Federal Ministry
Economy, Energy
and Tourism
Republic of Austria

FIW
Research Centre
International Economics

Policy Brief No. 68, September 2025

Why the EU Needs to be a Better Neighbour to the Western Balkans – A Geopolitical Assessment

Dr. Philipp Lamprecht
(Director, ECIPE)

This FIW policy brief explores negative effects that EU digital regulations have on Western Balkan countries. It assesses how these countries have adapted to existing global data regulation models and explores potential avenues for boosting trade by means of the EU granting data adequacy status – with the aim of reinforcing regional ties and reducing the likelihood of these countries turning towards alternative global influences. It also examines the relationships between the EU and its neighbouring countries in financial services, with a particular focus on trade finance. It discusses how the EU can work to improve trade finance access for these countries to facilitate financial integration with the EU and mitigate risks of neighbouring countries distancing themselves further from the EU. Ultimately, the aim of EU policies should be to bind the countries in its neighbourhood more closely to it and to seek partnerships that can boost economic performance, while also managing threats to security and peace. Accordingly, the EU needs to adapt its strategy in the Western Balkans and give the region greater geopolitical priority.

1. Introduction

Having good relationships with neighbours is important. This often becomes most apparent in unexpected times of uncertainty or personal need – and now is such a time for the EU. There is war in Europe and risks of armed conflict in Asia have increased, with uncertainty about a potential invasion of Taiwan by China in the coming years. With Donald Trump back in the White House, political and economic risks and frictions are likely to dominate the transatlantic relationship for the foreseeable future. This is the time for the EU to get closer to its neighbours.

But has the EU actually been a good neighbour? ECIPE scholars and colleagues at Bertelsmann Stiftung[1] have focused on assessing the extraterritorial costs of various EU internal market regulations on neighbouring countries, including the Western Balkans, engaged in trade with the EU. A central mission has been to propose methods to mitigate the regulatory burden on these neighbouring regions. Our analysis highlights an issue of crucial importance as the EU seeks to maintain its regional influence amid growing competition, notably from China and Russia. There are numerous examples of EU internal market regulations that result in negative effects for close neighbours and risk pushing them away.

2. The adverse effects of EU digital regulations for the Western Balkans

In recent years, the EU has taken significant steps to harmonise its data privacy laws. These include the implementation of the General Data Protection Regulation (GDPR) in 2018, as well as the introduction of the Digital Markets Act (DMA), the Digital Services Act (DSA) and the Data Act. These regulatory changes have not only unified the digital landscape within the EU but have also extended their impact beyond its borders. This has posed significant challenges for neighbouring countries, which are now grappling with

1 See: https://www.bertelsmann-stiftung.de/en/our-projects/sovereign-europe-strategic-management-of-global-interdependence?mc_cid=6d6a6f5add&mc_eid=587eab2bf6

increased trade barriers stemming from complex data compliance and governance requirements.

Although regulations governing the processing and protection of personal data vary, we can identify three distinct models: the United States' open model, which allows for the free flow of data; China's closed model, which is characterised by strict government controls; and the EU's middle-ground model, which incorporates conditional data transfers and regulatory safeguards. Each of these models encompasses two key aspects of data regulation: one pertains to rules governing the cross-border transfer of personal data, while the other focuses on rules governing the domestic processing of personal data (see Table 1).

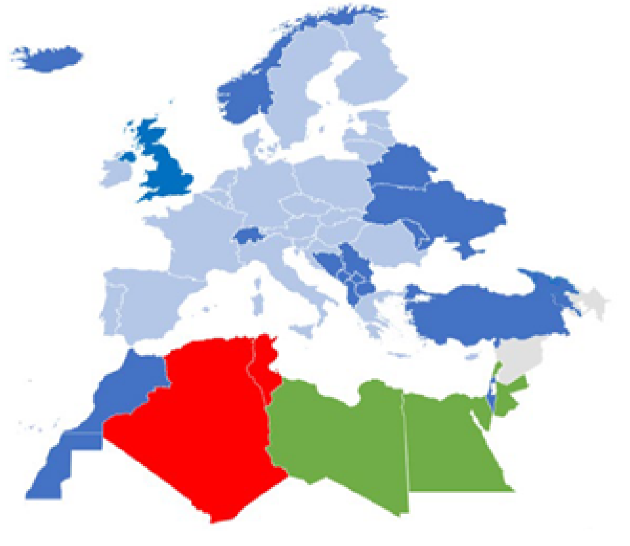
Table 1: Main features of different data models

	Cross-border data transfers	Domestic data processing
Open Transfers and Processing Model (USA)	Self-certification; self-assessment schemes; ex-post accountability; trade agreements and plurilateral/bilateral arrangements as only means to regulate data transfers.	Lack of comprehensive data protection framework; lack of informed consent; privacy as a consumer right.
Conditional Transfers and Processing Model (EU)	Conditions to be fulfilled ex-ante, including adequacy of the recipient country, binding corporate rules (BCR), standard contract clauses (SCCs), data subject consent, codes of conduct, among others.	Wide data subject rights; data subject consent; right to access, modify and delete personal data; establishment of data protection authorities (DPAs) or agencies; privacy as a fundamental human right.
Limited Transfers and Processing Model (China)	Strict conditions including bans to transfer data cross border; local processing requirements; ad hoc government authorisation for data transfers; infrastructure requirements; ex-ante security assessments.	Extensive exceptions for government access to personal data; privacy vs security and social order.

Source: Authors; Bertelsmann Stiftung

Figure 1 characterises EU neighbouring countries according to the different data models outlined above. It shows that EU neighbours highlighted in blue such as Morocco, Ukraine and the Western Balkans align with the EU model. However, countries highlighted in green such as Egypt, Libya, Jordan and Lebanon tend to follow the more open model. Furthermore, Algeria and Tunisia which are highlighted in red align with the closed model.

Figure 1: Geographical presentation of the RCEP members



Note: Countries following the open model are indicated in green, those following the closed data model are shaded red, and those following the EU data model are shown in blue. The EU countries that have adopted the EU digital regulations are shown in light blue, while other neighbouring countries are shown in dark blue to indicate that they follow the EU model. Countries for which no data is available are shaded grey.

Source: Authors; Bertelsmann Stiftung

For neighbouring countries that are on the path to EU membership or engaged in accession negotiations, adopting the EU's acquis communautaire naturally results in harmonising their national laws with EU standards. However, given the prolonged duration of accession negotiations, the EU should also explore intermediate measures for these countries, such as granting adequacy.

For those countries that cannot join the EU, there are two primary pathways: the first involves integrating digital standards into trade and association agreements, as exemplified by the agreements with Armenia and the Deep and Comprehensive Free Trade Areas (DCFTAs) with Georgia, Moldova and Ukraine; the second involves the EU Commission recognising equivalent data protection levels, which other countries can achieve through different means, as outlined in Art. 45 of the GDPR,[2] and subsequently granting adequacy.

The second pathway is relevant for many countries. Existing trade and association agreements between the EU and its neighbours include numerous relevant data handling provisions, some of which carry legal obligations. But gaps exist. Many neighbouring countries are in the process of taking the necessary steps that could potentially lead to a request for data protection adequacy in the future.

2 See: https://eur-lex.europa.eu/eli/reg/2016/679/oj/eng

2.1 The need to modernise existing agreements

Digital policy agreements must be updated to promote trade and reduce barriers, as current provisions on data and digital regulation lag behind technological change and new rules. Modernisation is essential to reflect the realities of cross-border digital integration. Although it is difficult to define detailed operational rules on data within broad bilateral agreements, many of them still lack even the basic principles of digital trade. Aligning weaker agreements with stronger ones would help to create more consistent conditions for integration. Extending the EU's digital partnership initiatives to neighbouring countries could accelerate this process, provided that they are adapted to each country's regulatory framework, development level and institutional capacity.

2.2 Adequacy, other mutual recognition mechanisms and standards

The GDPR is one of the few data regulations offering a mechanism for other countries to align with EU rules and market standards; most frameworks lack such options. Evidence shows that countries with EU adequacy status have seen digital trade increase by 6-14%, implying potential trade cost reductions of up to 9%. A network effect also exists, as adequacy partners benefit indirectly from the EU's agreements with third countries, such as the United States. Research indicates that around 7% of digital value-added trade has shifted away from markets without adequacy towards those integrated into the EU network. As the EU develops new rules for digital and embodied data flows, it is essential to design mechanisms that allow neighbouring countries easier access to EU data and digital markets. This also requires involving them at an earlier stage in the policy-making process to assess and support their readiness for alignment.[3]

3. How the EU can improve trade finance access for the Western Balkans

In recent years, Russia and China have expanded their economic and political influence in the Western Balkans, creating pressure on the EU to respond. The euro area crisis and the 2008 global financial downturn diverted the EU's focus and stalled enlargement efforts, weakening its position in the region.

European banks once played a central role in neighbouring countries, providing capital, investment and trade finance as correspondent banks. However, post-crisis regulatory reforms reduced their exposure, leading to a retreat from the EU's eastern periphery. This left space for other actors, particularly China, to establish a foothold. Through its Belt and Road Initiative, China has become both a major creditor and a major investor in Western Balkan infrastructure, capitalising on the region's geostrategic importance and development needs.

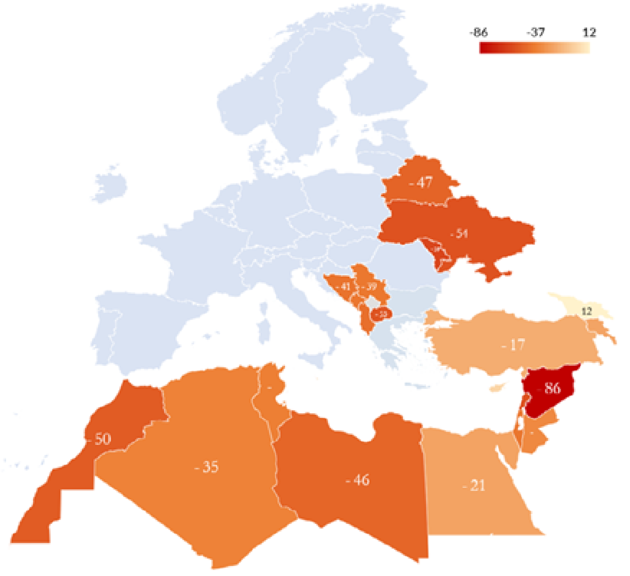
In the Western Balkans, the reorientation of EU-based banks, which previously dominated the sector, has been significant. Between 2013 and 2018, their asset share declined from 66% to 57%, while non-EU foreign banks increased their presence from 12% to 19%. Losses were steepest in Montenegro, Albania as well as in Bosnia and Herzegovina, while Serbia stabilised earlier. Non-EU banks expanded their market share significantly, reflecting a broader reshaping of the region's banking landscape.

This shift stemmed from EU banks' deleveraging and strategic withdrawals, with numerous subsidiaries sold to local or non-EU investors. Between 2009 and 2017, nine major bank ownership changes occurred, including Greek and North Macedonian branches sold to local, Swiss, US, Turkish and Gulf investors. These developments illustrate a long-term restructuring of the financial sector, with EU banks ceding ground to diverse new entrants.

The decline also affected correspondent banking. In 2013, 75% of such banks were based in the US and Germany, but by 2019 this share had fallen to 54%. Eastern Europe saw a 21% reduction in correspondent banks between 2011 and 2018, and by 2022 the total decline had reached 34% (see figure 2 for per country data from 2011 – 2022). This contraction has further constrained access to trade finance, reinforcing the strategic need for renewed EU engagement.

[3] See: https://cadmus.eui.eu/handle/1814/75629

Figure 2: Change in correspondent banking in the EU neighbourhood, 2011 – 2022



Source: Bank for International Settlements (BIS) and EBRD, Bertelsmann Stiftung

This decline in correspondent banking has limited local banks' access to key financial services such as payments and currency clearing. This has raised costs and reduced credit availability for businesses in neighbouring countries, particularly those with weaker financial systems, where foreign banks play a central role in providing trade finance. Meanwhile, EU banks face growing competition from non-Western players, notably China, increasing the pressure to adapt and innovate. To counter these risks, the EU should pursue policies that strengthen financial integration and prevent neighbouring countries from drifting further away.

Montenegro illustrates the challenge adequately. Although small, it holds strategic importance in the Western Balkans and has attracted significant Chinese investment, often framed as 'debt-trap diplomacy'. The EUR 1bn loan for the Bar-Boljare motorway placed an unsustainable burden on Montenegro's debt-to-GDP ratio. Beyond this, China has invested in the Port of Bar and major road and rail projects, expanding its economic and political influence across the region. For the EU, safeguarding financial stability in Montenegro is critical both for its integration prospects and for balancing Chinese leverage.

To address these issues, the EU should improve access to both public and private capital in the Western Balkans. Expanding funding opportunities is vital for businesses, especially small and medium-sized enterprises (SMEs), and can shape the availability of financial products and services. Greater regulatory co-operation, information exchange and capacity building are also needed, alongside stronger local supervisory frameworks. Moreover, the European Commission should make broader use of its authority to recognise parts of third countries' frameworks as 'EU-equivalent', easing compliance and expanding cross-border trade in financial services. Finally, EU trade agreements with the region should be updated and strengthened to reflect these priorities.

3.1 Increasing access to funding in neighbouring countries

Expanding access to both public and private funding is key to widening financial services for businesses, particularly SMEs. Greater financing opportunities would enable participation by firms that usually cannot secure bank loans, stimulating economic activity. Guarantee instruments included in EU Free Trade Agreements could lower collateral requirements, extend loan terms and reduce borrowing costs. Similar instruments under the DCFTAs have already encouraged lending to higher-risk SMEs, showing their effectiveness.

3.2 Strengthening regulatory co-operation, information exchange and capacity building

Closer co-operation is needed to streamline cross-border financial activity. This includes targeted technical assistance to strengthen local supervisory capacity, aligning frameworks with EU standards. Neighbouring countries should also improve their regulatory systems to better protect investors and establish financial safety nets. Tools such as deposit insurance, lender-of-last-resort facilities and effective bank resolution mechanisms would reduce risks for EU bank subsidiaries and make trade finance more accessible, especially for SMEs.

3.3 Expanding adequacy in neighbouring countries

The European Commission can recognise parts of third-country financial frameworks as 'EU-equivalent', easing compliance and boosting cross-border trade in services. Currently, only a handful of neighbours, such as Bosnia and Herzegovina, North Macedonia, and Serbia, benefit from this recognition, but the system remains fragmented. A more unified and transparent adequacy framework, supported by stronger bilateral and multilateral co-operation, would harmonise standards, reduce frictions and expand integration with the EU's financial system.

3.4 Modernising and enhancing trade agreements

Existing EU trade agreements with neighbouring countries contain limited and often restrictive provisions on financial services, with little reference to trade finance. Even the more advanced DCFTAs with

Armenia, Georgia, Moldova and Ukraine include significant reservations from EU member states. These shortcomings risk hindering deeper financial integration. The EU should prioritise financial services in future negotiations, focusing on commercial establishment, operational freedom and improved access to trade finance. Stronger provisions would close gaps, enhance competitiveness and strengthen economic ties between the EU and its neighbours.

4. Conclusion: The EU needs to give the Western Balkans greater geopolitical priority

The bottom line is this: EU policymakers should invest in better relations with neighbouring countries, including the Western Balkans, and take action to prevent EU regulations from pushing these neighbours away from the EU.

This approach means improving the objectives and results of regulation, including the process of how the EU does things. Design matters. It is remarkable how little the EU has consulted with neighbours before crafting and finalising new regulations. The EU should reconsider how it engages with its neighbours during the design phase of regulations and policy measures. For example, greater co-ordination with allies and like-minded countries on including mechanisms for third-country compliance would reduce frictions. For regulation to be effective and avoid negative reactions from friends, the design should be smart and agile, and take into account mechanisms that allow other countries to adapt more easily. This includes internal processes within the EU such as EU trade policy, building knowledge and generating analysis of potential impacts. EU assessments in this regard should focus more strongly on the impacts on the EU's neighbouring countries.

Integrating the EU as a genuinely engaged and reliable player in the Western Balkan region means supporting democratic institutions, engaging in civic participation and advancing sustainable development. The EU should be clear about its commitment – that its dedication to the region is about more than just economic co-operation and mining concessions.

Serbia provides a telling example of why the EU must step up and recalibrate its approach in the Western Balkans. Over the past 15 years, Serbia has emerged as a key geopolitical and economic actor, owing to its strategic location, significant resource base, and strong inflows of foreign direct investment from both the EU and China. These investments have driven growth in energy, infrastructure and mining, while keeping Serbia closely tied to EU markets. What is lacking, however, is a stronger geo-economic perspective in EU policy making towards Southeast Europe. The region's economic and political realities, and the influence of external actors, such as China as creditor and Russia as energy supplier, must be treated as strategic priorities in Brussels. So far, the EU's response has been limited, leaving space for competitors to expand their influence. Beyond strengthening its economic presence. Moreover, the EU must also engage more directly with the civil society in Serbia.

A clear example is the Jadar lithium mining project, which sparked mass environmental protests and a public backlash in 2022. Perceptions that Brussels supported the project despite local opposition deepened distrust toward the EU. To maintain credibility and long-term influence, the EU needs to demonstrate greater responsiveness to societal concerns and actively support civil society groups. Focusing on Serbia solely through an economic lens would risk alienating the very actors whose trust is vital for EU integration.

Given the obvious importance of countries such as Serbia, EU policymakers should unite their own priorities with the political and economic realities on the ground, both in Serbia and in other countries in the Western Balkans. The EU's involvement as an investor should also be reviewed to assess what can be optimised. Investment plans such as the Global Gateway Initiative, as well as the Critical Raw Materials Act and its impact on Southeast Europe, should be examined more closely.

The involvement of non-EU actors in the Western Balkans could further inhibit the region's EU integration process. The recent EU lithium mining agreement, brokered between the EU and Serbia in July 2024, can be seen as a key example of the EU's geostrategically important position in the region, particularly vis-à-vis China.

A clearer geopolitical understanding of these issues is timely and important, owing to a number of factors. First, Southeast Europe has an obvious strategic importance for the stability and security of the broader European region. Second, there are ample economic opportunities for EU businesses (particularly in the energy sector) in a more stable and strategically aligned Southeast Europe. Finally, this region is a clear example of the EU's missing policy influence. It is vital for the EU to contribute more strongly to shaping a more secure and prosperous European neighbourhood.

4.1 Outlook for ongoing policy initiatives

Both the EU itself and member states such as Austria and Germany have been active proponents of successful initiatives to integrate the Western Balkan countries more closely with the rest of Europe.

For example, the Berlin Process was initiated in 2014 by German Chancellor Merkel and relaunched in 2022 by Chancellor Scholz. It brings together the six Western Balkan countries, several EU member states, the United

Kingdom, international financial institutions, and the Regional Cooperation Council (RCC). Designed to draw the region closer to the EU, it promotes cooperation in connectivity, energy, economy, youth exchange, conflict resolution, science, and civil society. Its purpose is to ensure that citizens in the Western Balkans can already experience the benefits of EU integration during the accession process. Notable achievements include the abolition of roaming charges in 2021, the establishment of “Green Lanes” at border crossings to ease freight transport, and the 2021–2024 Action Plan for a Common Regional Market, aiming to approximate the EU’s four freedoms and create a unified space for investment, innovation, industry, and digitalization. The most recent summit took place in October 2023 in Tirana.

Complementing these efforts, the Western Balkans Investment Framework coordinates and harmonizes investments to support socio-economic development and strengthen the region’s European perspective. This joint initiative of the EU, international financial institutions, bilateral donors, and recipient states combines EU grants, bilateral contributions, and loans to finance infrastructure projects. Austria is among the leading donors, ranking third with a contribution of €23 million, behind Sweden and Norway.

Austria also played a leading role in creating the “Friends of the Western Balkans” initiative, launched in 2023 to accelerate EU integration. Within its first year, the group succeeded in pushing forward accession negotiations with Bosnia and Herzegovina and introduced the concept of gradual integration, allowing Western Balkan states to be progressively included in EU policy areas. This has been particularly relevant for the Common Foreign and Security Policy, helping to strengthen resilience against hybrid threats and external influence while advancing the accession process.

These initiatives are reinforced by the EU Strategy for the Danube Region, a macro-regional framework adopted in 2010 and endorsed in 2011 to address common challenges through coordination among Danube countries. Today, the strategy encompasses fourteen countries, including nine EU member states and five candidate countries—Serbia, Montenegro, Bosnia and Herzegovina, Ukraine, and Moldova—illustrating its significance for both EU members and neighbours.

The Regional Cooperation Council plays a complementary role as a political platform uniting the Western Balkans with neighbouring EU states to promote cooperation and EU rapprochement. Its work focuses on developing a Common Regional Market across sectors such as transport, energy, economy, youth, and digitalization. Austria is an active member of this structure, with the Austrian Development Agency formally listed as a cooperation partner, underscoring Austria’s institutional and operational role in regional development and integration efforts.

These examples highlight ongoing efforts at EU and member state level, which are accompanied by numerous initiatives of business co-operation and exchange efforts, for example at ministerial level. They also showcase the role of Austria as both an innovator and an investor in the region, as well as a key proponent of Western Balkan integration. However, existing initiatives could be enhanced by the adoption of the policy recommendations put forward in our analysis.

5. References

Bertelsmann Stiftung, 2023. Erixon, F., Guinea, O., Lamprecht, P., Sisto, E., Zilli, R. The Carbon Border Adjustment Mechanism (CBAM) and Its Border Effects: How Can Europe Become a Better Neighbour? See: https://www.bertelsmann-stiftung.de/en/publications/publication/did/the-carbon-border-adjustment-mechanism?mc_cid=6d6a6f5add&mc_eid=587eab2bf6

Bertelsmann Stiftung, 2024. Erixon, F., Lamprecht, P., Marel, E., Sisto, E., Zilli, R. The Extraterritorial Impact of EU Digital Regulations: How Can the EU Minimise Adverse Effects for the Neighbourhood? See: https://www.bertelsmann-stiftung.de/en/publications/publication/did/the-extraterritorial-impact-of-eu-digital-regulations-how-can-the-eu-minimise-adverse-effects-for-the-neighbourhood?mc_cid=6d6a6f5add&mc_eid=587eab2bf6

Bertelsmann Stiftung, 2024. Erixon, F., Lamprecht, P., Sisto, E., Zilli, R., du Roy, O., Pandya, D., Weiss, S. Beyond Barriers: Rethinking CAP to Enable Agricultural Export Diversity in the EU Neighbourhood. See: https://www.bertelsmann-stiftung.de/en/publications/publication/did/beyond-barriers-rethinking-cap-to-enable-agricultural-export-diversity-in-the-eu-neighbourhood?mc_cid=6d6a6f5add&mc_eid=587eab2bf6

Bertelsmann Stiftung, 2024. Erixon, F., Lamprecht, P., Sisto, E., Zilli, R., du Roy, O., Pandya, D., Weiss, S. Overcoming Barriers: How the EU Can Improve Trade Finance Access for Neighbouring Countries. See: https://www.bertelsmann-stiftung.de/en/publications/publication/did/overcoming-barriers-how-the-eu-can-improve-trade-finance-access-for-neighbouring-countries?mc_cid=6d6a6f5add&mc_eid=587eab2bf6

Bertelsmann Stiftung, 2025. Erixon, F., Lamprecht, P., Sisto, E., Zilli, R., du Roy, O., Pandya, D., Dugo, A., Weiss, S. Mitigating Burdens: Addressing the Impact of EU Sustainable Development Regulations on Neighbouring Countries. See: https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/mitigating-burdens-addressing-the-impact-of-eu-sustainable-development-regulations-on-neighbouring-countries

ECIPE, 2025. Lamprecht, P., Ströhm, B. Unlocking the Western Balkans: Why Serbia holds the Geopolitical Key. See: https://ecipe.org/blog/unlocking-the-western-balkans-serbia/

EUI, 2023. Ferracane, M. Hoekman, B., Marel, E. and Santi, F. Digital Trade, Data Protection and EU Adequacy Decisions. Robert Schuman Centre for advanced Studies. See: https://cadmus.eui.eu/handle/1814/75629

Author:
Dr. Philipp Lamprecht
Director, ECIPE
E-mail: philipp.lamprecht@ecipe.org

Imprint:

FIW Policy Briefs are published at irregular intervals on current foreign trade topics. Publisher is the FIW - Research Centre International Economics. The authors are responsible for the content of the Policy Briefs.
FIW offers a research platform, information on topics relevant to foreign trade and access to economic databases. It is a cooperation project of the Vienna University of Economics and Business, the University of Vienna, the Johannes Kepler University Linz, the University of Innsbruck, the Austrian Institute of Economic Research, the Vienna Institute for International Economic Studies and the Institute of Advanced Studies (IHS). FIW is funded by the Federal Ministry of Women, Science and Research and the Federal Ministry for Economy, Energy and Tourism

Contact:
FIW project office
c/o WIFO
Arsenal, Object 20
1030 Vienna
Phone: +43 1 728 26 01 / 335
E-mail: fiw-pb@fiw.at
Website: https://blog.fiw.ac.at