operational costs at various stages of business activities and lowers barriers to entry, thus intensifying competition. E-commerce also benefits consumers by providing information on goods and services, helping them identify sellers and compare prices, while offering convenient delivery and the ability to purchase easily via a computer or mobile device (OECD, 2013[42]).

The COVID-19 crisis has accelerated the expansion of e-commerce to new businesses, new customers and new types of products. It has allowed customers to access a wider variety of products (such as groceries and other first necessities) from their homes, and businesses to maintain their operations despite containment restrictions. It is likely that some evolutions in e-commerce will be prolonged over time, such as the shift towards basic necessities. Nevertheless, some challenges remain, despite the efforts of some governments to promote e-commerce during the COVID-19 crisis, the persistence of the digital divide means that not everyone has been able to participate (OECD, 2020[43]). Regulations that are not adapted to e-commerce can create barriers for businesses. The current crisis and the new role of e-commerce for individuals and businesses have reinforced the need for policy action. For consumers, systemic challenges related to connectivity, financial inclusion, skills and trust (e.g. digital security, privacy and consumer protection) have been highlighted (OECD, 2020[44]).

An electronic commerce law ideally ensures the proper functioning of the digital market by facilitating the establishment of digital services and their free movement within the region (if co-ordinated and harmonised). Its aim should be to provide legal certainty for business and consumers by establishing harmonised rules on issues such as the transparency and information requirements for online service providers, commercial communications, electronic contracts and liability limitations for intermediary service providers. Examples of what the EU Directive on Electronic Commerce[34] covers include shopping, newspapers, databases, financial services, professional services (such as lawyers, doctors, accountants, and real estate agents), entertainment services, direct marketing, advertising, and internet intermediary services (such as hosting and search engines). Modern e-commerce regulations should focus on a number of key elements, such as electronic documentation and signature, online consumer protection, data protection and privacy, cyber security, intellectual property regulations and intermediary liability. On the other hand, an attractive regulatory environment should refrain from maintaining disproportionately restrictive policies such as licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold online (other than for generally accepted public policy considerations), and restrictions on cross-border data flows. This sub-dimension assesses these policies in the WB6 economies. First, it analyses the content and implementation of existing legislation. Secondly, it uses the OECD Digital STRI to quantify the WB6's performance in trade in digital services by identifying the elements that restrict digital trade in different economies.

E-commerce policy frameworks are in place in all of the WB6 economies

E-commerce policy frameworks exist in all the WB6 economies, but their implementation, monitoring and evaluation vary greatly across the region (Table 5.4). The economies with the highest average score for this sub-dimension are North Macedonia and Serbia (4.0), followed by Albania and Kosovo (3.0). They demonstrate strong implementation of their e-commerce policy frameworks as well as monitoring and evaluation activities. Montenegro scores 2.5 meaning that e-commerce frameworks are adopted, and their content respects the requirements of e-commerce, but implementation is incomplete. Bosnia and Herzegovina scores 2.0: the minimum policy framework is in place, but there is a need to improve implementation activities and related action plans that are not fully effective.

Table 5.4. Scores for Sub-dimension 2.3: E-commerce and digitally enabled services

Sub-dimension	Qualitative indicator	ALB	BIH	KOS	MKD	MNE	SRB	WB6 average
Sub-dimension 2.3: E-commerce and digitally enabled services	E-commerce policy framework	3.0	2.0	3.0	4.0	2.5	4.0	3.1
	Trade in digitally enabled services restrictiveness*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sub-dimension average score		3.0	2.0	3.0	4.0	2.5	4.0	3.1

* Note: Indicator has a different scoring system so results are presented in the sub-section below, not in the table.

North Macedonia, Serbia and to some extent Kosovo, have the most advanced and modern legal environments for e-commerce. Serbia and North Macedonia amended their legislation in 2019 and 2020, respectively. Kosovo has updated its law, which should come into force in 2021. North Macedonia has put a new e-commerce programme in place: the Economic Reform Programme (ERP) for 2019-2021 in North Macedonia highlights new legislation and initiatives under the competence of Ministry of Information Society and Administration (MISA) on the digital economy and e-commerce.[35] In October 2019, Serbia adopted the Programme and Action Plan for E-commerce Development for the period 2019-2020. Serbia is also the only economy to report on performance indicators for the e-commerce law, reported annually by its Statistical Office.

Although solid, the frameworks in these three economies are not without gaps. Serbia does not have a dedicated Online Dispute Resolution (ODR) platform for litigation linked to e-commerce. The ODR platform is a single point of entry for consumers and traders seeking to resolve their disputes out of court. To mitigate this, Serbia has focused primarily on improving the Alternative Dispute Resolution (ADR), which is a decentralised system. Currently, 13 ADR bodies are registered with the Ministry of Trade, Tourism and Telecommunications (MTTT) and their services are free of charge. Moreover, MTTT is starting to implement its Instrument for Pre-accession Assistance IPA2018 (the project will start on the 9 June 2021), which supports the process of ADR improvement through training and recommendations, as well as an IT support platform for ADR organisations.[36] Kosovo and North Macedonia suffer from limitations in e-payment regulations and consumer protection awareness.

Montenegro and Albania have modern e-commerce laws, updated in 2013 and 2016 respectively, but implementation and monitoring are weak. Favoured by their willingness to gradually harmonise their frameworks with the EU *acquis*, most of the elements of a comprehensive regulatory framework are in place in both economies. Regulations on data governance, online consumer protection, electronic signature and intermediary liability are in line with international best practice and harmonised with EU regulations.[37] The framework balances protecting individuals and consumers with limiting the costs and restrictions faced by digital businesses, especially in the area of services (Figure 5.21). With the regulatory framework largely in place in both economies, implementation remains a challenge due to their institutional capacity constraints. In the area of cyber security, modern and effective independent regulatory bodies are not yet in place. Similarly, the consumer protection regimes currently lack effective supervisory authorities to monitor compliance, raise consumer awareness of their rights and resolve e-commerce disputes.

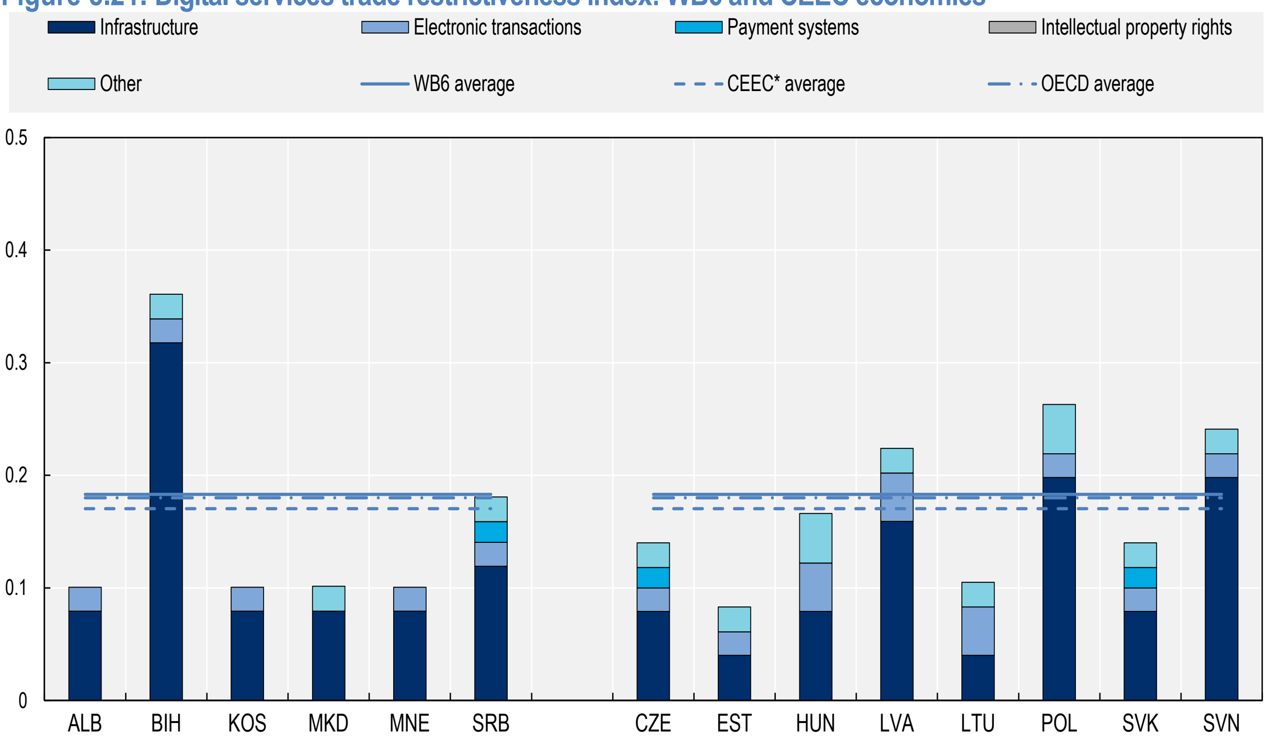
To mitigate these issues, the Ministry for Public Administration of Montenegro is to propose a new strategy for digital transformation to the government for the period 2021-2025. In September 2020, Albania launched an action plan for e-commerce and established an inter-ministerial working group, headed by the Deputy Minister of MOFE, to draft an electronic trade strategy aimed at removing obstacles to the development of this sector.

Finally, the regulatory policy framework on e-commerce in Bosnia and Herzegovina is still in the early stages. There have not been any substantive changes in the framework since the last cycle of assessment, and very little progress has been made on implementation. The economy adopted the 2017-2021 Policy for Development of the Information Society in May 2017, but there has been no progress in adopting an economy-wide strategy or associated action plans for e-commerce.

Digital STRI scores reveal low levels of restrictiveness

The OECD digital STRI captures cross-cutting barriers that inhibit or completely prevent firms from supplying services using electronic networks, irrespective of the sector in which they operate. The regulatory data underlying the digital STRI were extracted from the existing OECD STRI database and data collected under public laws and regulations affecting digitally enabled services. Digital STRIs are the result of aggregating the identified barriers to trade into composite indices. The rating takes into account the specific regulatory and market characteristics as well as the links and hierarchies between regulatory measures affecting digitally enabled services. WB6 economies' scores on the STRI index in the digital sector covered by the STRI project are shown in Figure 5.21.

Figure 5.21. Digital services trade restrictiveness index: WB6 and CEEC economies



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; *CEEC=Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia (Bulgaria, Croatia, and Romania are not OECD member states or OECD STRI Partner economies and therefore do not have calculated STRI indices); the absence of a category in the graph means that it is exempt from restrictions.
Source: (OECD, 2020[39]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934253784

The WB6 economies' 2020 Digital STRI scores are moderate to high, ranging from 0.1 to 0.36, with an average of 0.183, compared to OECD countries which range from 0.043 to 0.488. This means that the economies of the WB6 region are much less restrictive than other economies covered by the digital STRI. Restrictions in the digital STRI sector in the WB6 are related to *infrastructure and connectivity* measures. This is the consequence of the lack of effective telecoms regulations, especially in the area of interconnection (see above). Positively, all the WB6 economies mandate interconnections for both fixed and mobile networks. Only Bosnia and Herzegovina does not regulate interconnection prices and conditions for mobile and fixed networks. Non-discriminatory Internet traffic management is mandatory in Kosovo, North Macedonia, and Serbia, but not in the other economies. Vertical separation for fixed networks, a particularly important measure, is required in all of the WB6 economies except Albania. Vertical separation for mobile networks, on the other hand, is only required in Bosnia and Herzegovina, North Macedonia, and Serbia.

No specific licences or authorisations for e-commerce activities in addition to ordinary commercial licences are required in any of the WB6 economies. This eases the establishment of electronically enabled services and makes the economies attractive to foreign suppliers. The implementation of international standards for electronic contracts and key electronic authentication measures such as recognition of electronic signatures are in place.

From the perspective of the OECD STRI, all six economies perform well in the policy area of *intellectual property rights*. In particular, none of them have introduced regulations on protection of intellectual property that treat foreigners differently to nationals.

Similarly, in terms of *payment systems*, there are no payment barriers such as discriminatory access or total prohibition for foreign providers of certain payment solutions, or a lack of enforcement of international security standards for common payment methods such as credit cards. Again, the WB6 compare well with the OECD digital STRI partner states with the lowest levels of digital restrictiveness.

The way forward for e-commerce and digitally enabled services

In absolute terms, the six Western Balkan economies have regulations in place for, but present few regulatory barriers to, digital trade. Nevertheless, e-commerce in the WB6 region still has much potential for improvement and could benefit even more from the explosion of e-commerce in the context of COVID-19. It should be borne in mind, however, that the factors limiting electronic trade may also be related to economic and social conditions that go well beyond purely regulatory frameworks, including rural-urban divides (see Agriculture policy chapter), income distribution, unequal access to education (see Education policy chapter) and an ageing society. These conditions may manifest themselves in low connectivity, lack of digital skills and low levels of trust (including security and privacy concerns) (see Digital society chapter), all of which can be addressed through policy action. The WB6 economies should therefore take into consideration the recommendations made throughout this publication. Relevant measures include targeted information campaigns, confidence-building initiatives, adult education and public-private partnerships that target the participation of low-income and rural households (OECD, 2019[41]). The economies could start by considering replicating Serbia's e-commerce good practice (see Box 13.8 Digital society chapter), by increasing the financial resources allocated to awareness campaigns, capacity building and workshops for businesses looking to launch into e-commerce.

All the economies should also strengthen their regulatory environment for e-commerce and digitally enabled services to adapt them to the new post-COVID-19 reality by considering economy-specific recommendations as follows:

- **Serbia should strengthen its Online Disputes Resolution (ODR) system for e-commerce transactions**. As a first step, Serbia should start implementing the IPA2018 project without delay in 2021, as planned, to support its ADR improvement process. As part of this a platform should be built and connected to the NCCR (National Consumer Complaint Register) to allow a consumer to submit their complaint directly online to the relevant consumer organisation. The next step should be to establish a national ODR platform based on the EU ODR system (Box 5.8), designed to resolve disputes over the online purchase of goods and services without the intervention of a national court. It should not be affiliated with any merchant, and should be impartial, approved by the authorities and enforce quality standards of fairness, transparency, efficiency and accessibility.
- **North Macedonia should adopt the draft strategy on consumer protection** and promote consumer awareness of their rights and how to exercise them in e-commerce. The strategy should address legal and regulatory gaps, particularly with regard to electronic payments. It should also ensure that consumer protection legislation does not fail to address fraudulent or deceptive practices and that it allows for dispute resolution and redress in electronic transactions. The economy can learn from the Serbian Strategy for Consumer Protection for 2019-2024 promoting trust in e-commerce and online consumers education (see Box 13.8 Digital society chapter).

- **Albania, Bosnia and Herzegovina and Kosovo should implement their legal initiatives** to resolve the shortcomings in their regulatory frameworks. Albania should implement the e-business development initiative, part of the new Business and Investment Development Strategy 2021-2027, in order to improve SMEs' competitiveness and access to markets by helping them to adopt digital solutions for e-commerce and e-business, strengthen digital capabilities and skills and ensure a sound business and regulatory environment for e-commerce. Bosnia and Herzegovina should finalise the entry into force of its Law on Electronic Communication and Electronic Media and adopt new legislation on electronic identification and trust services for electronic transactions (e-signature). Kosovo should bring into force the new Law on Electronic Identification on Trusted Services in Electronic Transactions that will replace the existing Law on Information Society Service.
- **Bosnia and Herzegovina and Montenegro should create co-ordination mechanisms for an effective monitoring and evaluation process** to improve policy revision. A first step could be to review and assess the impact of programmes on the digitisation of Montenegrin businesses in order to identify gaps in the design of regulatory measures governing e-commerce. A set of indicators for private sector ICT take-up, including e-commerce, should be developed, and regularly monitored.

Box 5.8. The European Online Dispute Resolution (ODR) platform

The European Online Dispute Resolution (ODR) platform is provided to make online shopping safer and fairer through access to quality dispute resolution tools. All online retailers and traders in the EU, Iceland, Liechtenstein, and Norway are obliged to provide an easily accessible link to the ODR platform and an e-mail address for the platform to contact consumers.

The EU ODR platform can be used to solve the problem directly with the trader. The platform initially acts as an intermediary between the parties in the dispute by notifying the traders of the requests. If the requested trader is willing to discuss, the platform allows the exchange of messages directly via a dashboard. This allows one to send attachments such as product photos and to schedule an online meeting. If the parties request it or if the dispute cannot be resolved amicably within 90 days, the ODR platform refers the dispute to a dispute resolution body. Although the model is mainly aimed at disputes initiated by a consumer, some European countries allow traders to file a complaint against a consumer. However, the consumer must reside in Belgium, Germany, Luxembourg, or Poland.

Source: (EUR-Lex, 2013[45]), Regulation (EU) No 524/2013 of the European Parliament and of the Council of 21 May 2013 on online dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Regulation on consumer ODR); The European Online Dispute Resolution (ODR) platform, https://ec.europa.eu/consumers/odr/main/?event=main.trader.register.

Conclusion

WB6 economies are generally performing well on trade policy. Since the last assessment cycle, they have made efforts to improve their trade performance by adopting trade strategies while enhancing their public-private consultation mechanisms. New evaluation and monitoring mechanisms and bodies have been created to strengthen public-private partnerships and improve business community involvement in the formulation of trade related policy.

Significant progress has been made to ease the conditions for the movement of people between the CEFTA economies through the conclusion of the Additional Protocol 6, establishing a framework for unrestricted trade in services. Once in force, companies will benefit from guaranteed market access and national treatment in key services sectors. The protocol also lays the foundations for enhanced co-operation to remove remaining barriers, such as licensing or professional qualifications, as well as the development of regional e-commerce, all with a view to the effective creation of an integrated market based on the European model. The domestic ratification processes are underway and all CEFTA parties are expected to have completed these procedures during 2021.

Overall, the six economies have managed to reduce restrictiveness in trade in services by amending their legislation and removing some of their non-tariff barriers. However, many burdensome regulations continue to hinder trade. WB6 economies should focus on easing conditions on the temporary movement of people applied to third-country nationals outside of the scope of the preferential treatment present in regional trade agreements, which would further encourage innovation and knowledge transfer, contribute to economic growth, and promote an alignment of their legislations to facilitate the creation of an intra-regional single market in the medium term. Finally, progress has been made in recent years to improve the WB6 economies' e-commerce regulatory frameworks to meet the challenges of this growing commercial sector. At the same time, the regulations applied to digitally enabled services are very competitive in all six economies.

References

Basedow, R. and C. Kauffmann (2016), "International trade and good regulatory practices: assessing the trade impacts of regulation", *OECD Regulatory Policy Working Papers*, No. 4, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jlv59hdgtf5-en. [5]

Benz, S. and A. Jaax (2020), "The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents", *OECD Trade Policy Papers*, No. 238, OECD Publishing, Paris, https://dx.doi.org/10.1787/bae97f98-en. [37]

CEFTA (2021), *Legal Instruments*, https://cefta.int/legal-documents/#1463498451954-049a1331-0c1c. [29]

EUR-Lex (2013), *Regulation (EU) No 524/2013 of the European Parliament and of the Council of 21 May 2013 on online dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Regulation on consumer ODR)*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R0524. [45]

European Commision (2015), *2015 Better Regulation Guidelines*, European Commission, https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en. [32]

European Commission (2020), *Albania 2020 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/albania_report_2020.pdf. [55]

European Commission (2020), *Albania 2020 Report, Commission Staff Working Document No. SWD(2020) 354 final*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/albania_report_2020.pdf. [73]

European Commission (2020), *Bosnia and Herzegovina 2020 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/bosnia_and_herzegovina_report_2020.pdf. [52]

European Commission (2020), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: 2020 Communication on EU Enlargement Policy*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20201006-communication-on-eu-enlargement-policy_en.pdf. [50]

European Commission (2020), *Kosovo* 2020 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/kosovo_report_2020.pdf. [48]

European Commission (2020), *Montenegro 2020 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/montenegro_report_2020.pdf. [46]

European Commission (2020), *Serbia 2020 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/serbia_report_2020.pdf. [53]

European Commission (2019), *Albania 2019 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf. [56]

European Commission (2019), *Kosovo* 2019 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-kosovo-report.pdf. [47]

European Commission (2019), *Montenegro 2019, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/20190529-montenegro-report.pdf. [51]

European Commission (2019), *North Macedonia 2019 Report, Commission Staff Working Document*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-north-macedonia-report.pdf. [49]

European Commission (2019), *Serbia 2019 Report, Commission Staff Working Document*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-serbia-report.pdf. [54]

Eurostat (2020), *International Trade in Goods Database*, https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database. [15]

Ferencz (2019), "The OECD Digital Services Trade Restrictiveness Index", *OECD Trade Policy Papers*, Organisation for Economic Co-Operation and Development (OECD), http://dx.doi.org/10.1787/16ed2d78-en. [6]

Geloso Grosso, M. et al. (2015), "Services Trade Restrictiveness Index (STRI): Scoring and Weighting Methodology", *OECD Trade Policy Papers*, No. 177, OECD Publishing, Paris, https://dx.doi.org/10.1787/5js7n8wbtk9r-en. [13]

Handjiski, B. and L. Sestovic (2011), *Barriers to Trade in Services in the CEFTA Region*, World Bank Study, https://openknowledge.worldbank.org/handle/10986/2337. [34]

Hoekman, E. (2002), *Development, trade and the WTO : a handbook*, World Bank, https://digitallibrary.un.org/record/473997?ln=en. [35]

IMF (2020), *World Economic Outlook (October)*, https://www.imf.org/en/Publications/WEO/weo-database/2020/October. [16]

IMF (2019), *Lifting Growth in the Western Balkans The Role of Global Value Chains and Services Exports*, International Monetary Fund, Washington, DC, https://www.imf.org/en/Publications/Departmental-Papers-PolicyPapers/Issues/2019/11/11/Lifting-Growth-in-the-Western-Balkans-The-Role-of-Global-Value-Chains-and-Services-Exports-46860. [57]

Kaneva, M. (2019), "Broadband and e-Commerce in the Balkans - Econometric Analysis, Izvestia Journal of the Union of Scientists - Varna. Economic Sciences Series, Union of Scientists - Varna, Economic Sciences Section, vol. 8(2), pages 100-109, August.", https://ideas.repec.org/a/vra/journl/v8y2019i2p100-109.html. [75]

Kosovo (2020), *Annual Report on Public Consultations 2019*, https://konsultimet.rks-gov.net/documents.php. [26]

Kosovo (2018), *Annual Report on Public Consultations 2017*, http://konsultimet.rks-gov.net/Storage/Docs/Doc-5b6d8625e8a92.pdf. [25]

López González, J. and J. Ferencz (2018), *Digital Trade and Market Openness, OECD TradePolicy Papers, No. 217*, OECD Publishing, Paris, https://doi.org/10.1787/1bd89c9a-en. [58]

López González, J. and M. Jouanjean (2017), *Digital Trade: Developing a Framework for Analysis, OECD Trade Policy Papers, No. 205*, OECD Publishing, Paris, http://dx.doi.org/10.1787/524c8c83-en. [59]

Luca, E., G. Rembeci and A. Vehbi (2016), “The use of electronic commerce in albania. Principles and strategies how to increase its safety and trust-ability”, https://www.researchgate.net/publication/318420064_THE_USE_OF_ELECTRONIC_COMMERCE_IN_ALBANIA_PRINCIPLES_AND_STRATEGIES_HOW_TO_INCREASE_ITS_SAFETY_AND_TRUST-ABILITY. [74]

Miroudot, S. and C. Cadestin (2017), “Services In Global Value Chains: From Inputs to Value-Creating Activities”, *OECD Trade Policy Papers*, No. 197, OECD Publishing, Paris, https://dx.doi.org/10.1787/465f0d8b-en. [33]

Miroudot, S. and K. Pertel (2015), *Water in the GATS: Methodology and Results, OECD Trade Policy Papers, No. 185*, OECD Publishing, Paris, https://doi.org/10.1787/5jrs6k35nnf1-en. [60]

Montenegro Ministry of Public Administration, Digital Society and Media (2020), *Report on the application of the Decree on the implementation of the implementation of public debate in the preparation of laws and strategies in 2019*, https://mju.gov.me/biblioteka/izvjestaji. [24]

Nordås, H. (2016), *Services Trade Restrictiveness Index (STRI): The Trade Effect of Regulatory Differences, OECD Trade Policy Papers, No. 189*, OECD Publishing, Paris, https://doi.org/10.1787/5jlz9z022plp-en. [61]

Nordås, H. et al. (2014), “Services Trade Restrictiveness Index (STRI): Telecommunication Services”, *OECD Trade Policy Papers*, No. 172, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jxt4nk5j7xp-en. [40]

OECD (2021), *OECD Economic Outlook, Interim Report March 2021*, OECD Publishing, Paris, https://doi.org/10.1787/34bfd999-en. [68]

OECD (2021), *OECD Services Trade Restrictiveness Index: Policy Trends up to 2021*, OECD Publishing, https://issuu.com/oecd.publishing/docs/oecd-stri-policy-trends-2021?fr=sMGVlMjI5ODk2NDE. [38]

OECD (2020), *Covid-19 Crisis Response in South East European Economies*, OECD Publishing, https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-south-east-european-economies-c1aacb5a/. [17]

OECD (2020), “Global value chains in agriculture and food: A synthesis of OECD analysis”, *OECD Food, Agriculture and Fisheries Papers*, OECD Publishing, http://dx.doi.org/10.1787/6e3993fa-en. [12]

OECD (2020), *Government at a Glance: Western Balkans*, OECD Publishing, Paris, https://dx.doi.org/10.1787/a8c72f1b-en. [70]

OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 1*, OECD Publishing, Paris, https://dx.doi.org/10.1787/0d1d1e2e-en. [18]

OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 2*, OECD Publishing, Paris, https://dx.doi.org/10.1787/39a88ab1-en. [71]

OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 2*, OECD Publishing, Paris, https://dx.doi.org/10.1787/39a88ab1-en. [72]

OECD (2020), *OECD Policy Responses to Coronavirus (COVID-19) : E-commerce in the time of COVID-19*, https://www.oecd.org/coronavirus/policy-responses/e-commerce-in-the-time-of-covid-19-3a2b78e8/#blocknotes-d7e170. [43]

OECD (2020), *OECD Policy Responses to Coronavirus (COVID-19): Protecting online consumers during the COVID-19 crisis*, https://www.oecd.org/coronavirus/policy-responses/protecting-online-consumers-during-the-covid-19-crisis-2ce7353c/. [44]

OECD (2020), *Policy Responses to Coronavirus (COVID-19), COVID-19 crisis response in South East European Economies*, OECD Publishing, Paris, https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-south-east-european-economies-c1aacb5a/. [67]

OECD (2020), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db. [39]

OECD (2019), *Agricultural Trade and Domestic Policy Reform: Better Together*, https://issuu.com/oecd.publishing/docs/agricultural_trade. [11]

OECD (2019), *Global South East Europe: Unleashing the Transformation Potential for Growth in the Western Balkans*, OECD Publishing. [19]

OECD (2019), *Going Digital: Shaping Policies, Improving Lives*, OECD Publishing, Paris, https://doi.org/10.1787/9789264312012-en. [7]

OECD (2019), *Trade Facilitation Indicators (database)*, http://www.oecd.org/trade/facilitation/indicators.htm. [28]

OECD (2019), *Trade in the Digital Era*, https://www.oecd.org/going-digital/trade-in-the-digital-era.pdf. [8]

OECD (2019), *Unpacking E-commerce: Business Models, Trends and Policies*, OECD Publishing, Paris, https://dx.doi.org/10.1787/23561431-en. [41]

OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness and Private Sector Development, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264298576-en. [22]

OECD (2018), “The value of market access and national treatment commitments in services trade agreements”, *OECD Trade Policy Papers*, Organisation for Economic Co-Operation and Development (OECD), http://dx.doi.org/10.1787/d8bfc8d8-en. [27]

OECD (2018), *Trade Facilitation and the Global Economy*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264277571-en. [4]

OECD (2017), *International Regulatory Co-operation and Trade: Understanding the Trade Costs of Regulatory Divergence and the Remedies*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264275942-en. [1]

OECD (2017), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy (draft)*, http://www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm. [30]

OECD (2017), *Services Trade Policies and the Global Economy*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264275232-en. [2]

OECD (2016), *Pilot database on stakeholder engagement practices in regulatory policy. Second set of practice examples.*, https://www.oecd.org/gov/regulatory-policy/pilot-database-on-stakeholder-engagement-practices.htm. [31]

OECD (2015), *Policy Framework for Investment, 2015 Edition*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264208667-en. [3]

OECD (2013), *Electronic and Mobile Commerce, OECD Digital Economy Papers, No. 228*, OECD Publishing, Paris, https://dx.doi.org/10.1787/5k437p2gxw6g-en. [42]

OECD (2013), *OECD Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data*, OECD Publishing, Paris, http://www.oecd.org/sti/ieconomy/oecd_privacy_framework.pdf. [66]

OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264209022-en. [69]

OECD (2005), *Guiding Principles for Regulatory Quality and Performance*, OECD Publishing, Paris, https://www.oecd.org/fr/reformereg/34976533.pdf. [65]

OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, https://dx.doi.org/10.1787/g2g9fa9a-en. [23]

OECD/WTO (2013), *Aid for trade and value chains in transport and logistics*, http://dx.doi.org/www.oecd.org/dac/aft/AidforTrade_SectorStudy_Transport.pdf. [9]

RCC Int. (2020), *Bregu: Tourism in the Western Balkans already feels the pinch of COVID-19 pandemic*, https://www.rcc.int/news/618/bregu-tourism-in-the-western-balkans-already-feels-the-pinch-of-covid-19-pandemic. [20]

Rodriguez, L. (2018), *The role of transport and logistics in promoting e-commerce in developing countries*, https://unctad.org/es/node/1774. [10]

Rouzet, D. and F. Spinelli (2016), “Services Trade Restrictiveness, Mark-Ups and Competition”, *OECD Trade Policy Papers*, No. 194, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jln7dlm3931-en. [36]

Staiger, R. (2018), *On the Implications of Digital Technologies for the Multilateral Trading System, World Trade Report 2018*, World Trade Organization, Geneva, Switzerland, https://www.wto.org/english/res_e/publications_e/world_trade_report18_e.pdf. [62]

Weller, D. and B. Woodcock (2013), *Internet Traffic Exchange: Market Developments and Policy Challenges, OECD Digital Economy Papers, No. 207*, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k918gpt130q-en. [63]

Wolfe, R. (2019), *Learning about Digital Trade: Privacy and E-Commerce in CETA and TPP. World Trade Review, 18(S1), S63-S84*, https://doi.org/10.1017/S1474745618000435. [64]

World Bank (2021), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators (accessed on 3 March 2021). [14]

World Bank (2020), *Western Balkans Regular Economic Report No.17 (Spring): The Economic and Social Impact of COVID-19*, The World Bank, http://documents1.worldbank.org/curated/en/301261588088338100/pdf/The-Economic-and-Social-Impact-of-COVID-19-Setting-the-Stage.pdf. [21]

Notes

[1] Allocative efficiency is a state of the economy in which production represents consumer preferences; in particular, every good or service is produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing.

[2] CEECs: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.

[3] More than 55% of Montenegro's, and around 40% of Croatia's and Albania's exports.

[4] Institutional bodies include ministries (e.g. finance, agriculture, foreign affairs and industry), customs agencies, standardisation bodies and export promotion agencies.

[5] 6 July 2020, Official Gazette, protocol no. 01/3387

[6] Apart from the newly created NTFCs the following permanent advisory bodies are in place in the WB6 economies: an Economic Council in Albania; Export Councils in Bosnia and Herzegovina (one at the state level and another one in the Republika Srpska); an Economic Council in Kosovo; an Advisory Council within the customs administration and an Economic Council in the Republic of North Macedonia; a Council for Competitiveness in Montenegro and a National Convention on the European Union in Serbia.

[7] Albania Economic Reform Programme (ERP) 2021-2023; Bosnia and Herzegovina Economic Reform Programme (ERP) 2021-2023; Kosovo Economic Reform Programme (ERP) 2021-2023; North Macedonia Economic Reform Programme (ERP) 2021-2023; Serbia Economic Reform Programme (ERP) 2021-2023.

[8] i.e. Ministries of Economy, Agriculture, Infrastructure, Industry, Customs authorities, National Standards Body, etc.

[9] These are mainly RIA reports or certain targeted strategies.

[10] This indicator does not have a scoring system attributed to it and is therefore assessed descriptively.

[11] Albania (2009), North Macedonia (2004), Montenegro (2010), Serbia (2013), Bosnia and Herzegovina (2015) and Kosovo (2016).

[12] Albania established an FTA with Turkey in 2008. Bosnia and Herzegovina has a bilateral trade agreement with Turkey which entered into force in 2003. A revised FTA with Turkey was signed in 2019, and the ratification process is underway. In June 2019, Kosovo ratified its FTA with Turkey (signed in 2013). In July 2019, Kosovo signed an Economic Cooperation Agreement with the Czech Republic and signed a Partnership, Trade and Cooperation Agreement with the United Kingdom in December 2019 (in anticipation of the United Kingdom's withdrawal from the EU-Kosovo SAA). Montenegro replaced Protocol II of the original FTA with Turkey from 2010 in June 2019, redefining the term "originating products" and methods of administrative co-operation. Additionally, Protocol I was revised in order to include additional agricultural concessions, and a new Protocol III on trade in services was concluded in 2020. North Macedonia signed an FTA with Turkey in 2000. Serbia has negotiations underway on a bilateral investment treaty with South Korea since December 2018. Discussions on a future trade agreement with the United Kingdom started in 2019.

[13] Trade integration with Ukraine is ongoing: North Macedonia concluded a bilateral agreement in 2001; Montenegro a Free Trade Agreement in 2012. Finally, Serbia has ongoing negotiations for a future FTA.

[14] With Slovakia, Iran, Canada, Morocco, Lebanon, Saudi Arabia and Iceland and ongoing negotiations with Turkey on the free trade agreement signed in 2008

[15] The analysis does not include Kosovo, as data are not available in 2019.

[16] http://www.javninameti.gov.me/

[17] Although the minimum capital requirement exists in Serbia, the amount is RSD 100, which is less than one euro.

[18] Law on Foreigners from 2018 and 2019 in its Article 78 defines work of a foreign national beyond the annual quota.
A temporary residence and work permit beyond the annual quota may be issued to a foreign national: 1) who carries out business activities in Montenegro under an international treaty concluded between Montenegro and other state, under the condition of reciprocity; 2) who teaches in the educational institutions in the language and script of the members of minority nations and other national minority communities; 3) a professional athlete or sports worker who works in Montenegro in accordance with the law governing sports; 4) an executive director of a company and an entrepreneur who is registered in Montenegro in accordance with the law governing the form of carrying out business activities and their registration; 5) who possesses higher education and is employed by the employer at managerial job positions; 6) who is temporarily posted as a manager, a specialist or an intern, in accordance with Article 74 of this Law; 7) for the purpose of provision of the agreed services as per Article 72 of this Law; 8) with domicile in a neighbouring country, who is employed and works in Montenegro and at least once a week returns to the place of domicile (daily migrant); 9) who is included in the implementation of development projects from the list of development projects determined by the Government, upon the proposal of the administration authority in charge of development projects, not later than until 30 November of the current year for the subsequent year.

[19] Bosnia and Herzegovina and North Macedonia apply economic needs tests to intra-corporate transferees, contractual service providers and independent service providers. Albania applies economic needs tests to contractual and independent service providers and Montenegro to intra-corporate transferees. Only Kosovo and Serbia do not apply economic needs tests.

[20] In order to facilitate comparison with OECD Member States that have undergone the Services Trade Restrictiveness Index exercise, the paragraphs below have been drafted in accordance with the methodology of the STRI project publications. The OECD Member's Country Notes, as well as the Sector Notes, are available on the STRI web page: https://www.oecd.org/trade/topics/services-trade/.

[21] Defined as ISIC (rev 4) category 4293 freight transport by road. The STRI for this sector covers commercial establishment only; cross-border trade is governed by a system of bilateral and plurilateral agreements which provide for permits, quotas and other regulations.

[22] Defined as ISIC code 4912. Rail transport provided over a dedicated network where the market structure may take different forms, the two most common ones being: 1) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and 2) vertical separation between infrastructure management and operations.

[23] Defined as ISIC code 51. Air transport services are defined as passenger and freight air transport carried domestically or internationally. The partial WB6 STRI excludes domestic transport in Montenegro as there is no traffic or regulation for this.

[24] In light of the range of air transport subsectors, the approach in the STRI project is to focus on measures affecting carriers' transport of passengers and goods between points. Airport management and other aviation services are only relevant in so far as regulations enacted by relevant authorities can have an impact on the ability of foreign carriers to transport passengers and goods between points.

[25] Defined under ISIC Rev 4 code 53 as postal and courier activities.

[26] Defined as ISIC Rev 4 code 691, and covering advisory and representation services in domestic and international law. Where relevant measures are entered separately for each of them.

[27] Defined as deposit-taking, lending and payment services. Commercial banking services are traded business to business, as well as business to consumer for retail banking.

[28] Defined as ISIC Rev 4 code 651 and 652 and covering life insurance, property and casualty insurance, reinsurance and auxiliary services. Private health insurance and private pensions are not covered.

[29] Defined as ISIC Rev 4 codes 41 and 42 and covering residential and non-residential construction services, as well as construction work for civil engineering.

[30] Defined as ISIC Rev 4 code 711 and covers architectural services and related technical consultancy.

[31] Defined as ISIC Rev 4 code 711 and covers several related activities, such as engineering and integrated engineering services, and engineering related scientific and technical consulting services.

[32] Defined as ISIC Rev 4 code 62 and 63, covering computer programming, consultancy and related activities and information service activities.

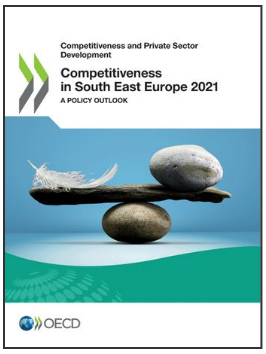
[33] Defined as ISIC Rev 4 code 611 and 612), covering wired and wireless telecommunications activities.

[34] Directive 2000/31/EC

[35] Such as the Law on electronic documents, electronic identification and Trust Services (2019), the Law on Electronic Management and Electronic services (2019), the National Cyber Security Strategy and Action plan (2018-2022) and the National Operational Broadband Plan (2019-2023).

[36] The draft law on consumer protection (expected to enter into force in Q3 2021) will introduce novelties in the ADR system. It will be able to receive and register complaints and support the internal ADR process as a way to build on the successful implementation of the ODR solution. The proposal is to build the platform and connect it to the NCCR (National Consumer Complaint Register) – a platform that allows a consumer to submit their complaint directly online to the relevant consumer organisation.

[37] ‘Directive on electronic commerce’ 2000/31/EC



From:
Competitiveness in South East Europe 2021
A Policy Outlook

Access the complete publication at:
https://doi.org/10.1787/dcbc2ea9-en

Please cite this chapter as:

OECD (2021), “Trade policy (Dimension 2)”, in *Competitiveness in South East Europe 2021: A Policy Outlook*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aa128a35-en